Current Investment Strategy and Themes

- ***Longer dated risk assets decline as uncertainty shortens investor horizons.***
- ***Portfolios need to balance that increased short-term risk with the longer-term innovation opportunities.***
- ***Remaining diversified across both bond and stock strategies helps reduce the total portfolio risk.***

The Markets in Review: January 2022

- All asset classes generated negative returns in January except commodities. All economic sectors in the S&P 500 produced negative returns in January except the Energy sector. Risk assets everywhere were priced lower at the end of January versus just one month earlier. Inflation fears, GDP decline fears, geopolitical fears, and interest-rate hike fears were among the myriad reasons given for the price declines. Fear surpassed greed as the capital market driver in January.
- The equity declines were global and across all size and sector classifications, except energy stocks which reflected the 17.1% rise in oil prices in the month. US stocks now have their worst rolling 3-month period since March 2020 and the beginning of Covid. The US market underperformed the international developed and emerging equity markets. Within the US, large-cap stocks performed better than mid-cap stocks which performed better than small-cap stocks. But that oversimplifies the market behavior. The real issue was the decline of growth-oriented stocks within the particular capitalization ranges. Because growth stocks have a greater percentage of their future earnings farther into the future than value stocks, they generally suffer more as investors shorten their investment horizon to favor near-term certainty over long-term opportunity.
- The Federal Reserve is now in the difficult balancing act of 1.) reining in inflation through increasing interest rates and changing their monetary policy of asset purchases, 2.) protecting the price level of financial assets, and 3.) stabilizing the labor markets and GDP growth. Rarely can all those objectives be achieved simultaneously. Bearish interest rate sentiment sent all fixed-income sectors lower in the month. Evidence of worsening sentiment was reflected in the change in how many times the Fed is expected to raise rates in 2022. From the beginning to the end of the month, the expectation rose from 3 to 5 times.
- The supply chain bottlenecks and shortages have raised inflation expectation for at least the first-half of 2022. Input costs and disruptions will ripple through the economy and risk inflation and GDP growth. Issues within the labor market and real wages also threaten GDP growth in 2022 as consumers change their spending patterns. Interest rates rose in January at both the long-end and short-end of the interest rate curve. The 2-year Treasury rose 45 basis points and the 10-year Treasury rose 27bps. These factors lead to an increasing risk during 2022 that GDP suffers negative growth, aka a recession. Recessions have often been a tactic to regain control of prices and inflation. In 2022 the market will need to balance a new interest rate policy (rising rates) with minimal downside to the economy and investors. The renewed rise in market volatility just reflects this uncertainty.

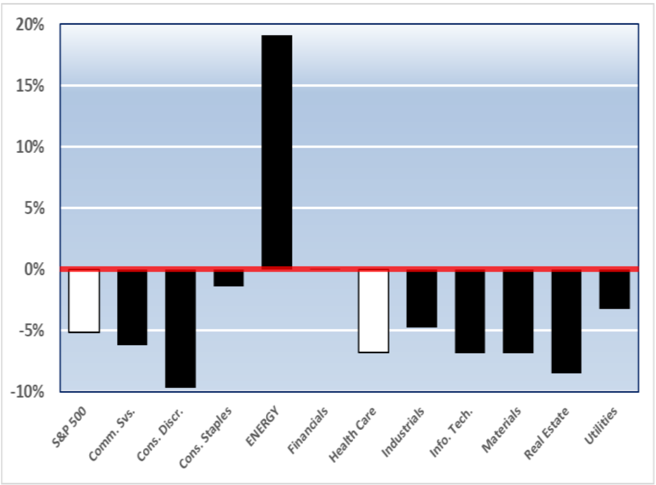
Key Market Indicators

Bullish | Favorable | Neutral | Cautious | Bearish

Equities	Jan 2022	Last 3 Months	Last 12 Months	Current View
U.S. Large Cap	-5.17%	-1.61%	23.29%	Neutral
U.S. Small Cap	-9.63%	-11.46%	-1.21%	Cautious
International Developed	-4.83%	-4.62%	7.03%	Favorable
Emerging Markets Equity	-1.89%	-4.13%	-7.23%	Neutral
Fixed Income				
U.S. Aggregate	-2.15%	-2.12%	-2.97%	Cautious
U.S. Government	-1.87%	-1.64%	-3.21%	Cautious
U.S. Corporate	-3.21%	-3.20%	-3.10%	Neutral
U.S. High Yield	-2.73%	-1.87%	2.06%	Cautious
Non-U.S. Developed	-2.47%	-3.51%	-10.38%	Cautious
Emerging Market Debt	0.27%	-1.54%	-8.02%	Bearish
Alternatives				
REITs	-6.85%	0.70%	33.29%	Neutral
Commodities	8.68%	7.38%	37.26%	Favorable
Managed Futures	2.43%	-2.09%	10.38%	Neutral
Hedge Funds	-1.47%	-2.28%	2.29%	Favorable

Source: Morningstar, data as of 1/31/2022

Sector Returns: Energy Stocks lead the S&P



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Index definitions:

“U.S. Large Cap” represented by the S&P 500 Index.
“U.S. Small Cap” represented by the Russell 2000 Index.
“International” represented by the MSCI Europe, Australasia, Far East (EAFE) Net Return Index.
“Emerging” represented by the MSCI Emerging Markets Net Return Index.
“U.S. Aggregate” represented by the Bloomberg U.S. Aggregate Bond Index.
“U.S. Government” represented by the Bloomberg U.S. Government Bond Index.
“U.S. Corporate” represented by the Bloomberg U.S. Credit Bond Index.
“U.S. High Yield” represented by the Bloomberg U.S. Corporate High Yield Index.
“Non-U.S. Developed” represented by the S&P International Treasury ex U.S. Index.
“Emerging Market Debt” represented by the JP Morgan GBI-EM Global Core Index
“REITs” represented by the FTSE North American Real Estate Investment Trust (REIT) Equity REITs Index.
“Commodities” represented by the Dow Jones Commodity Index .
“Managed Futures” represented by the Credit Suisse Managed Futures Index.
“Global Macro” represented by the Credit Suisse Global Macro Index

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