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Monthly Investment Update

May 2022

April was an abysmal month for most risk assets, with the S&P 500 index (large US companies) declining nearly 9 percent bringing year-to-date losses for the index to almost 13 percent. In addition, unique to 2022 relative to historic norms, bonds have not offered much shelter from losses. The Bloomberg Barclays US Aggregate Bond index has declined 9 percent in 2022 after losing nearly 4 percent in April alone. Investors have been focused on the same risks for most of the year, and many of these risks are related and continue to evolve together.

- Valuation – The sharp rally following the early days of the pandemic in March 2020 led to US stock and bond indices trading at above average valuations at the beginning of 2022 (higher than average price-to-earnings ratios for stocks, below average yields for bonds). A higher valuation starting point can leave market indices in a more precarious position should the outlook become cloudier (which it most certainly did).

- Pandemic – The COVID-19 pandemic is less of a concern for the average US citizen today, but it continues to create significant disruptions in other parts of the world, particularly China which introduced new lockdowns in April. These hangover effects from the pandemic continue to challenge global supply chains and are contributing to supply / demand imbalances and inflation.

- Monetary Policy – The US Federal Reserve has embarked on a path of normalizing monetary policy, which includes increases in short-term interest rates as well as a reduction in their holdings of fixed income securities. Both of these mechanisms serve to increase short and long-term interest rates, which is good for savers but bad for borrowers and tends to dampen demand for borrowing, spending, and investing.

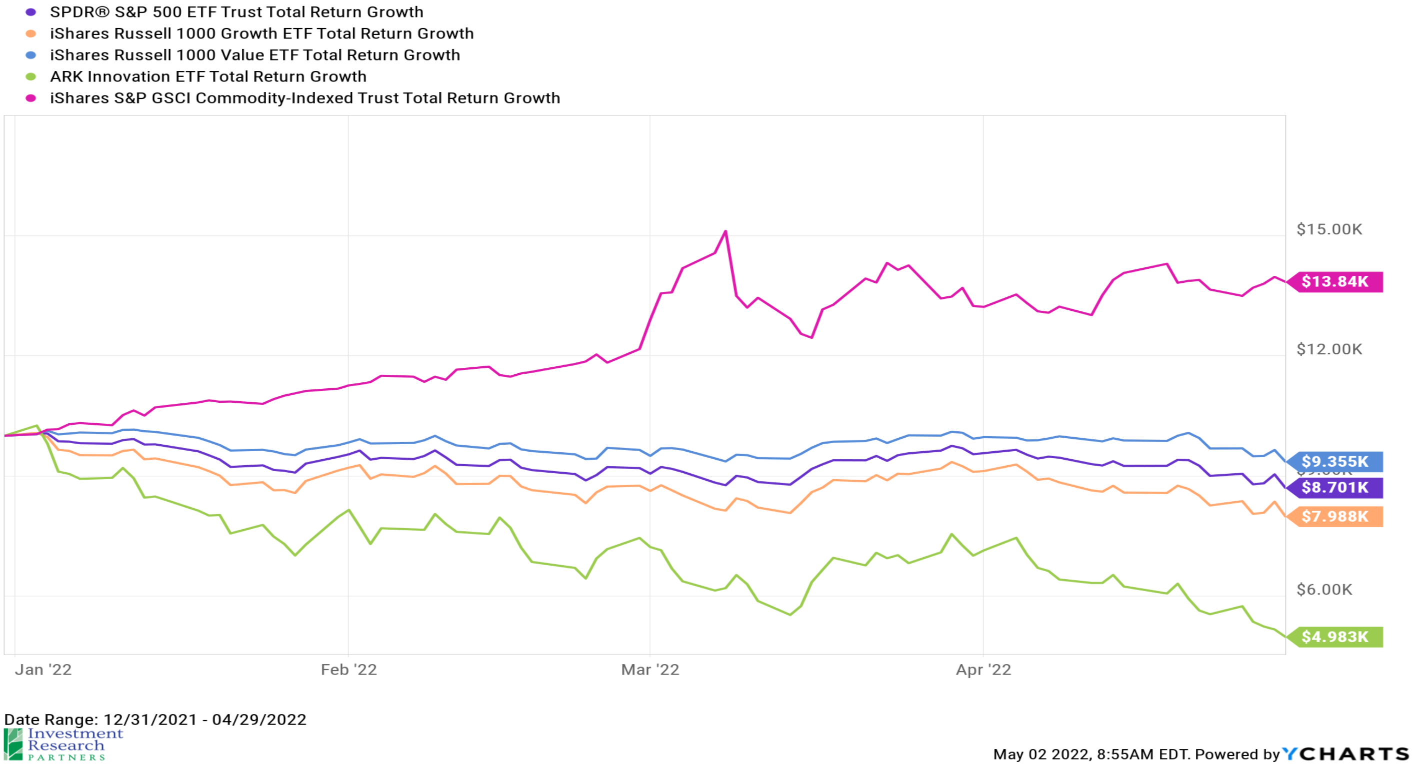
- Russia / Ukraine – Beyond the horrific and shameful human toll of the war in Ukraine, the conflict has created additional supply gains in energy, materials, and agriculture that are contributing to higher costs for key inputs globally, in addition to the general anxiety around the potential for a larger conflict in Europe or beyond.

- Inflation – Supply chain disruptions, geopolitical conflicts, and aggressive stimulus during the pandemic have all led to supply / demand imbalances that are driving prices higher at a pace not seen in decades. Higher costs have already led to a steep decline in household sentiment, which could spill into a slowdown in spending.

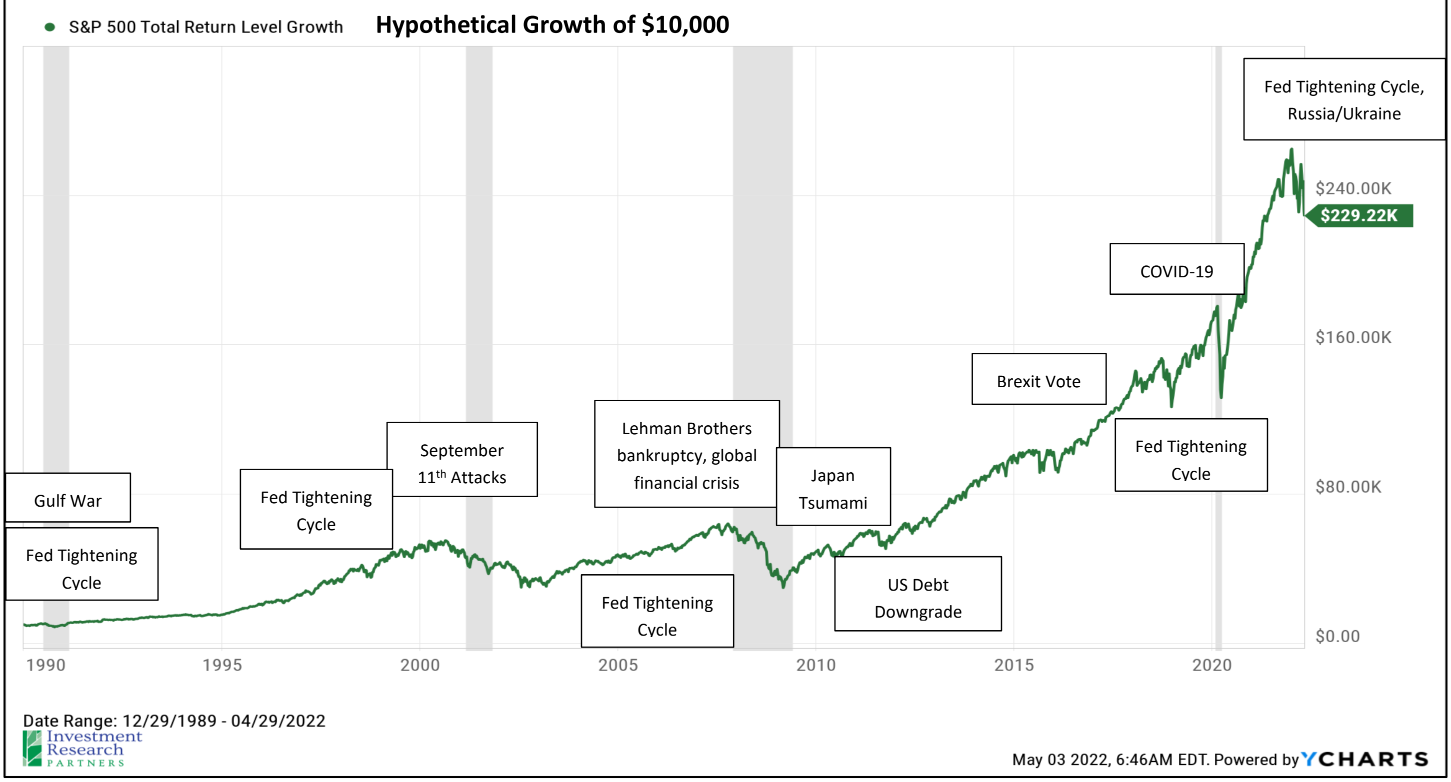
Implications for Portfolio Management

These risks are obviously daunting, but they are just as ubiquitous and widely discussed in financial media and investor letters like this one. Both household and investor sentiment have become very negative relative to long-term averages, a phenomena which have often foreshadowed higher future returns in equity markets. We believe that these risks and resulting market volatility have created attractive opportunities in specific securities and asset classes, perhaps the most salient point that we could offer investors today is simply to focus on your long-term investing goals and attempt to look beyond shorter-term fluctuations.

2022 Has Been Challenging For Most Asset Classes



Big Events are Common on the Long-Term Path for Growth



Economy

- Labor
- Earnings
- Sentiment
- Inflation
- Financial Conditions

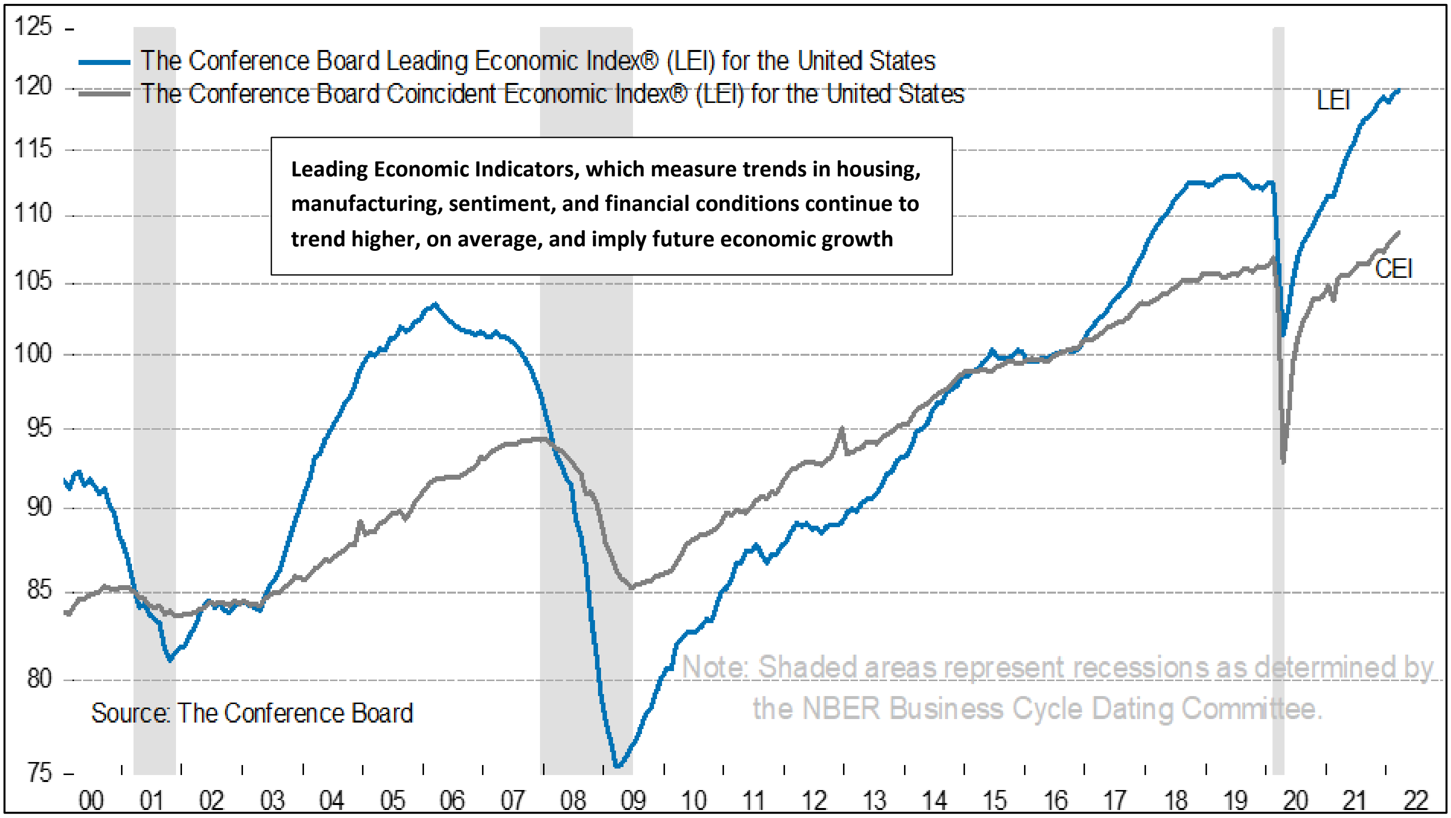
Valuations

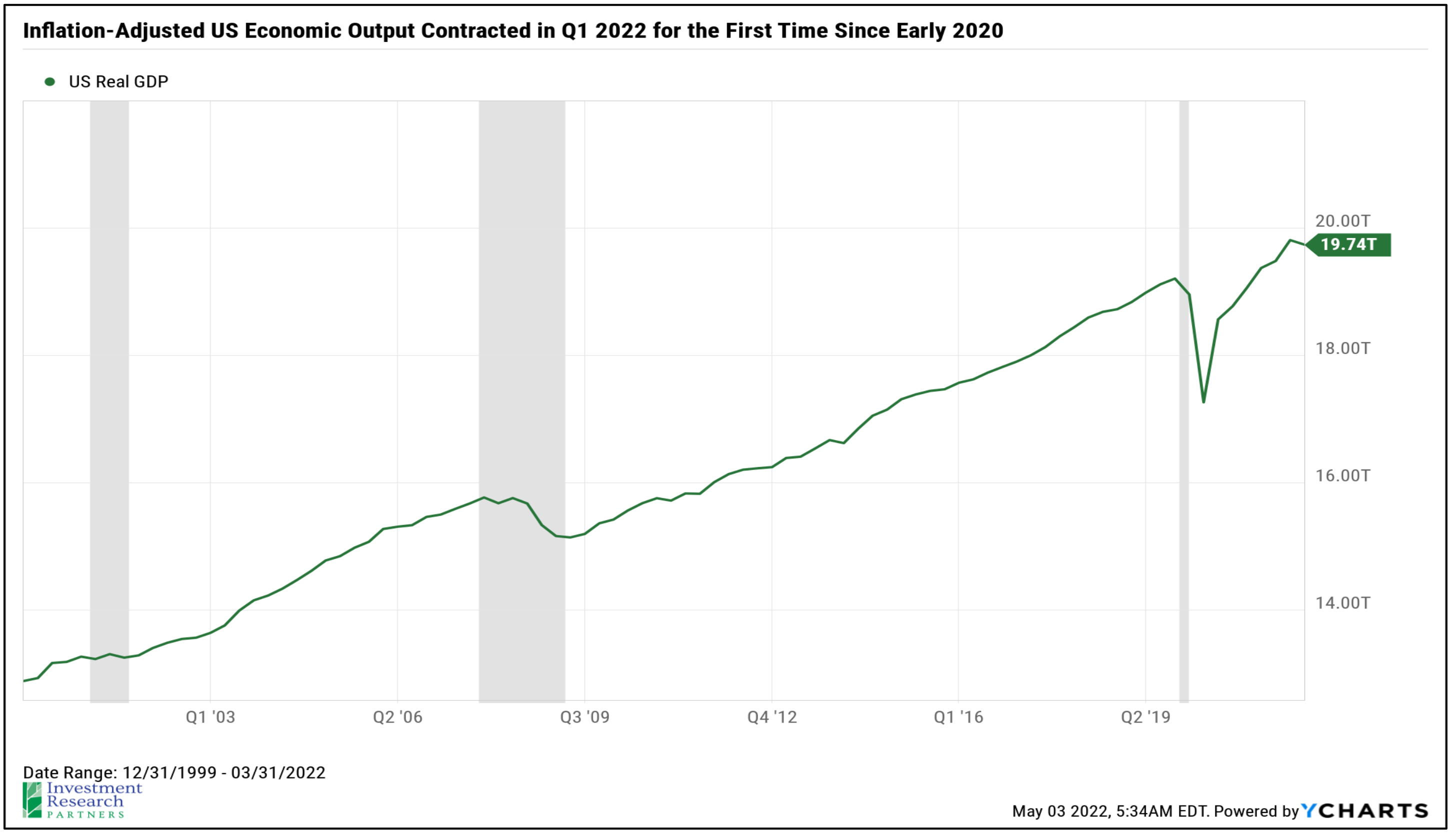
- Equity
- Credit

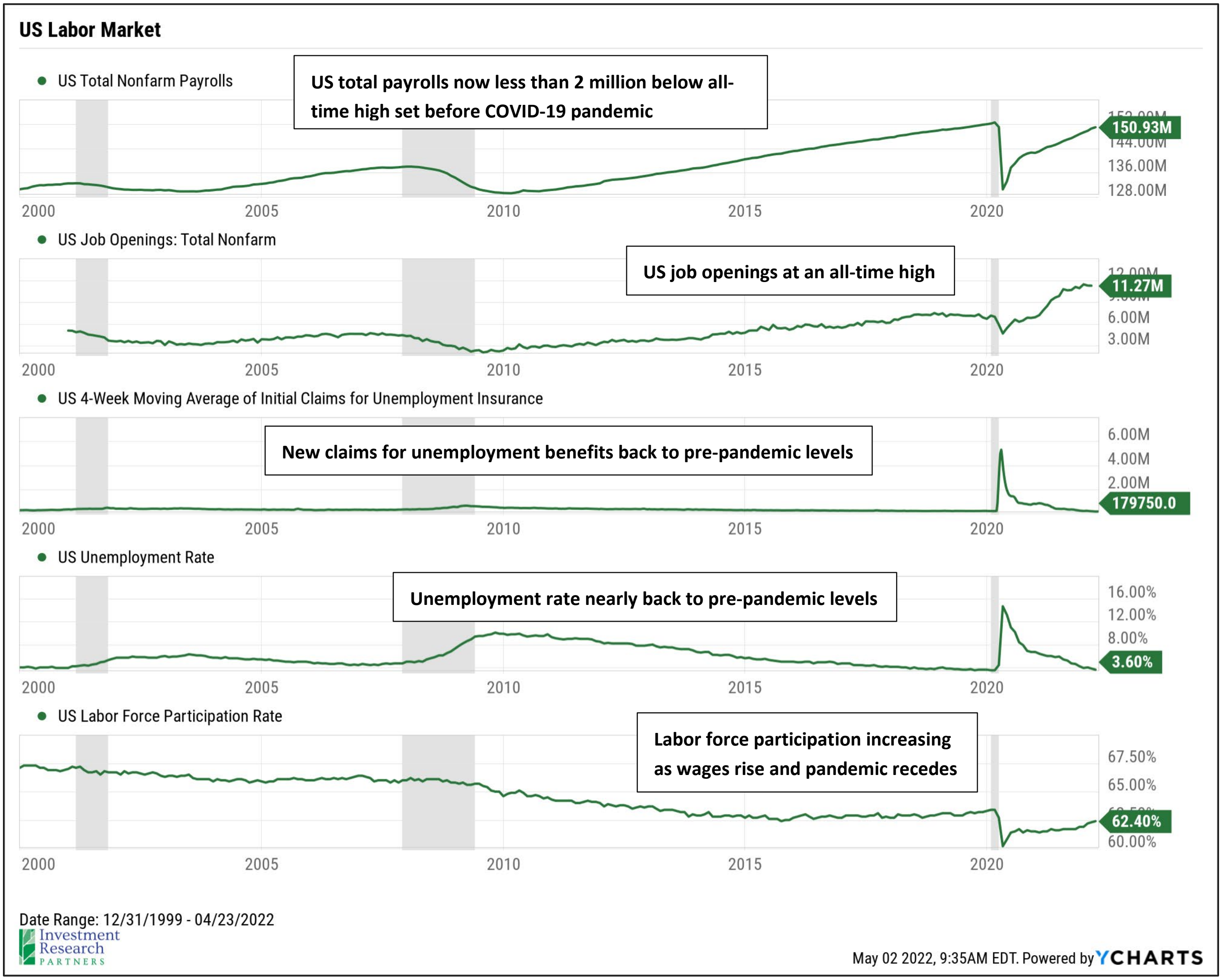
Technical

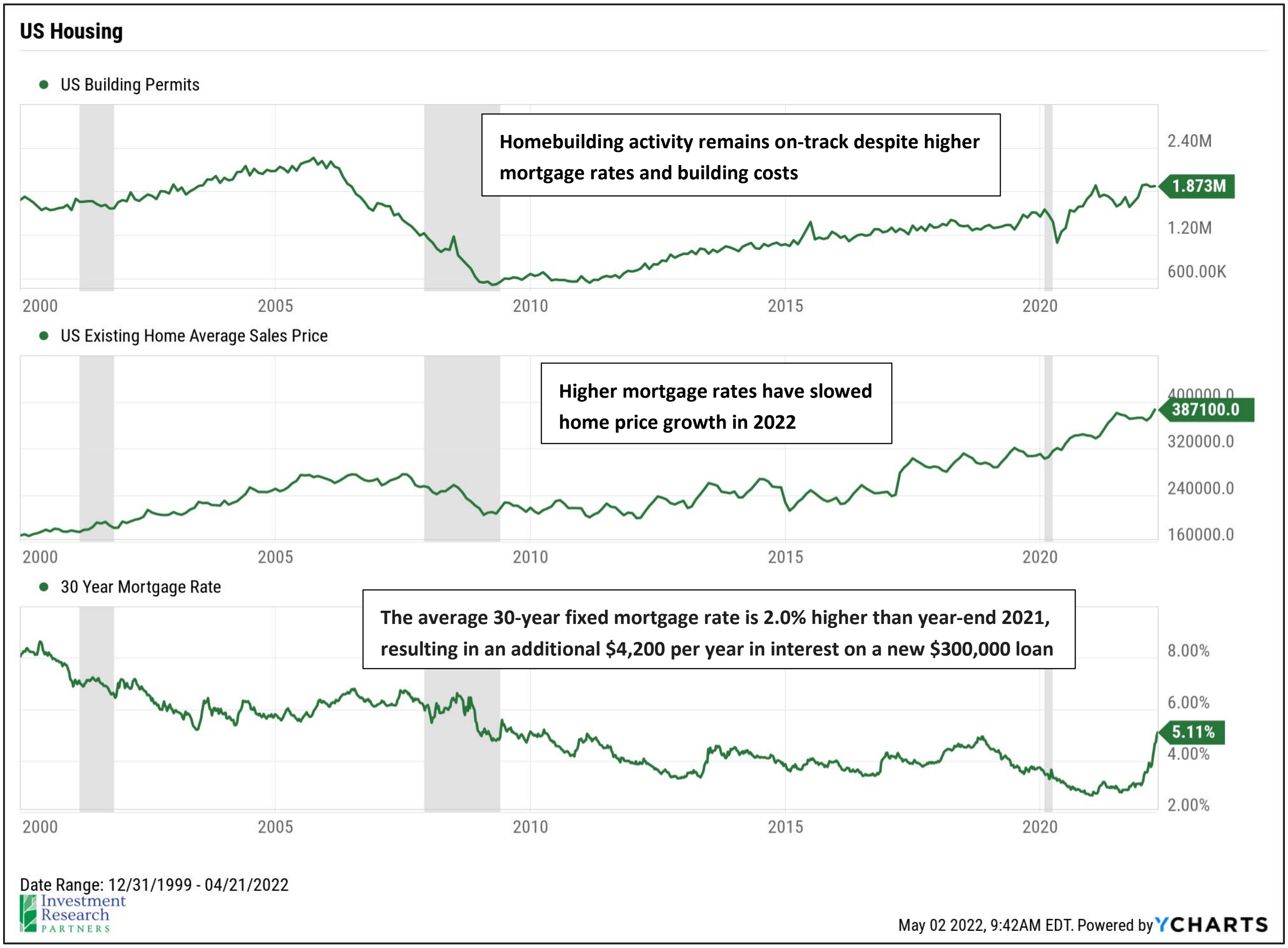
- Trend
- Sentiment

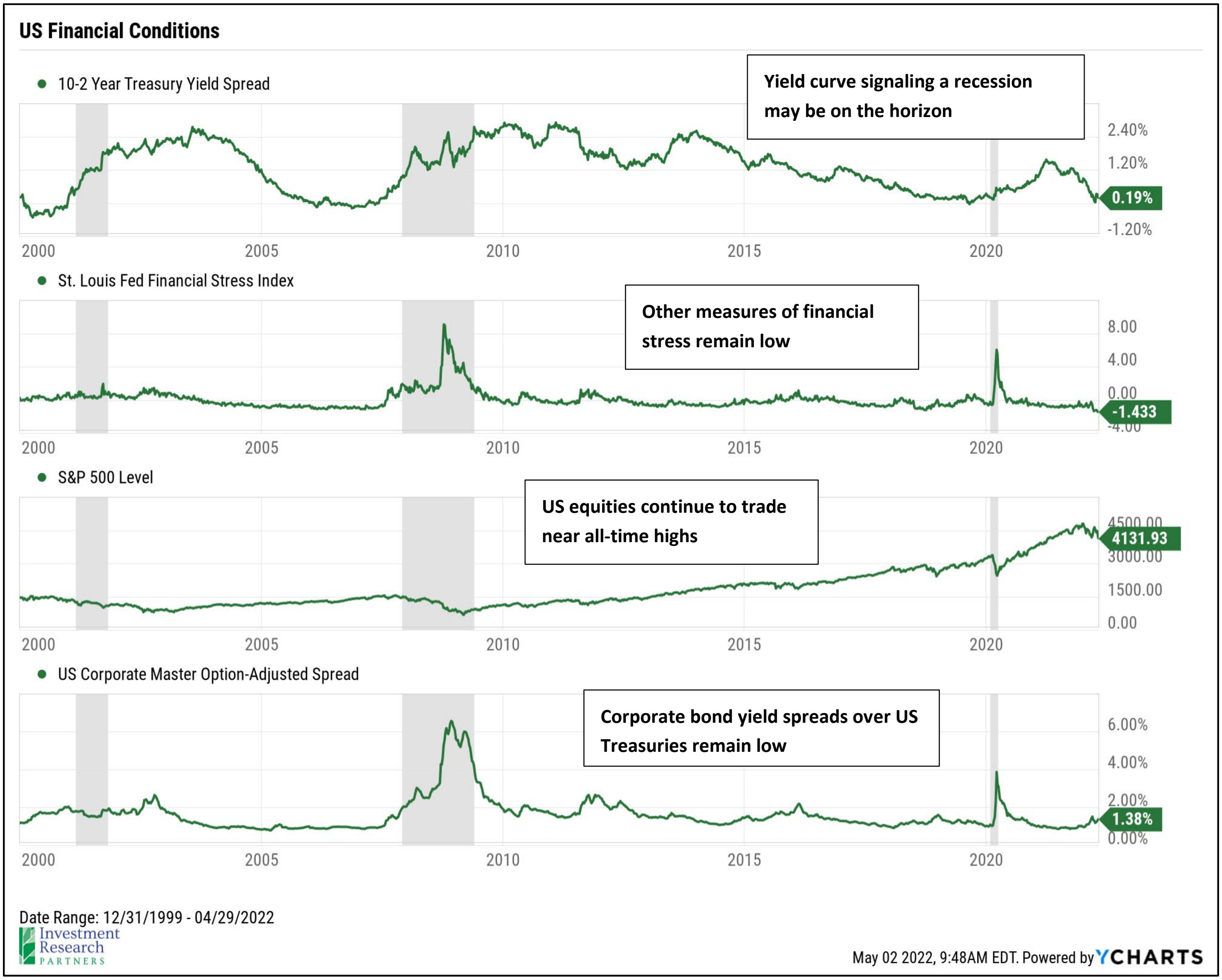
- The US economy remains on solid footing despite inflation.
- The labor market is robust but running out of room for significant advancement from here.
- Higher food, energy, and housing prices have caused households to be more negative / cautious.
- The US Federal Reserve is seeking to normalize monetary policy at an aggressive pace in order to combat inflation, which may also slow economic growth.
- Broad equity and credit indices near long-term average valuation.
- Market technical signals remain mixed as multiple parts of the US equity market are near or in bearish trends, but investor sentiment is very bearish (historically a contrarian buying opportunity)

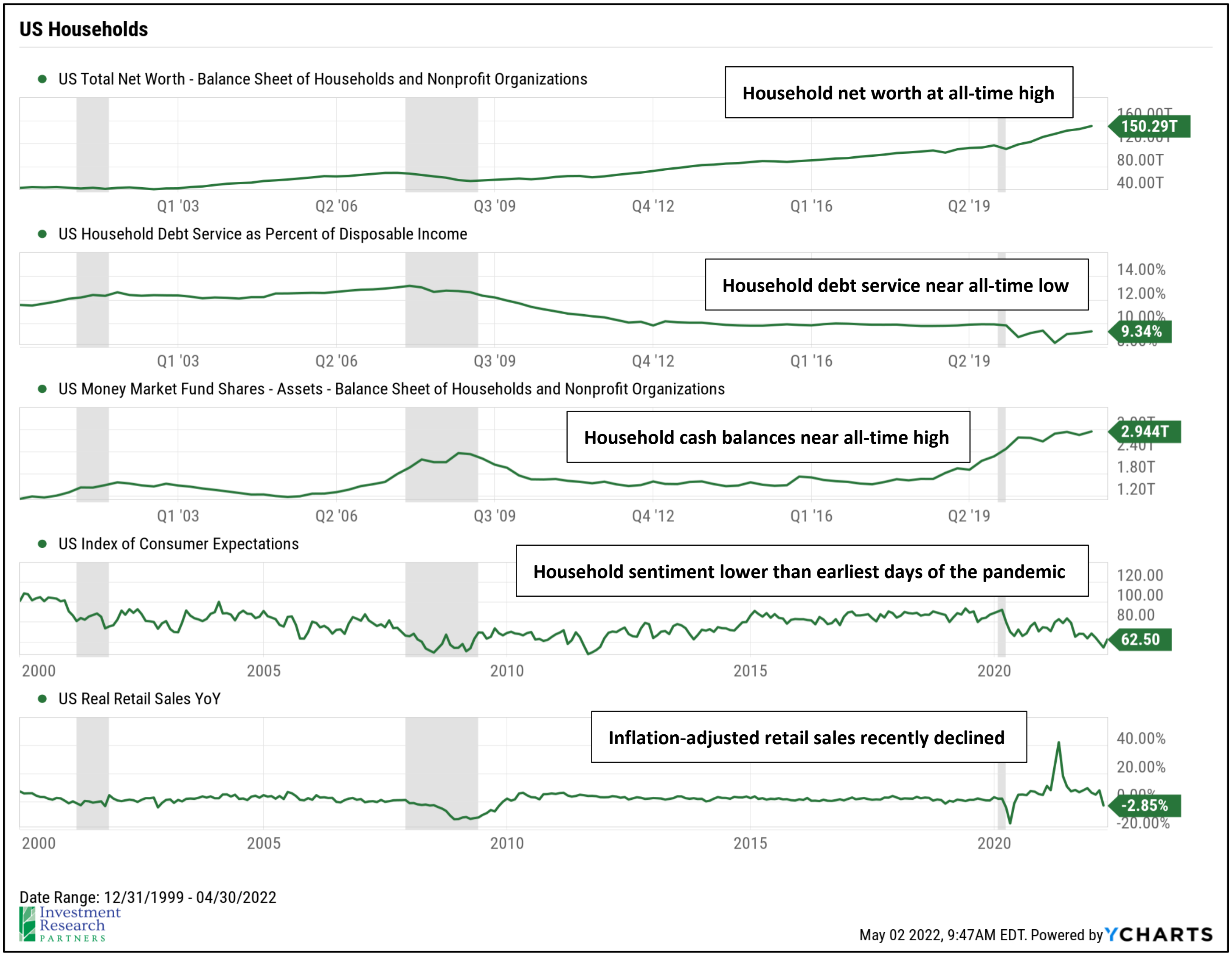

The Conference Board Leading Economic Index® (LEI) for the United States
The Conference Board Coincident Economic Index® (LEI) for the United States
Leading Economic Indicators, which measure trends in housing, manufacturing, sentiment, and financial conditions continue to trend higher, on average, and imply future economic growth
LEI
CEI
Note: Shaded areas represent recessions as determined by the NBER Business Cycle Dating Committee.
Source: The Conference Board
125
120
115
110
105
100
95
90
85
80
75
00 01 02 03 04 05 06 07 08 09 10 11 12 13 14 15 16 17 18 19 20 21 22


Inflation-Adjusted US Economic Output Contracted in Q1 2022 for the First Time Since Early 2020
US Real GDP
20.00T
19.74T
18.00T
16.00T
14.00T
Q1 '03
Q2 '06
Q3 '09
Q4 '12
Q1 '16
Q2 '19
Date Range: 12/31/1999 - 03/31/2022
Investment Research Partners
May 03 2022, 5:34AM EDT. Powered by YCHARTS

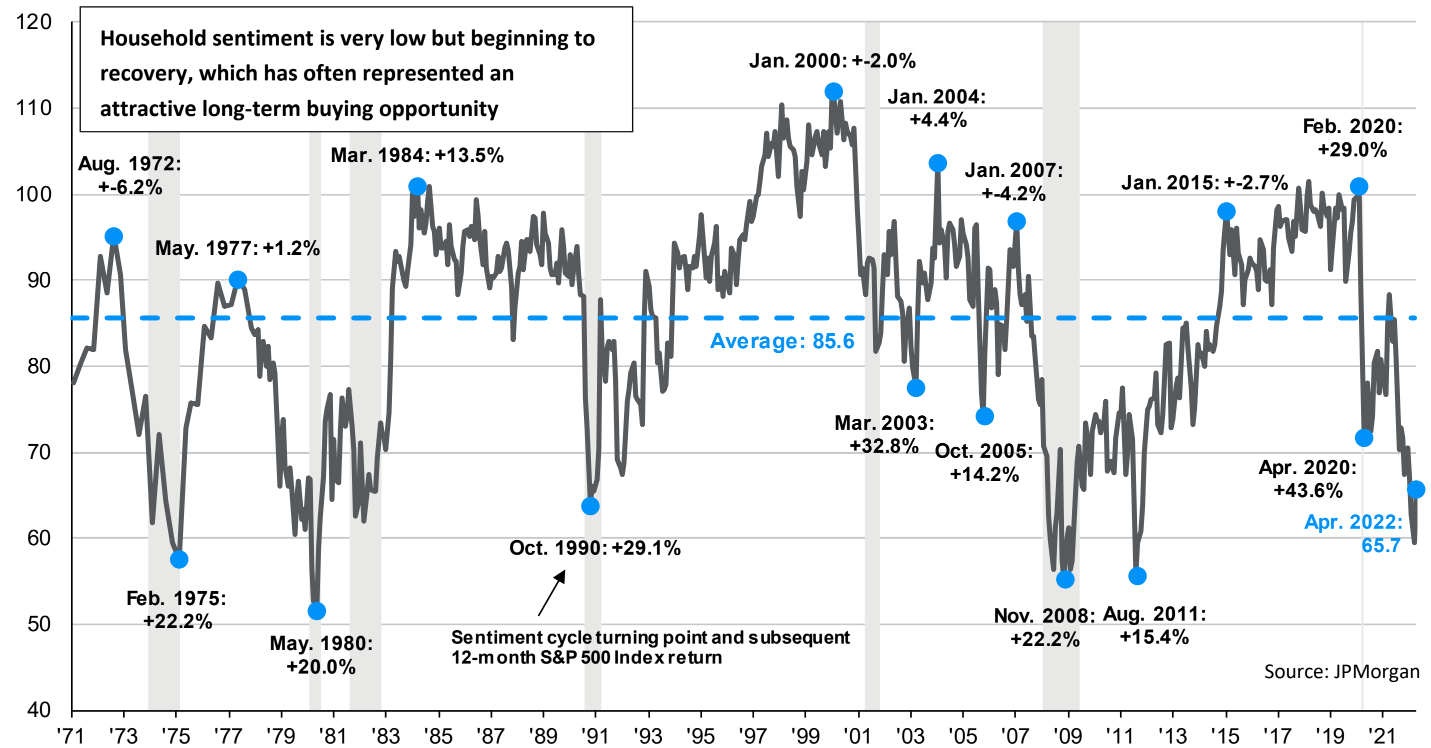

US Labor Market
US Total Nonfarm Payrolls
US total payrolls now less than 2 million below all-time high set before COVID-19 pandemic
150.93M
144.00M
136.00M
128.00M
2000
2005
2010
2015
2020
US Job Openings: Total Nonfarm
US job openings at an all-time high
11.27M
6.00M
3.00M
US 4-Week Moving Average of Initial Claims for Unemployment Insurance
New claims for unemployment benefits back to pre-pandemic levels
6.00M
4.00M
2.00M
179750.0
US Unemployment Rate
Unemployment rate nearly back to pre-pandemic levels
16.00%
12.00%
8.00%
3.60%
US Labor Force Participation Rate
Labor force participation increasing as wages rise and pandemic recedes
67.50%
65.00%
62.40%
60.00%
Date Range: 12/31/1999 - 04/23/2022
Investment Research Partners
May 02 2022, 9:35AM EDT. Powered by YCHARTS


US Housing
US Building Permits
Homebuilding activity remains on-track despite higher mortgage rates and building costs
2.40M
1.873M
1.20M
600.00K
2000
2005
2010
2015
2020
US Existing Home Average Sales Price
Higher mortgage rates have slowed home price growth in 2022
400000.0
387100.0
320000.0
240000.0
160000.0
30 Year Mortgage Rate
The average 30-year fixed mortgage rate is 2.0% higher than year-end 2021, resulting in an additional $4,200 per year in interest on a new $300,000 loan
8.00%
6.00%
5.11%
4.00%
2.00%
Date Range: 12/31/1999 - 04/21/2022
Investment Research Partners
May 02 2022, 9:42AM EDT. Powered by YCHARTS


US Financial Conditions
10-2 Year Treasury Yield Spread
Yield curve signaling a recession may be on the horizon
2.40%
1.20%
0.19%
-1.20%
2000
2005
2010
2015
2020
St. Louis Fed Financial Stress Index
Other measures of financial stress remain low
8.00
4.00
0.00
-1.433
-4.00
S&P 500 Level
US equities continue to trade near all-time highs
4500.00
4131.93
3000.00
1500.00
0.00
US Corporate Master Option-Adjusted Spread
Corporate bond yield spreads over US Treasuries remain low
6.00%
4.00%
2.00%
1.38%
0.00%
Date Range: 12/31/1999 - 04/29/2022
Investment Research Partners
May 02 2022, 9:48AM EDT. Powered by YCHARTS

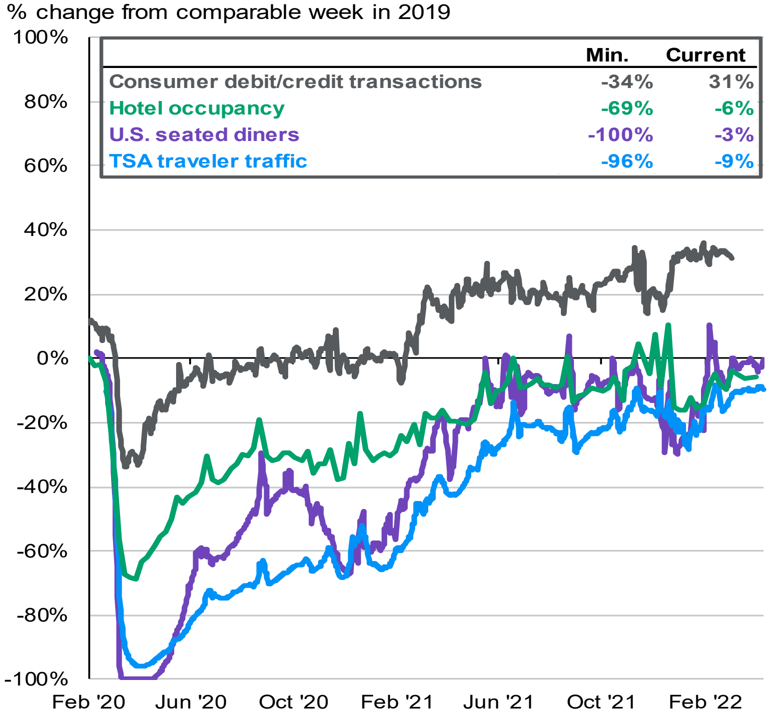

US Households
US Total Net Worth - Balance Sheet of Households and Nonprofit Organizations
Household net worth at all-time high
150.29T
80.00T
40.00T
Q1 '03
Q2 '06
Q3 '09
Q4 '12
Q1 '16
Q2 '19
US Household Debt Service as Percent of Disposable Income
Household debt service near all-time low
14.00%
12.00%
9.34%
US Money Market Fund Shares - Assets - Balance Sheet of Households and Nonprofit Organizations
Household cash balances near all-time high
2.944T
1.80T
1.20T
US Index of Consumer Expectations
Household sentiment lower than earliest days of the pandemic
120.00
100.00
80.00
62.50
2000
2005
2010
2015
2020
US Real Retail Sales YoY
Inflation-adjusted retail sales recently declined
40.00%
20.00%
-2.85%
-20.00%
Date Range: 12/31/1999 - 04/30/2022
Investment Research Partners
May 02 2022, 9:47AM EDT. Powered by YCHARTS

Consumer Sentiment Index and subsequent 12-month S&P 500 returns



High-frequency data

% change from comparable week in 2019

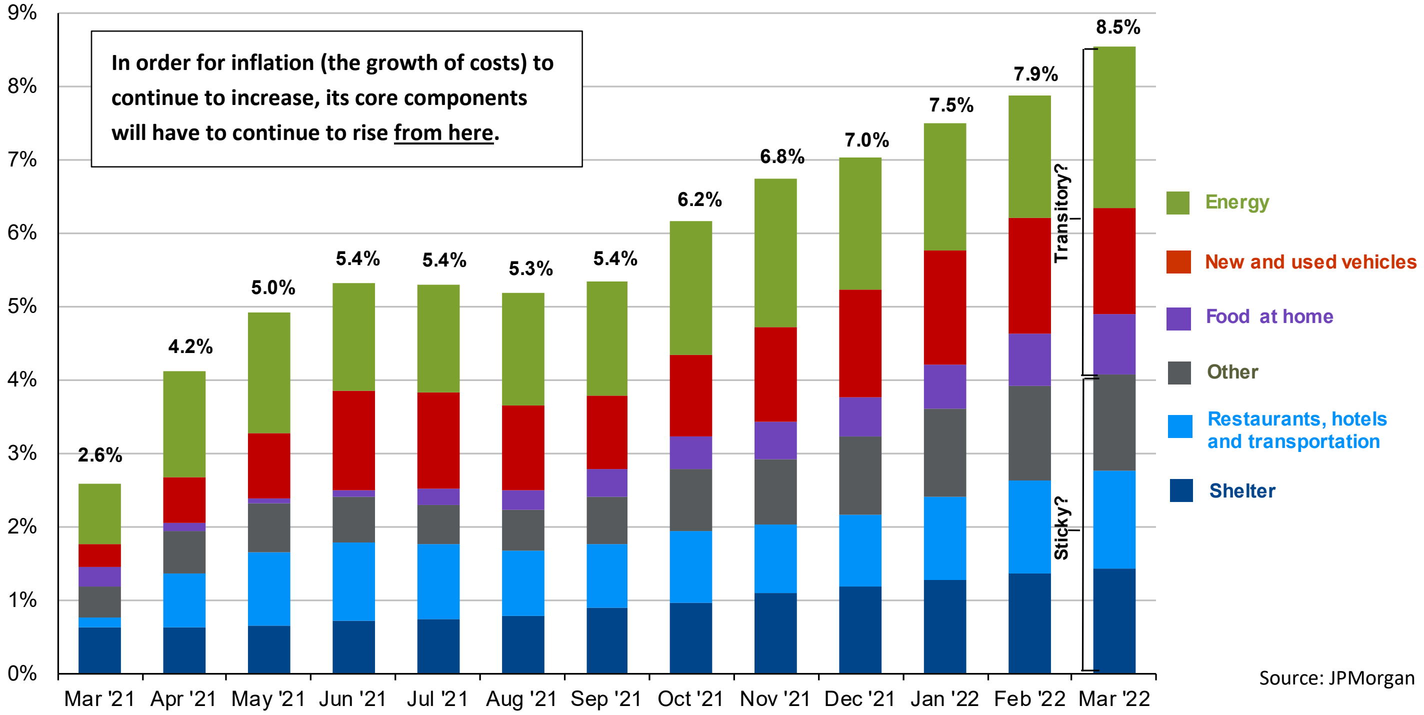


Household spending activity on credit card transactions, hotel occupancy, US seated diners, TSA traveler traffic are at or above pre-pandemic levels.

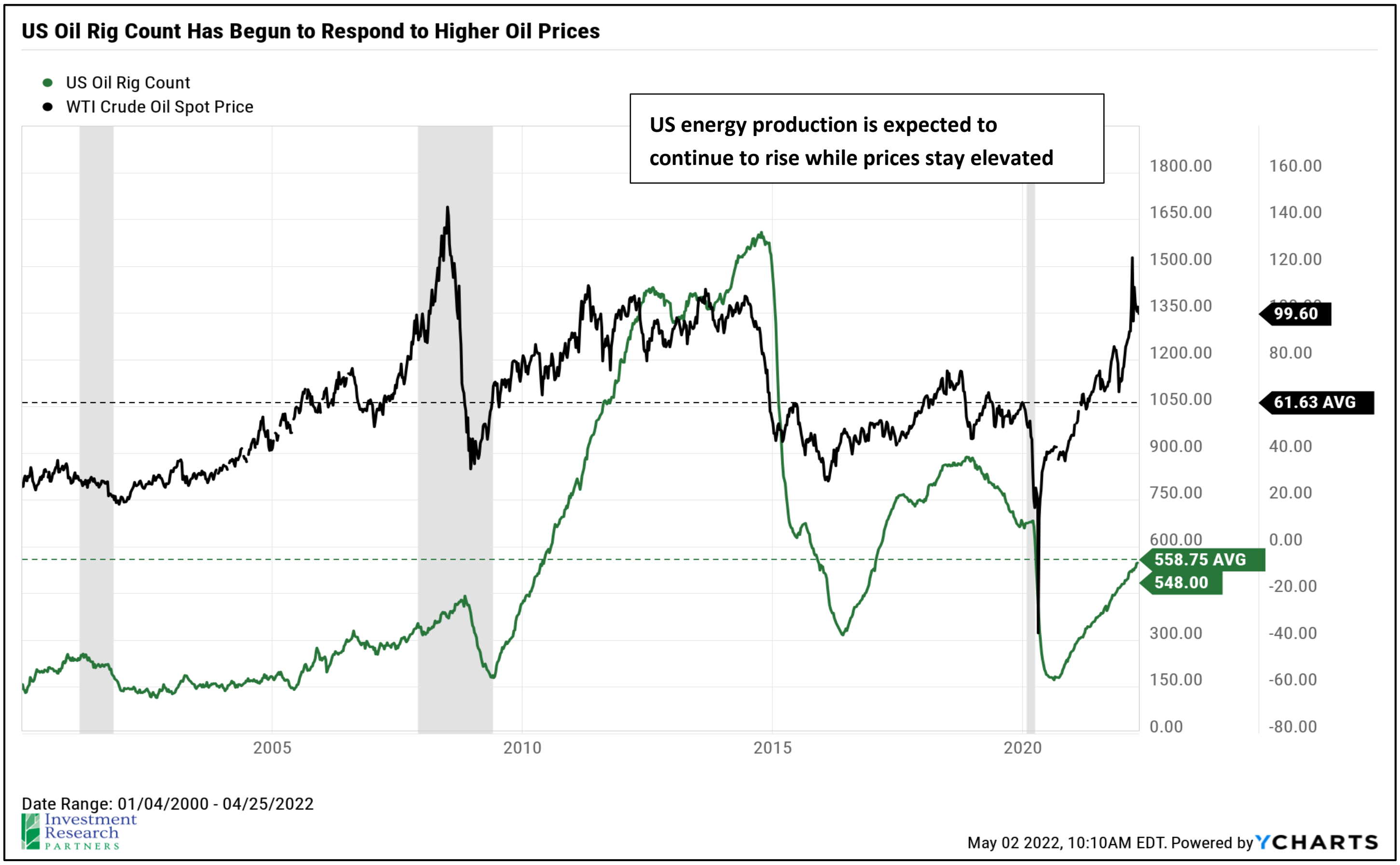
Source: JPMorgan

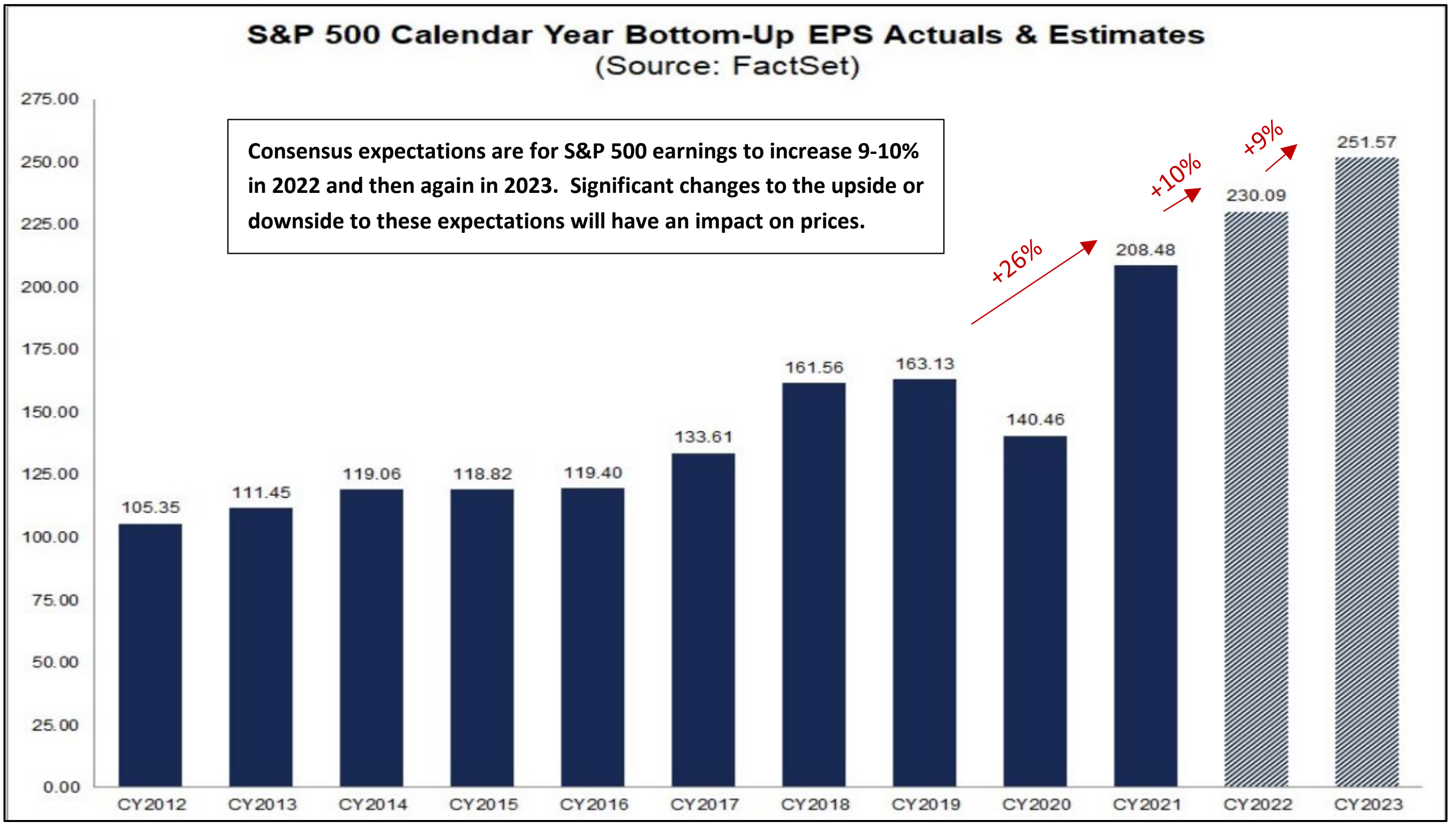
Contributors to headline inflation

Contribution to y/y % change in CPI, non seasonally adjusted



Source: JPMorgan




S&P 500 Calendar Year Bottom-Up EPS Actuals & Estimates
(Source: FactSet)
Consensus expectations are for S&P 500 earnings to increase 9-10% in 2022 and then again in 2023. Significant changes to the upside or downside to these expectations will have an impact on prices.
275.00
250.00
225.00
200.00
175.00
150.00
125.00
100.00
75.00
50.00
25.00
0.00
105.35
111.45
119.06
118.82
119.40
133.61
161.56
163.13
140.46
208.48
230.09
251.57
+26%
+10%
+9%
CY2012
CY2013
CY2014
CY2015
CY2016
CY2017
CY2018
CY2019
CY2020
CY2021
CY2022
CY2023

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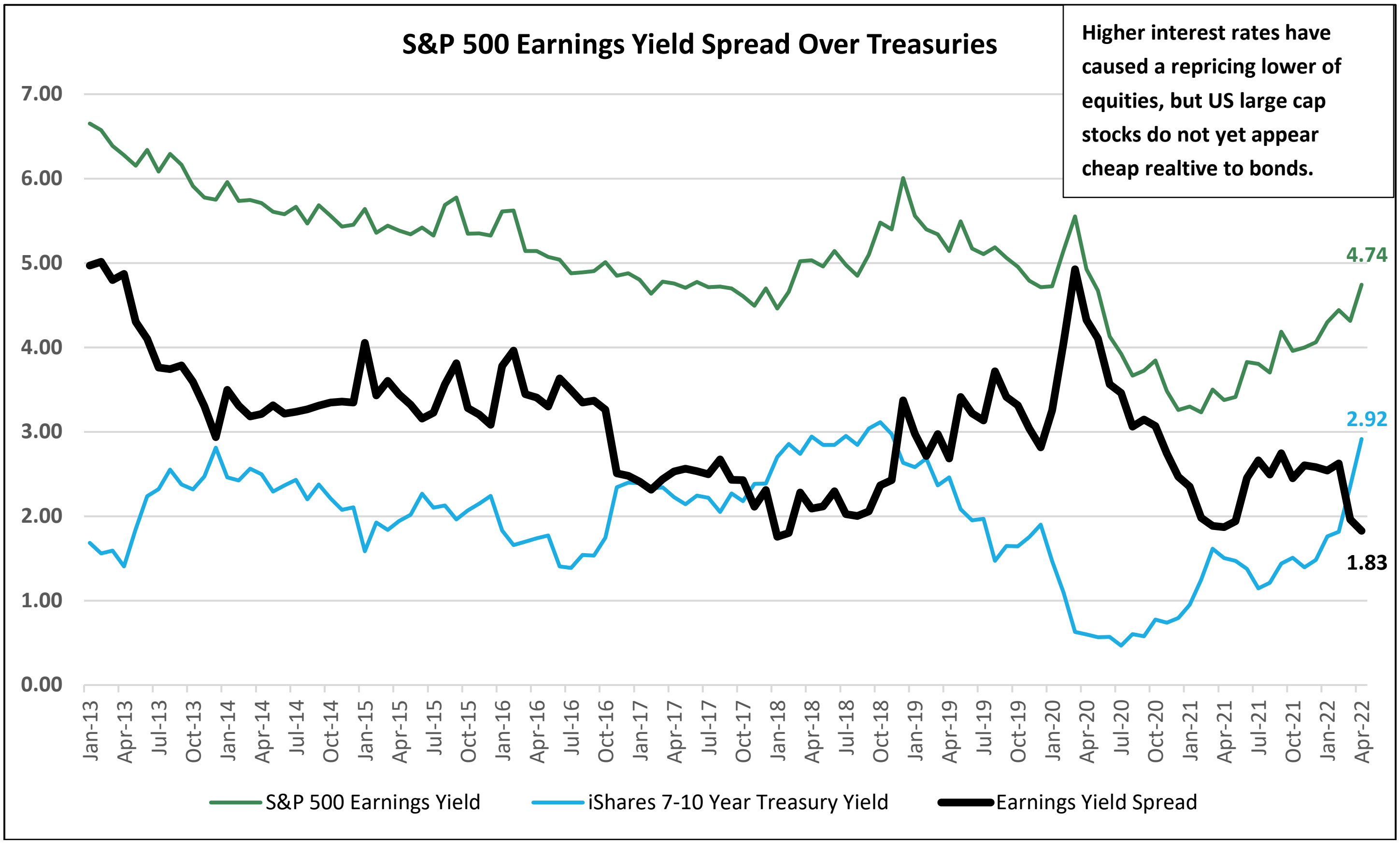
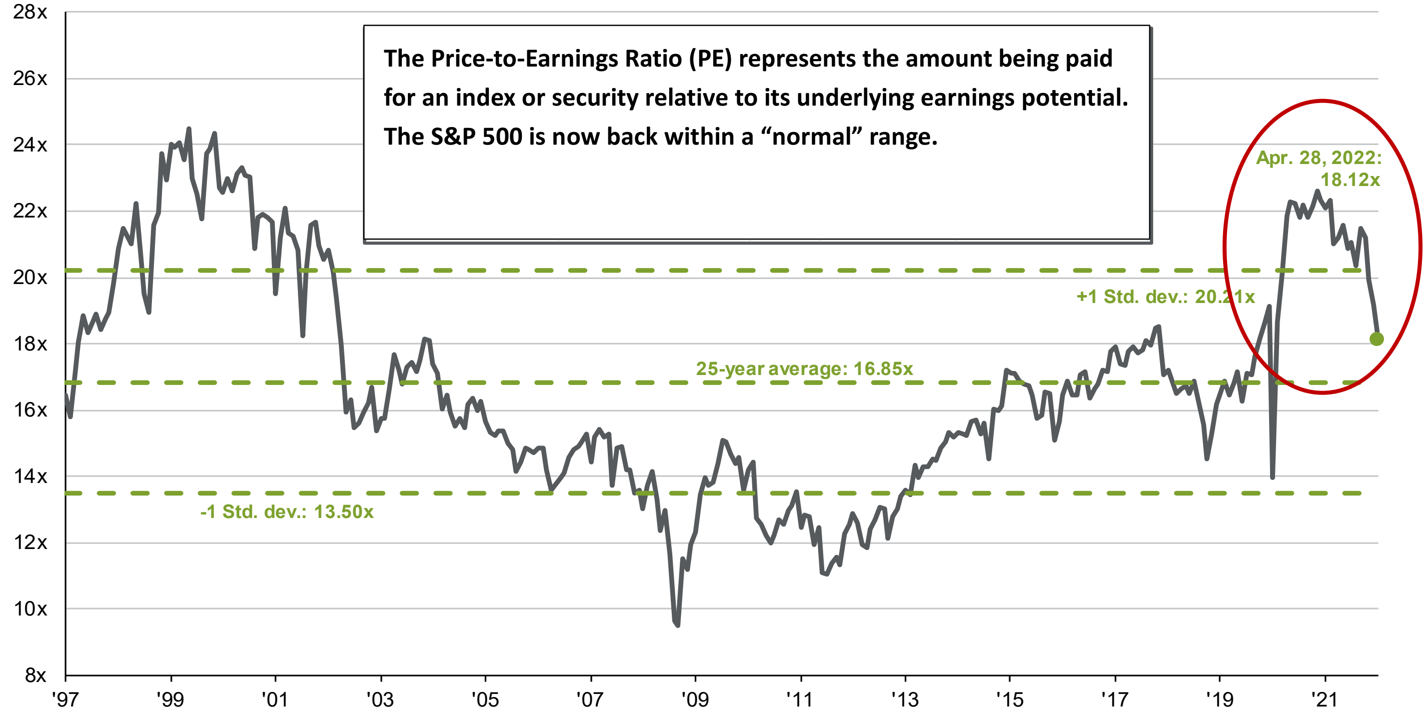
Valuation

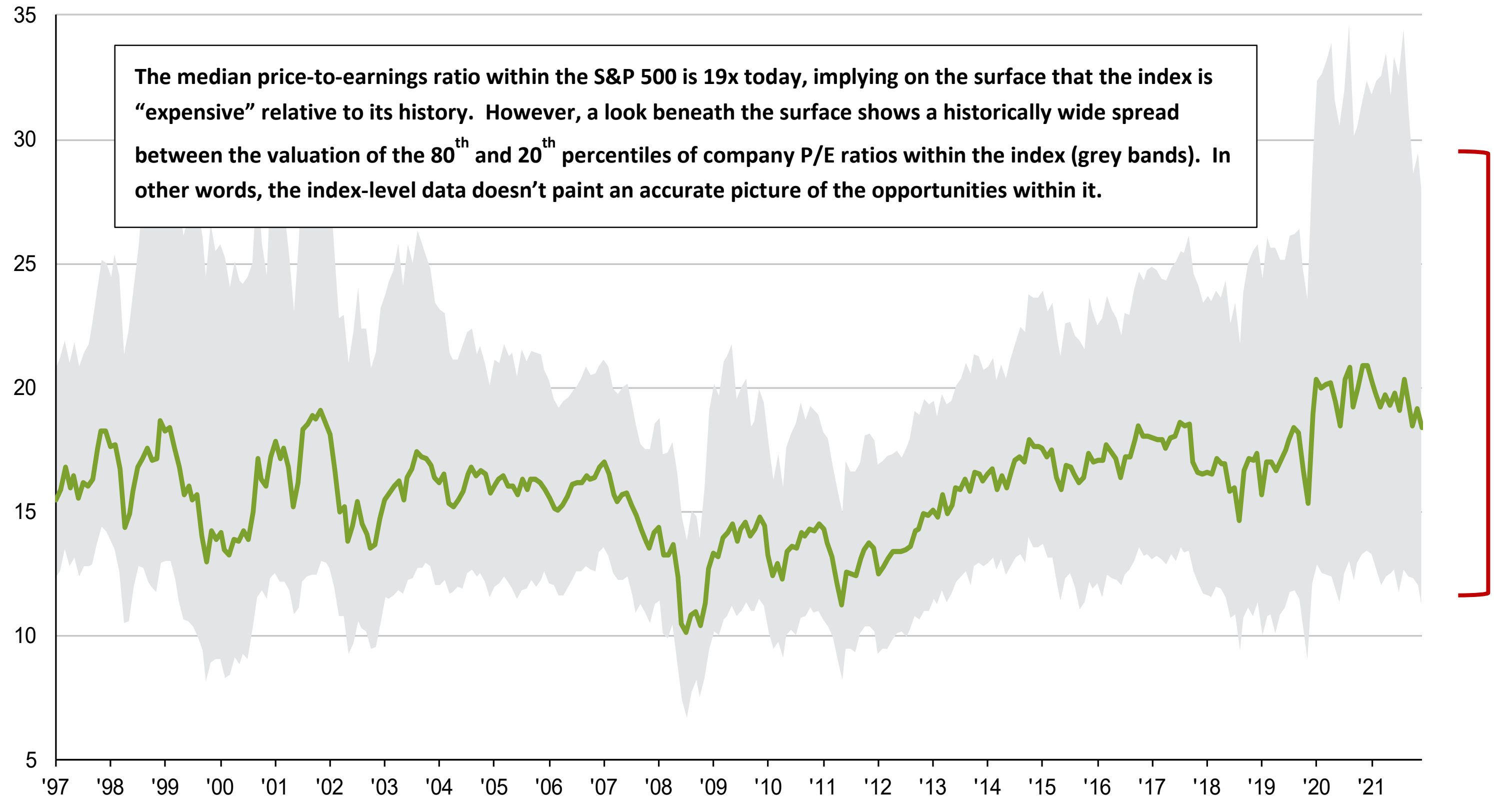
The declines in stocks in 2022 have brought most indices back into more normal valuation ranges relative to long-term averages. In addition to the risks facing equity markets (e.g., inflation, geopolitical), the pure movement higher in US Treasuries has likely been a very direct driver in the repricing lower of many stocks. The first chart below highlights the relationship between the earnings yield of the S&P 500 in green (earnings yield being the net profit earned by investors divided by the price of the index) and the yield on 7-10 year US Treasury notes (blue line). The black line represents the spread between these two, with a higher spread offering a more compelling relative value for equities compared to bonds.



Source: Bloomberg

S&P 500 Price-to-Expected Earnings





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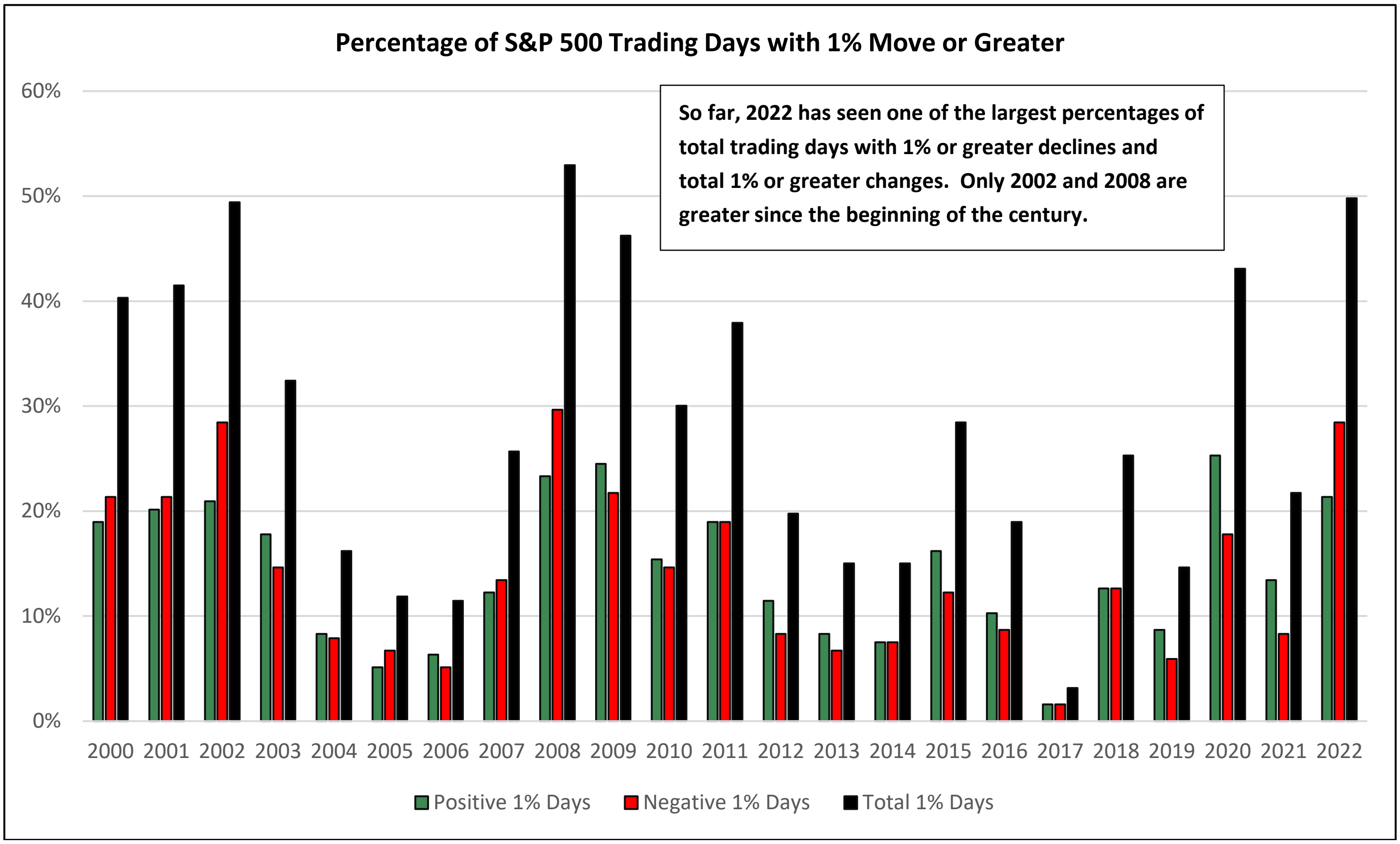
Technical

The confluence of risks facing investors today has led to the highest percentage of bears in the market since 2009. Historically, these periods of extreme pessimism have been attractive buying opportunities for long-term investors. However, we have yet to see confirming signs of a market bottoming process, and in fact, the overall trend of the S&P 500 continues to degrade. The various risks have led to 2022 being one of the most volatile years over the last two decades.



Source: Bloomberg

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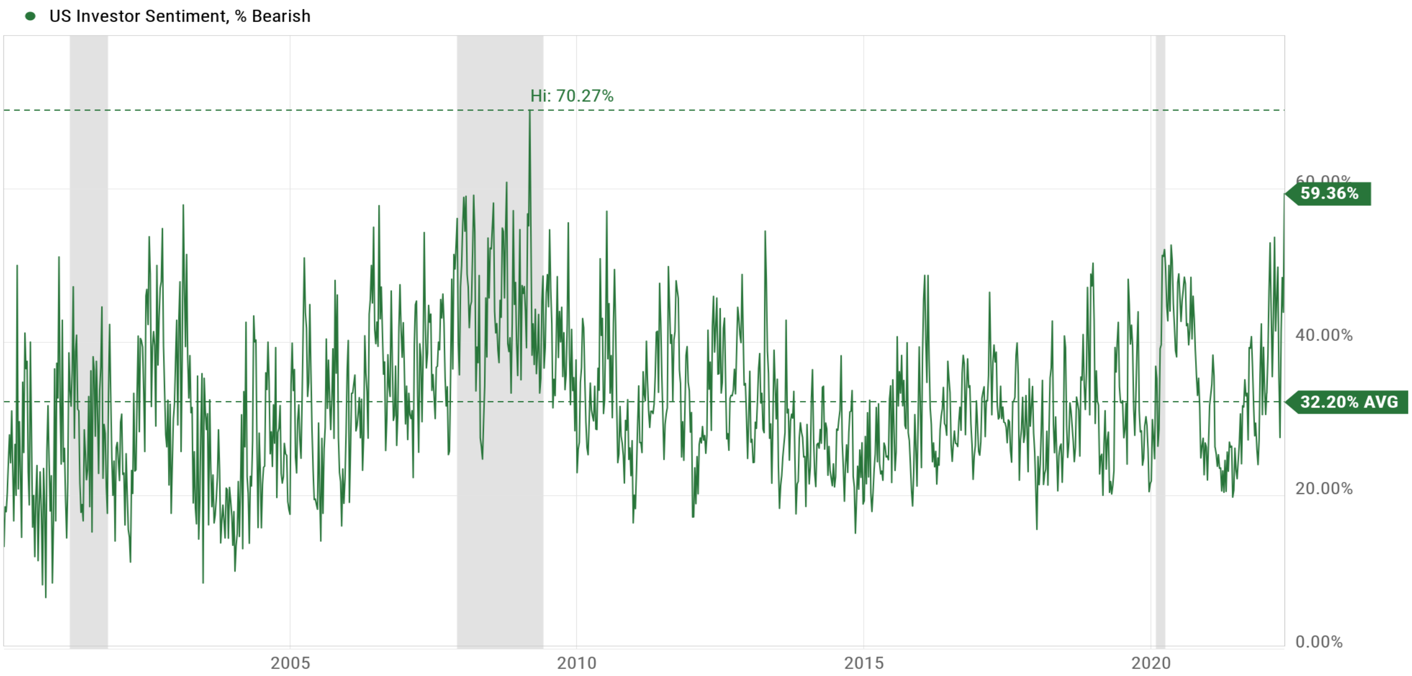
Highest Level of Bearishness Since 2009

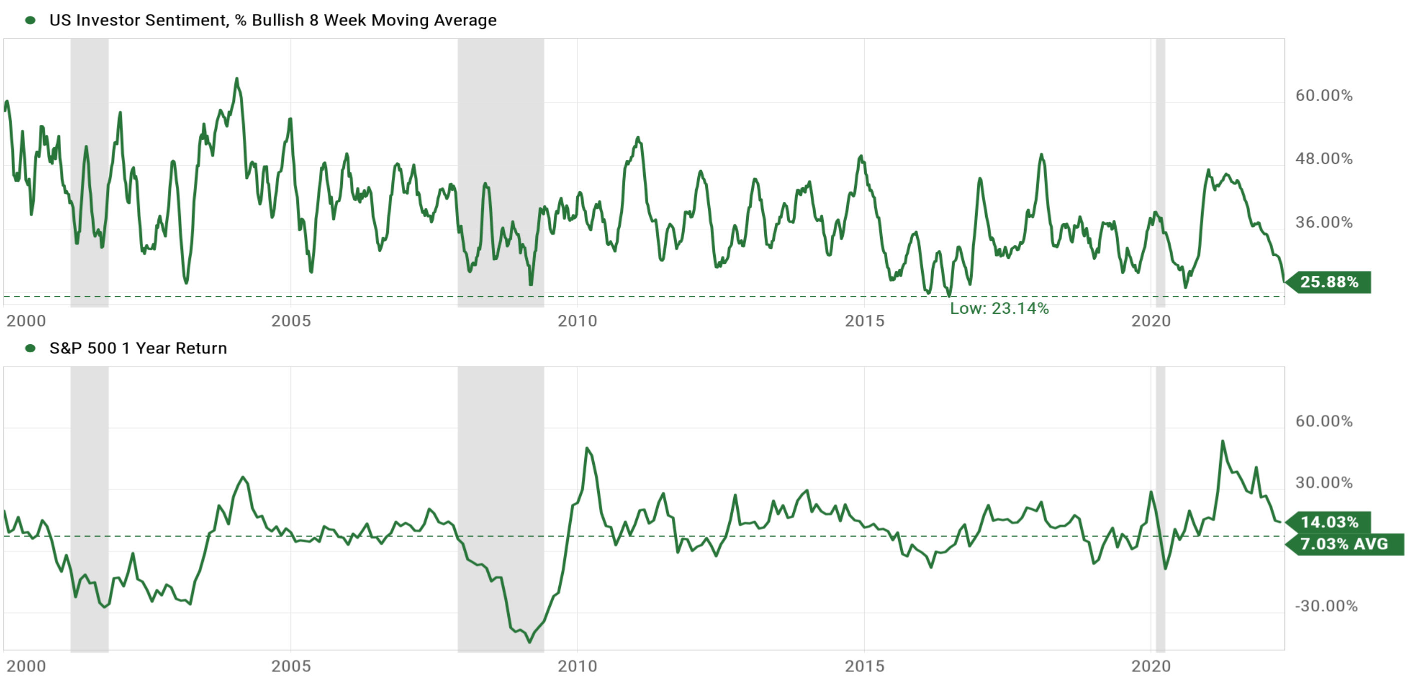


Date Range: 01/06/2000 - 04/28/2022

Investment Research Partners

May 02 2022, 9:09PM EDT. Powered by YCHARTS

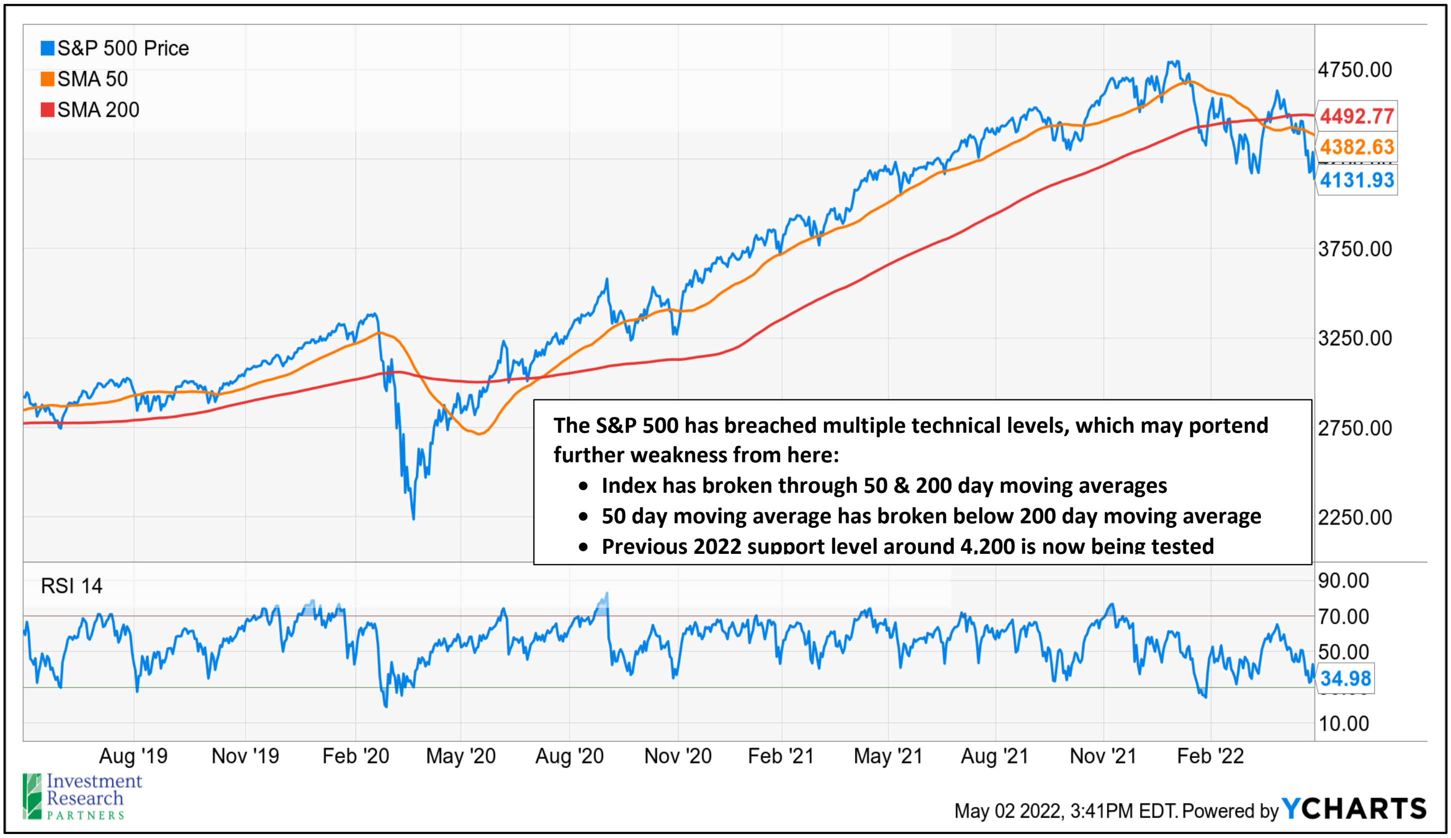
Very Negative Investor Sentiment Has Historically Preceded Higher Future Returns



Date Range: 12/31/1999 - 04/28/2022

Investment Research Partners

May 02 2022, 9:21AM EDT. Powered by YCHARTS


S&P 500 Price
SMA 50
SMA 200
4750.00
4492.77
4382.63
4131.93
3750.00
3250.00
2750.00
2250.00
The S&P 500 has breached multiple technical levels, which may portend further weakness from here:
• Index has broken through 50 & 200 day moving averages
• 50 day moving average has broken below 200 day moving average
• Previous 2022 support level around 4,200 is now being tested
RSI 14
90.00
70.00
50.00
34.98
10.00
Aug '19
Nov '19
Feb '20
May '20
Aug '20
Nov '20
Feb '21
May '21
Aug '21
Nov '21
Feb '22
Investment Research Partners
May 02 2022, 3:41PM EDT. Powered by YCHARTS

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Prices & Interest Rates

Representative Index	April 2022	Year-End 2021
Crude Oil (US WTI)	$104.69	$75.21
Gold	$1,909	$1,828
US Dollar	102.96	95.97
2 Year Treasury	2.70%	0.73%
10 Year Treasury	2.89%	1.52%
30 Year Treasury	2.96%	1.90%

Source: Morningstar, YCharts, and US Treasury as of April 30, 2022

Asset Class Returns

Category	Representative Index	April 2022	YTD 2022
Global Equity	MSCI All-Country World	-8.0%	-12.9%
Global Equity	MSCI All-Country World ESG Leaders	-7.9%	-13.7%
US Large Cap Equity	S&P 500	-8.7%	-12.9%
US Large Cap Equity	Dow Jones Industrial Average	-5.8%	-7.4%
US All Cap Equity	Russell 3000 Growth	-12.1%	-20.2%
US All Cap Equity	Russell 3000 Value	-5.8%	-6.6%
US Small Cap Equity	Russell 2000	-9.9%	-16.7%
Foreign Developed Equity	MSCI EAFE	-6.5%	-12.0%
Emerging Market Equity	MSCI Emerging Markets	-5.6%	-12.2%
US Fixed Income	Bloomberg Barclays Municipal Bond	-2.8%	-8.8%
US Fixed Income	Bloomberg Barclays US Agg Bond	-3.8%	-9.5%
Global Fixed Income	Bloomberg Barclays Global Agg. Bond	-5.5%	-11.3%

Source: YCharts as of April 30, 2022