INVESTMENT UPDATE

Second Quarter 2022

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MARKET REVIEW

Markets accelerated to the downside during the second quarter amid intensifying inflationary concerns, aggressive central bank tightening, and tumbling sentiment. On the heels of first quarter weakness, 2022 now has the dubious distinction of being the only time in half-a-century where both fixed income and equity markets suffered double digit drops during the first six months of the year.

Global Equity weakness was most acute in the US as the S&P 500 officially entered bear market territory. Despite solid corporate earnings and consumer balance sheet strength, stock multiples compressed amid inflationary dislocation and elevated economic recession risk. Souring investor appetite was most pronounced in areas of richly valued, high growth, low cash flow, consumer-centric businesses. Against this backdrop, seven of eleven sectors endured double-digit declines, book-ended by Staples (-5%) and Consumer Discretionary (-26%).

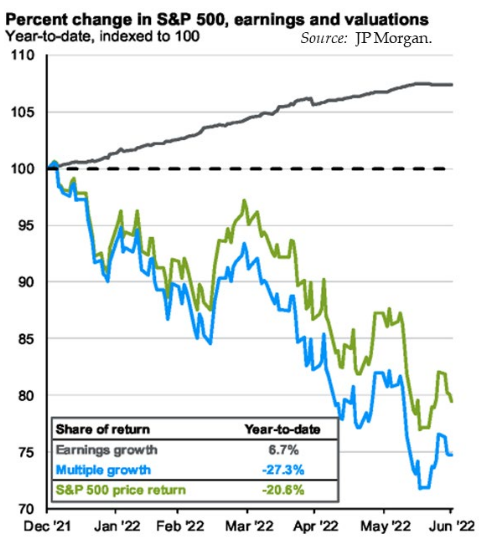
Non-US markets held up better given less aggressive central banks and outsized Q1 weakness, but nonetheless traded lower over similar recessionary concerns and energy supply risks. For US investors, foreign investments were further pressured by currency effects as the US dollar climbed to a 20-year high. Emerging Market Equities offered the best downside protection during the quarter, given improvement in China's economic and Covid policies, as well as a sizable mix of developing countries that are net commodity exporters and therefore higher inflation beneficiaries.

> *Since 1926, there have been 19 times when the S&P 500 has dropped at least 15%. Each time, the market was higher one year following the low.*

Fixed Income markets also moved lower as the 75 basis point Fed hike in June (1.25% in total for the quarter) caught many by surprise, and the higher yields were not fully sufficient to offset the related drop in prices. Moreover, recession rhetoric caused spreads to blow out as credit default risk rose. Finally, with the curve's short end moving higher due to Fed action but the long end pressured by investors, the yield curve flattened and even inverted some, further perpetuating the recessionary narrative and adding momentum to the sell off.

OUTLOOK

While there is no shortage of competing headlines debating whether we are already in, heading towards, or will altogether avoid a recession, it is the intensity and duration of the economic contraction that should warrant the greatest attention - not whether a recessionary label is warranted or not. In reviewing a multitude of leading indicators and various data series, the related signaling can best be characterized as mixed, and most decidedly is not conclusive that the current slowdown will be severe in terms of both magnitude and duration.



For example, it is true that inflation has spiked to levels not seen in decades, new orders are falling, and consumer sentiment is near an all-time low. At the same time, it is also true that corporate earnings are strong, wages continue to increase, and the labor market remains tight.

Moreover, there does not appear to be "excess" in any particular part of the economy (e.g., inventory levels, pricing bubbles) that is often a necessary condition preceding a sustained economic recession.

Heading into the second half of the year, it is important to remember that economic trends and investment trends can often diverge, with the latter typically preceding the former. As such, despite economic softness that may persist, it is quite possible that investment markets will concurrently trade higher.

Reorienting away from the past in favor of the future, investors may face a new challenge of having to decide between compelling opportunities in both fixed income and equity investments. In the former, yields are higher than they have been in years and rate hike pressure may be subsiding. In the latter, valuations have become more attractive and mid-term elections reduce the risk of economic and tax policy missteps, the absence of which should buoy confidence.

In such an environment, a focus on asset allocation rebalancing may be especially prudent, integrating tactical exposure tilts to help manage risk/reward (e.g., higher dividend growth companies for broad US equity exposure). Importantly as always, investors should endeavor to maintain discipline, avoid market timing, and resist the urge to overreact and sell everything.

Q2 Performance

US Large Cap	-16.1%
US Small Cap	-17.2%
Non-US Developed	-14.3%
Emerging Markets	-11.4%
Treasuries	-3.6%
Investment Grade	-6.7%
High-Yield	-9.8%
Oil	5.5%
Gold	-6.7%