



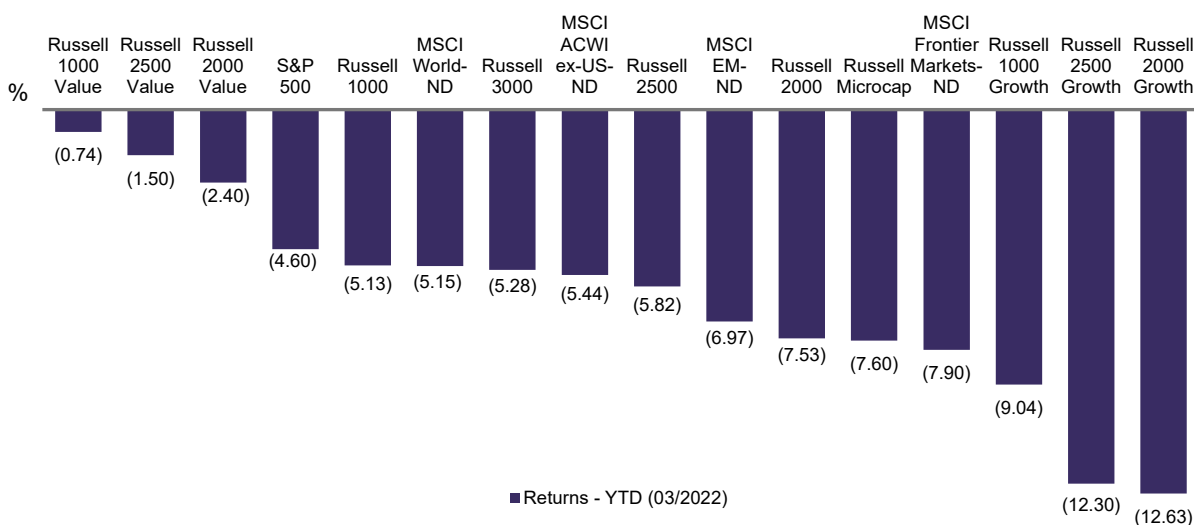
Market Review

March 2022

Against a backdrop of uncertainty during the first quarter of 2022, US equities finished lower, despite a valiant effort to rally in March. No doubt, the Russia-Ukraine conflict sits atop the wall-of-worry, as it proves to be a humanitarian crisis that few have seen for decades. Beyond the human toll, isolation of the 11th largest economy, Russia, from the rest of developed world, has led to the second major shock for global supply chains in as many years. Disruption to important commodity supplies added to inflationary pressures, which were already testing the limits of consumers and businesses alike. On top of this global crisis, the Federal Reserve began to embark on the great unwind of its unprecedented monetary stimulus, initiated during the global pandemic. With key inflationary rates 2x-3x above the long-term comfort level (roughly 2%) of our Central Bank, it's easy to see why consensus expectations were reset to account for a more aggressive Fed in 2022. Indeed, rate-hike expectations have skyrocketed and now incorporate an acceleration in both Fed-Fund rate hikes and balance-sheet reduction; the Fed's balance sheet stands at roughly \$9 trillion.

While equity performance was lower across the board during the quarter, US large-cap stocks outperformed small-cap stocks, with Value leading Growth. From an index perspective, the S&P 500[®] Index was down 4.6%, while the Russell 2000[®] Index fell 7.5%. Within the large-cap universe, the Russell 1000[®] Value Index was down 0.7% compared to a decline of 9.0% for the Russell 1000[®] Growth Index. Among small-cap stocks, the Russell 2000[®] Value Index was down 2.4% and the Russell 2000[®] Growth Index fell 12.6%. In the small/mid-cap segment of the market, Value also led, with the Russell 2500[™] Value Index falling 1.5%, compared to a decrease of 12.3% for the Russell 2500[™] Growth Index.

Chart 1: Asset Class Returns

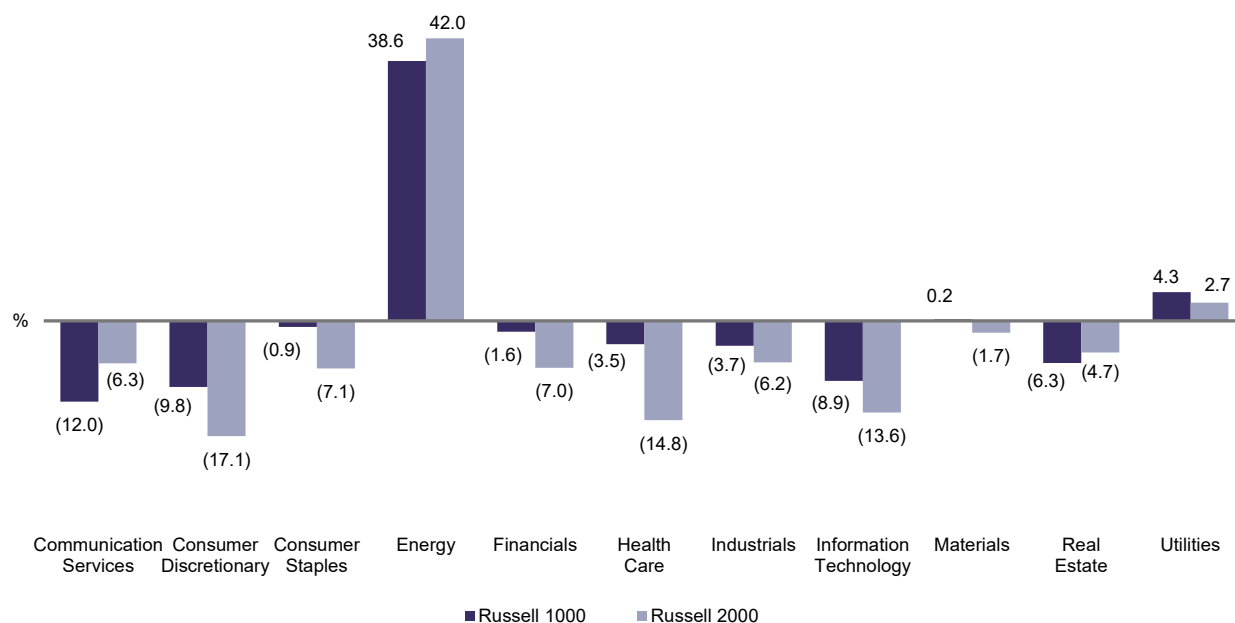


Source: eVestment. As of 3/31/2022.



While many cyclical sectors faltered during the quarter, energy and other commodity stocks experience outsized positive returns. These companies were direct beneficiaries of the heightened inflationary pressures and geopolitical uncertainties. Consumer stocks and long-duration growth stocks in sectors such as Technology and Biotechnology suffered the largest declines, as inflation and the cost of higher interest rates weighed on sentiment.

Chart 2: GICS Sector Returns – First Quarter 2022



Source: FactSet. As of 3/31/2022.

As we move forward into 2022, we believe growth could slow from its current pace, but not reverse. Economic activity had built good momentum coming into the year, as COVID-19 disruptions and shutdowns continue to ease. Inventory re-stocking and a pick-up in travel have been just some of the positive contributors. Economic growth ultimately drives corporate earnings growth. As equity investors, we are carefully watching the potential fallout from the surge in inflation and its potential impact on our economy. The tight labor market means wages will also continue to face upwards pressure. Economic sanctions, especially around food and energy, will continue to weigh on prices, while easing supply chain bottles will relieve some of the upward pressure.

With persistently higher inflation, the Fed has been more vocal on its intention to raise interest rates and move forward with quantitative tightening. The fact that growth has recovered at a very healthy pace is putting even more pressure on the Fed to move on those monetary policy changes. The moves are designed to control inflation, but will also impact economic growth. The question is if tighter monetary policy means avoiding “overheating” or if there is ultimately more demand destruction.

We believe the notion of “stagflation” is still premature. Still, the investment environment has become riskier over the past few months. Markets seem to have moved past the Russian-Ukraine



conflict, but uncertainty over the outcome remains. Economic growth has been strong thus far, but the persistency of monetary tightening and inflation further clouds visibility.

While we acknowledge the hazier outlook, equities still appear to be an attractive alternative to fixed income and, from a geographical standpoint, the US is better positioned to fight off whispers of a looming recession than Europe might face. Corporate profitability continues to be healthy and corporate balance sheets are in good shape, offering stability to the US' general economic health. In addition, unemployment continues to trend down with plenty of room for the labor participation rate to move higher.

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