WINTHROP WEALTH

# Q1'2022 MARKET REVIEW & OUTLOOK

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- **US Equity Markets**: The S&P 500 decreased by -4.6% in Q1, the first quarterly decline since Q1 2020. The quarterly decline masks the overall volatility this year as the market dropped by -5.3% in January and -3.1% in February before rebounding by +3.7% in March. The S&P 500 also saw its first correction since the Pandemic when the market dropped by -12.8% from January 3rd to March 8th. On a more positive note, the market was able to stage an +8.7% rally in the last three weeks of March.

- **US Fixed Income Markets**: The Bloomberg Barclays US Aggregate Bond index (Agg), which acts as a proxy for the investment-grade bond market, decreased by -5.9% in the quarter, the worst quarterly decline since 1980. The increase in interest rates had a negative impact on returns (bond prices move inversely to interest rates). We hold fixed income to provide ballast, stability, and income to portfolios. Ballast means that ideally the fixed income holdings are increasing when equity markets are declining. Bonds have not provided ballast this year as interest rates have increased, but we expect the negative correlation between stocks and bonds to return in the future.

- **10-Year Treasury Yield**: The 10-Year Treasury yield increased by about 83 basis points to 2.34% as expectations of inflation and restrictive monetary policy continued to move higher.

- **Inflation**: The increase in inflation is driven primarily by supply chain bottlenecks, surging energy prices, and strong consumer demand. As inflation readings have continued to rise the Fed will be forced to tighten monetary policy in response. The latest FOMC projections show inflation ending the year at +4.1% before falling to +2.6% in 2023 and +2.3% in 2024.

- **The Fed**: The Fed has now firmly admitted that inflation is a problem and that they will tighten monetary policy to attempt to bring it under control. The Fed has started their interest rate hike cycle and they will likely start to shrink their balance sheet within the next few months. Although the Fed is raising rates, they still believe they can achieve a "soft-landing" for the economy. A soft-landing means that the economy can avoid a recession despite the increase in interest rates. At the last FOMC meeting, Fed Chair Powell stated, "in my view, the probability of a recession within the next year is not particularly elevated. All signs are that this is a strong economy, and it can certainly flourish in the face of less-accommodative monetary policy." Chair Powell also pointed out that economy did achieve a soft landing in 1964, 1984, and 1994.

- **US Economy**: The economy is on solid footing for now, supported by a strong labor market and consumer. Although the economy looks good now, there is a definite deceleration in growth due to inflation, supply chain issues, and fading stimulus. We are closely monitoring economic indicators to assess whether the deceleration will lead to a recession or a soft landing. While some indicators are flashing warning signs for a recession at some point over the next two years, we know that a lot can change between now and then. We do not expect a clear answer for another several months.

- **Market Outlook and Portfolio Positioning**: The volatility and decline in the stock market to start the year was driven primarily by fears over the Fed tightening monetary policy, increased inflation expectations, and the Russia/Ukrainian war. We are sticking with our investment philosophy of maintaining a long-term viewpoint as the present environment is very challenging and fluid. Given all the uncertainty, we are maintaining defensive positioning while continuing to look for opportunities to tax loss harvest, reposition portfolios, and selectively put money to work for clients that have recently made contributions to their accounts. We expect more opportunities to take advantage of volatility as we think it will persist for the next several months.

  Please see some of our most recent market commentaries:

  - **Market Timing Does Not Work**
  - **Market Performance During Fed Tightening Cycles**
  - **Market Reaction to Geopolitical Events**
  - **Withdrawing Money**
  - **Tax-Loss Harvesting**
  - **Is this a good time to invest new money?**

# US EQUITY MARKETS

The S&P 500 decreased by -4.6% in Q1, the first quarterly decline since Q1 2020. The quarterly decline masks the overall volatility this year as the market dropped by -5.3% in January and -3.1% in February before rebounding by +3.7% in March. The S&P 500 also saw its first correction since the Pandemic when the market dropped by -12.8% from January 3rd to March 8th. On a more positive note, the market was able to stage an +8.7% rally in the last three weeks of March.

Last year, we pointed out that the stock market was coming off an unusual stretch of strong returns with very low volatility. In 2021, the S&P 500 was higher by +28.7% while the largest peak-to-trough decline was only -5.2%. This compared very favorably to the historical averages, as since 1928, the S&P has produced a total annualized return of +9.7% with an average annual peak-to-trough decline of about -15%. We wrote at the time that while we certainly have been pleased with recent market performance, we know that a pickup in volatility is inevitable as the stock market does not move in a straight line forever, and thus we want to be realistic with our expectations going forward.

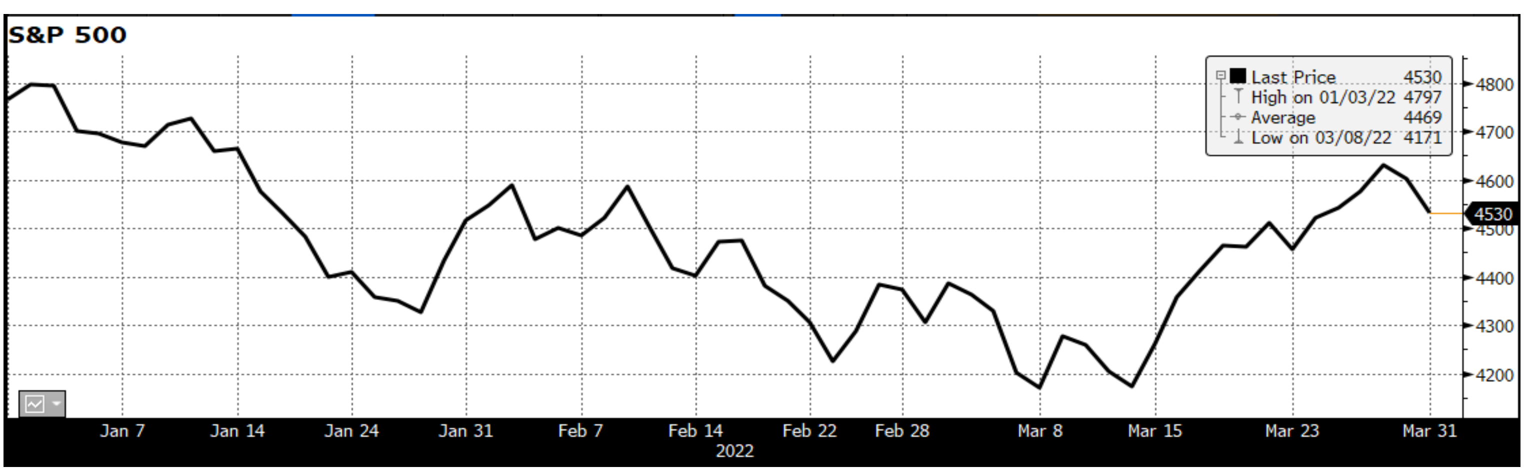
- **Market Cap**: Large Caps (-4.6%) outperformed Mid (-4.9%) and Small Caps (-7.5%).
- **Style**: Value (Russell 1000 Value: -0.7%) exceeded Growth (Russell 1000 Growth: -9.0%).
- **Sector**: Only two of eleven sectors were positive in the quarter with Energy (+39.0%) as the standout, and Consumer Discretionary (-9.0%) and Communication Services (-11.9%) as the laggards

| US Equity Market Performance | | | | | |
|---|---|---|---|---|---|
| **Broad Market** | **Q1 2022** | **Style** | **Q1 2022** | **Sector** | **Q1 2022** |
| S&P 500 | -4.60% | Russell 1000 Growth | -9.04% | Financials | -1.48% |
| Russell 3000 | -5.28% | Russell 1000 Value | -0.74% | Industrials | -2.36% |
| Dow Jones Industrial Average | -4.10% | | | Materials | -2.38% |
| Nasdaq | -8.94% | | | Health Care | -2.58% |
| | | **Sector** | **Q1 2022** | Real Estate | -6.32% |
| **Size** | **Q1 2022** | Energy | 38.99% | Technology | -8.36% |
| Mid Cap (S&P 400) | -4.89% | Utilities | 4.77% | Consumer Discretionary | -9.03% |
| Small Cap (Russell 2000) | -7.53% | Consumer Staples | -1.01% | Communication Services | -11.92% |

Source: Bloomberg

The volatility and decline in the stock market to start the year was driven primarily by fears over the Fed tightening monetary policy, increased inflation expectations, and the Russia/Ukrainian war. Within the market, there is a bifurcation between growth stocks (mainly Technology, Consumer Discretionary, and Communication Services) with high valuations whose current share price is heavily dependent on earnings potential and value/cyclical stocks (mostly Financials, Energy, and Industrials) that are levered to the strength of the economy. The increase in interest rates put pressure on Growth stocks with high valuations (Please see our **Client Question on Why do Interest Rates impact Stock Prices?**) while Energy stocks were the top performers in the Value space due to skyrocketing oil prices. We will also point out that over the last few years there have been may violent growth/value rotations that could make a pure style-box investor feel like a genius one day and a fool the next. Rather than choose one style over the other, we prefer to construct diversified portfolios across regions, countries, market caps, factors, styles, sectors, and industries and tilt toward the areas we feel provide the most potential benefit (please see our **Client Question on Portfolio Diversification**).

## S&P 500 - 2022




Source: Bloomberg

## US FIXED INCOME MARKETS

The Bloomberg Barclays US Aggregate Bond index (Agg), which acts as a proxy for the investment-grade bond market, decreased by -5.9% in the quarter, the worst quarterly decline since 1980. The increase in interest rates had a negative impact on returns (bond prices move inversely to interest rates). We hold fixed income to provide ballast, stability, and income to portfolios. Ballast means that ideally the fixed income holdings are increasing when equity markets are declining. Bonds have not provided ballast this year as interest rates have increased, but we expect the negative correlation between stocks and bonds to return in the future.

| | Returns | | | | | Fundamental Estimates | | |
|---|---|---|---|---|---|---|---|---|
| Bloomberg Barclays Index | Q1 2022 | 2021 | 2020 | 2019 | | Yield to Maturity | Credit Spread (bps) | Duration |
| Aggregate | -5.93% | -1.54% | 7.51% | 8.72% | | 2.9% | 41 | 6.5 |
| Treasury Bills | 0.03% | 0.04% | 0.54% | 2.21% | | 0.3% | | 0.1 |
| Corporates | -7.69% | -1.04% | 9.89% | 14.54% | | 3.6% | 116 | 8.0 |
| High Yield | -4.84% | 5.28% | 7.11% | 14.32% | | 6.2% | 325 | 4.0 |
| Securitized MBS/ABS/CMBS | -5.00% | -1.04% | 4.18% | 6.44% | | 3.0% | 28 | 5.0 |
| Munis | -6.23% | 1.52% | 5.21% | 7.54% | | 2.6% | | 5.6 |

Source: Bloomberg

### Treasury Yields

Treasury yields increased significantly in the first quarter due to higher expectations of Fed tightening and inflation. In general, the Fed controls shorter term Treasury yields by setting the target federal funds rate while the market controls long term rates as investor demand will vary based on future expectations of inflation and economic growth.

The 2-Year Treasury yield increased by about 160bps to 2.33% as investors began pricing in Fed rate hikes over the next few years. The 10-Year Treasury yield increased by about 83 basis points to 2.34% as expectations of inflation and restrictive monetary policy continued to move higher. Going forward, we expect that interest rates will eventually hit a ceiling not too much higher than current levels due to low global interest rates, hesitancy from the Fed and Congress to see significantly higher yields with the amount of federal debt outstanding, and a cap created by how high the FOMC will raise the federal funds rate (now estimated at about 2.8%). The current consensus 2023 estimates for Treasury yields are: 2-year: 2.32% and 10-year: 2.56%.

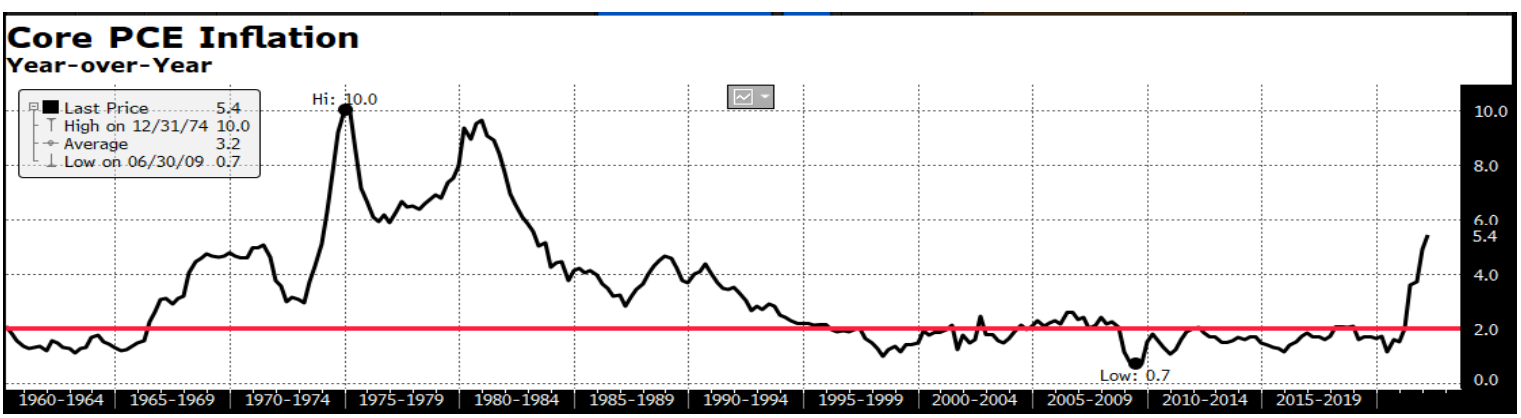
### Yield to Maturity

The increase in interest rates has also driven the yield to maturity of various bond indices to their highest levels in years. Yield to maturity is defined as the estimated rate of return an investor can expect on a bond if purchased today and held to maturity, assuming the issuer makes all of the interest and principal payments (no defaults). The yield to maturity on the US Aggregate Bond index increased to 2.9% at the end of the quarter. While 2.9% is not the double-digit yields we saw in the bond market in the early 1980s, it's still far more attractive than what we've seen over the past few years.

### Inflation Update

The increase in inflation is driven primarily by supply chain bottlenecks, surging energy prices, and strong consumer demand. As inflation readings have continued to rise the Fed will be forced to tighten monetary policy in response. The latest FOMC projections show inflation ending the year at +4.1% before falling to +2.6% in 2023 and +2.3% in 2024.

We are still trying to combat the current rise in inflation by holding little cash in portfolios, avoiding long-term bonds, and overweighting equities of companies that are able to grow their cash flows, earnings, and dividends. Please see our **June Client Question on Inflation** and our **December Client Question – Revisiting Inflation.**




Source: Bloomberg

# THE FED

The Federal Reserve serves as the central bank of the United States and performs key functions designed to promote the health of the economy and stability of the financial system. The three key entities include the Board of Governors, twelve Federal Reserve Banks, and the Federal Open Market Committee (FOMC). The FOMC sets monetary policy in accordance with its mandate from Congress: to promote maximum employment, stable prices, and moderate long-term interest rates. According to the Fed, "monetary policy directly affects interest rates; it indirectly affects stock prices, wealth, and currency exchange rates. Through these channels, monetary policy influences spending, investment, production, employment, and inflation in the United States." Please see our **Client Question on The Fed** which details the key entities, and the impact monetary policy has on the economy, interest rates, and stock prices.

**Interest Rates**: The Fed raised rates for the first time since 2018 at the March 16th meeting when they increased the federal funds rate by 0.25%. The federal funds rate is currently at a range of 0.25% to 0.50% and the committee has signaled they are just getting started on an interest rate hiking cycle. The FOMC's most recent Summary of Economic Projections (SEP) showed that the median participant now expects 7 total rate hikes in 2022 and 4 more in 2023. Several FOMC participants have also expressed a preference to raise rates by 0.5% rather than the typical 0.25% at the next several meetings to expedite the tightening process. The SEP's have increased significantly over the last several months; in December of 2020 the Fed expected the federal funds rate would be at 0% until at least 2024.

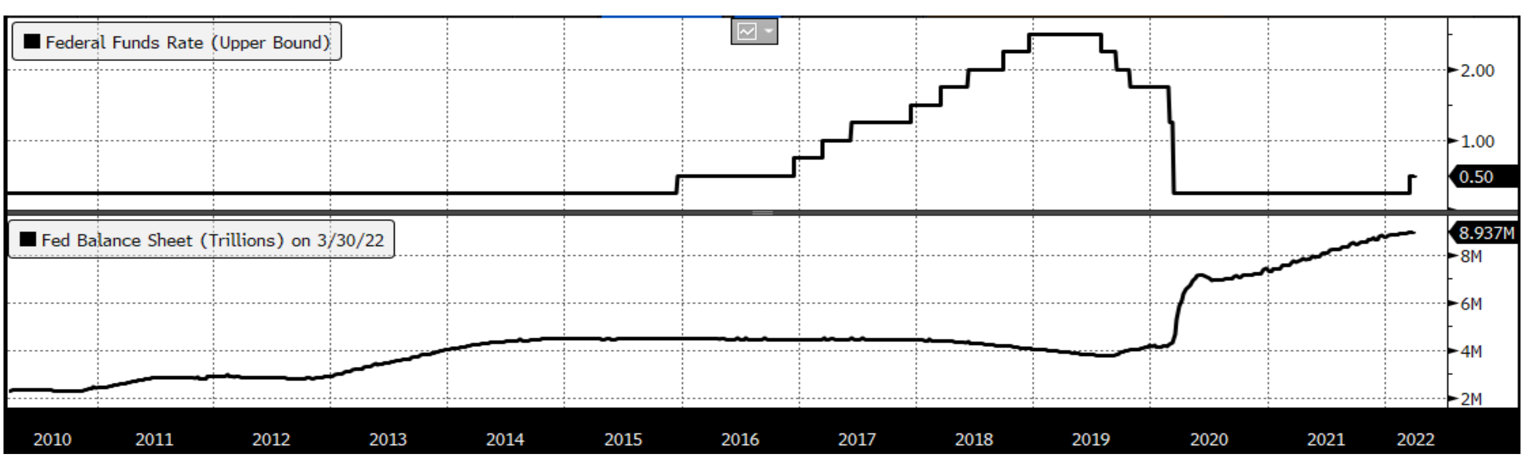
**Quantitative Easing Program**: The Fed concluded their latest quantitative easing program (monthly purchases of Treasuries and agency mortgage-backed securities in the open market) in March. Due to the latest quantitative easing program (March 2020 – March 2022) and the lending facilities announced during the pandemic, the Fed's balance sheet now stands at $8.9 trillion. The Fed will soon publish their plan to begin to shrink their balance sheet (the announcement could occur as early as the May meeting). The balance sheet runoff plan will likely occur in monthly increments and take several years to complete.

The Fed has now firmly admitted that inflation is a problem and that they will tighten monetary policy to attempt to bring it under control. The Fed has started their interest rate hike cycle and they will likely start to shrink their balance sheet within the next few months. The Fed's actions are designed to remove liquidity from the financial system to decrease overall demand for goods and services. A simple definition of inflation is, "too much money chasing too few goods." The Fed is about to shrink the amount of money available.

Although the Fed is raising rates, they still believe they can achieve a "soft-landing" for the economy. A soft-landing means that the economy can avoid a recession despite the increase in interest rates. At the last FOMC meeting, Fed Chair Powell stated, "in my view, the probability of a recession within the next year is not particularly elevated. All signs are that this is a strong economy, and it can certainly flourish in the face of less-accommodative monetary policy." Chair Powell also pointed out that economy did achieve a soft landing in 1964, 1984, and 1994.

Fed Chair Powell's assessment, that the FOMC can raise rates eleven times by the end of 2023 without causing a recession or material economic slowdown, might be optimistic. However, while we believe it is prudent to start thinking about a recession within the next several quarters, we will point out that a lot can change between now and then. Just 15 months ago, the Fed was projecting that inflation would end 2022 under 2% and they would not raise rates until 2024. In other words, the Fed will be data dependent and they will adjust course as inflation, the economy, and markets evolve. The Fed will likely stop tightening if the markets have a significant decline or if inflation starts to decelerate.

### Federal Funds Rate (Upper Bound) and Fed Balance Sheet Size (Trillions)




Source: Bloomberg

# US ECONOMY

The economy is on solid footing for now, supported by a strong labor market and consumer. The labor market is in good shape as evidenced by the near record number of job openings while the unemployment rate is at 3.6%. Consumer spending and balance sheets are both solid due to stimulus payments, job gains, and wage growth. Consumer spending data is critical as it drives about 70% of GDP. At the last FOMC meeting, Fed Chair Powell stated, “in my view, the probability of a recession within the next year is not particularly elevated. All signs are that this is a strong economy, and it can certainly flourish in the face of less-accommodative monetary policy.”

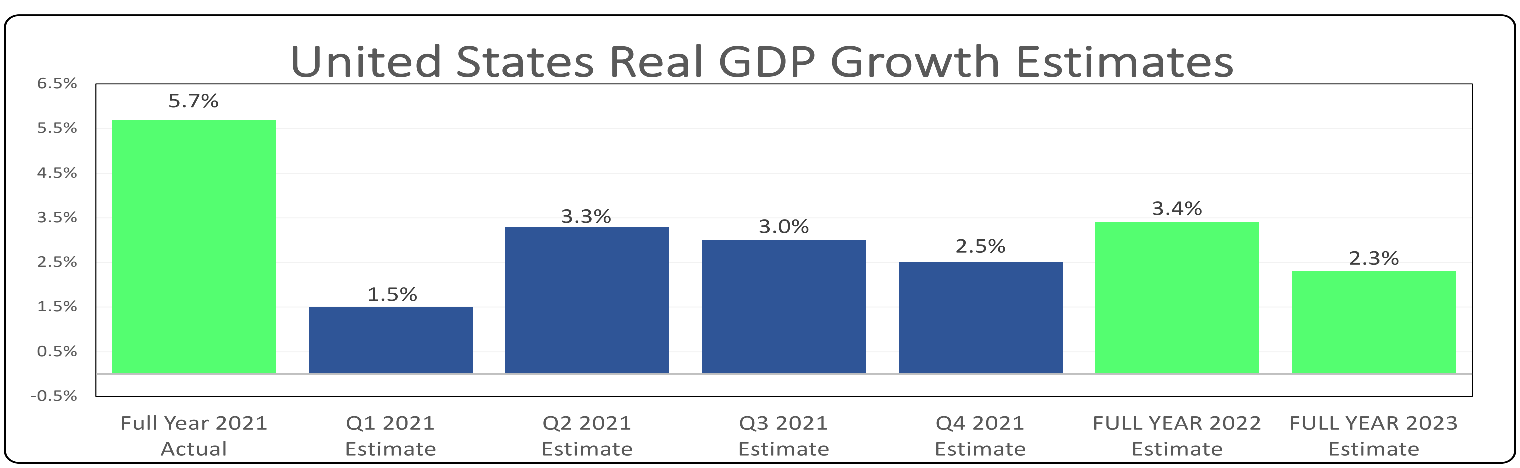
Although the economy looks good now, there is a definite deceleration in growth due to inflation, supply chain issues, and fading stimulus. We are closely monitoring economic indicators to assess whether the deceleration will lead to a recession or a soft landing. While some indicators are flashing warning signs for a recession at some point over the next two years, we know that a lot can change between now and then. We do not expect a clear answer for another several months.

The following table displays key economic data points and comparisons to recent readings and historical averages that we are watching to assess the health of the United State economy.

**United States Economic Data**

| Data Point | Latest Reading | Historical Readings | | | | Historical Averages | | | | Source |
|---|---|---|---|---|---|---|---|---|---|---|
| | | 3-Months Ago | | 12-Months Ago | | 5-Year Average | | 10-Year Average | | |
| **Economic Indicators** | | | | | | | | | | |
| Leading Economic Indicators (Y/Y) | **7.6%** | 8.4% | ↓ | 5.2% | ↑ | 3.3% | ↑ | 3.0% | ↑ | Conference Board |
| Financial Conditions Index | **-0.11** | 1.16 | ↓ | 0.98 | ↓ | 0.39 | ↓ | 0.25 | ↓ | Bloomberg |
| ISM Manufacturing Index | **58.6** | 58.8 | ↓ | 63.7 | ↓ | 56.2 | ↑ | 54.4 | ↑ | Institute for Supply Mgmt |
| ISM Services Index | **58.5** | 57.7 | ↑ | 59.1 | ↓ | 54.3 | ↑ | 54.3 | ↑ | Institute for Supply Mgmt |
| **Consumer** | | | | | | | | | | |
| Retail Sales (Y/Y) | **17.6%** | 16.6% | ↑ | 29.7% | ↓ | 6.9% | ↑ | 5.2% | ↑ | US Census Bureau |
| Michigan Consumer Sentiment | **59.4** | 70.6 | ↓ | 84.9 | ↓ | 88.4 | ↓ | 87.2 | ↓ | University of Michigan |
| Debt-to-Service Ratio | **9.2%** | 9.1% | ↑ | 9.2% | ↑ | 9.6% | ↓ | 9.8% | ↓ | Federal Reserve |
| **Labor Market** | | | | | | | | | | |
| Unemployment Rate | **3.6%** | 3.9% | ↓ | 6.0% | ↓ | 5.0% | ↓ | 5.6% | ↓ | Bureau of Labor Statistics |
| Change in Nonfarm Payrolls | **431,000** | 588,000 | ↓ | 704,000 | ↓ | 82,750 | ↑ | 143,108 | ↑ | Bureau of Labor Statistics |
| JOLTS Job Openings | **11,266,000** | 11,448,000 | ↓ | 8,480,000 | ↑ | 7,525,034 | ↑ | 6,210,681 | ↑ | Bureau of Labor Statistics |
| **Housing Market** | | | | | | | | | | |
| Existing Home Sales (Annual Rate) | **6,020,000** | 6,090,000 | ↓ | 6,040,000 | ↓ | 5,613,400 | ↑ | 5,363,100 | ↑ | Ntl Association of Realtors |
| Case-Shiller Home Price Index (Y/Y) | **19.1%** | 18.6% | ↑ | 13.5% | ↑ | 7.6% | ↑ | 7.1% | ↑ | S&P |
| 30-Year Fixed Rate Mortgage | **4.9%** | 3.3% | ↑ | 3.3% | ↑ | 3.7% | ↑ | 3.8% | ↑ | Bankrate.com |
| **Inflation** | | | | | | | | | | |
| Core PCE Inflation (Y/Y) | **5.4%** | 4.9% | ↑ | 2.0% | ↑ | 2.1% | ↑ | 1.9% | ↑ | Bureau of Econ Analysis |
| Consumer Price Index (Y/Y) | **7.9%** | 7.0% | ↑ | 2.6% | ↑ | 2.6% | ↑ | 2.0% | ↑ | Bureau of Labor Statistics |
| Average Hourly Earnings (Y/Y) | **5.6%** | 4.9% | ↑ | 4.4% | ↑ | 3.7% | ↑ | 3.0% | ↑ | Bureau of Labor Statistics |

Source: Winthrop Wealth and Bloomberg




Source: Bloomberg

# OUTLOOK

Our market outlook is typically based on four pillars: Monetary Policy, Economic Growth, Corporate Earnings, and Valuation.

## ECONOMIC GROWTH

The economy is on solid footing for now, supported by a strong labor market and consumer. The labor market is in good shape as evidenced by the near record number of job openings while the unemployment rate is at 3.8%. Consumer spending and balance sheets are both solid due to stimulus payments, job gains, and wage growth.

Although the economy looks strong now, there is a definite deceleration in growth due to inflation, supply chain issues, and fading stimulus.

We are closely monitoring economic indicators to assess whether the deceleration will lead to a recession or a soft landing. We do not expect to have a clear answer for another several months.

**Real GDP Estimates:**

- 2022: +3.4%
- 2023: +2.3%

## MONETARY POLICY

The Fed has now firmly admitted that inflation is a problem and that they will tighten monetary policy in attempt to bring it under control. The Fed has started their interest rate hike cycle and they will likely start to shrink their balance sheet within the next few months.

- **Interest Rates**: The FOMC's most recent Summary of Economic Projections (SEP) showed that the median participant now expects 7 total rate hikes in 2022 and 4 more in 2023.
- **Quantitative Easing Program**: The Fed is tapering the pace of their quanti The Fed concluded their latest quantitative easing program and they will soon publish their plan to begin to shrink their balance sheet (the announcement could occur as early as the May meeting).

Fed Chair Powell's assessment, that the FOMC can raise rates eleven times by the end of 2023 without causing a recession or material economic slowdown, might be optimistic. However, while we believe it is prudent to start thinking about a recession within the next several quarters, we will point out that a lot can change between now and then.

## CORPORATE EARNINGS

S&P 500 earnings continue to be impressive:

**S&P 500 Earnings Estimates**

- 2021: Estimate: $205.50 (+48%)
- 2022: Estimate: $227 (+9%)
- 2023: Estimate: $250 (+10%)

Over long time periods, earnings drive stock prices.

## VALUATION

Most valuation measures are stretched by historical measures. The P/E ratio is calculated as the current price divided by the earnings-per-share.

- Forward P/E (next 12-months): 19.4x.
- 25-Year Average: 16.8x.

Valuation analysis is subjective and typically based on interest rates, earnings growth estimates, and historical or relative values.

The volatility and decline in the stock market to start the year was driven primarily by fears over the Fed tightening monetary policy, increased inflation expectations, and the Russia/Ukrainian war. The present environment is increasingly challenging as these three factors are creating a negative feedback loop to drive further volatility. The Russia/Ukrainian war is creating a lot of fear and uncertainty, while simultaneously driving up commodity and oil prices and putting further upward pressure on inflation. Typically, in an environment with this much volatility, the Fed would not be thinking about raising rates; they might even be thinking about lowering rates or at least maintaining the status quo. However, because inflation has risen to uncomfortable levels the Fed must act to tighten monetary policy. Nervousness over the Fed raising interest rates and shifting to restrictive monetary policy is further exacerbating volatility and market declines. We expect this difficult market period to persist for as long as the war drags on.

We are sticking with our investment philosophy of maintaining a long-term viewpoint as the present environment is very challenging and fluid. In the near term, markets would likely receive a boost if there were a cease fire announcement, while a prolonged conflict would create more headwinds. Given all the uncertainty, we are maintaining defensive positioning while continuing to look for opportunities to tax loss harvest, reposition portfolios, and selectively put money to work for clients that have recently made contributions to their accounts. On the equity side, we remain tilted toward high quality US stocks (we allocate across regions, countries, market caps, factors, styles, sectors, and industries). On the fixed income side, we continue to focus on achieving ballast, stability, and income while accounting for short-term cash needs. We expect more opportunities to take advantage of volatility as we think it will persist for the next several months.

At Winthrop Wealth, we believe the right mindset paired with a comprehensive financial plan and a thorough investment process can provide a sense of comfort and confidence in meeting your long-term financial goals, especially during times of heightened market volatility. We help our clients navigate challenging markets by ensuring their short-term cash flow needs are met while managing the rest of their investments in a globally diversified portfolio. By having two to three years of scheduled cash flows invested in ultra-short fixed income, we decrease the odds that we will need to sell out of risk assets after a market decline to fund distributions. Please see our recent Client Questions that can help put things into context:

- **Market Timing Does Not Work**
- **Market Performance During Fed Tightening Cycles**
- **Market Reaction to Geopolitical Events**

## US Equity

| Index | Q1 2022 | 2021 | 2020 | 2019 | 2018 | 3-Year | 5-Year | 10-Year | 20-Year |
|---|---|---|---|---|---|---|---|---|---|
| S&P 500 | -4.60% | 28.68% | 18.39% | 31.48% | -4.39% | 18.89% | 15.97% | 14.61% | 9.24% |
| Russell 3000 | -5.28% | 25.64% | 20.88% | 31.01% | -5.25% | 18.21% | 15.38% | 14.26% | 9.36% |
| Dow Jones Industrial Average | -4.10% | 20.95% | 9.72% | 25.34% | -3.48% | 12.56% | 13.39% | 12.76% | 8.82% |
| Nasdaq | -8.94% | 22.21% | 45.05% | 36.74% | -2.81% | 23.61% | 20.36% | 17.85% | 11.92% |
| S&P 400 | -4.89% | 24.73% | 13.65% | 26.17% | -11.10% | 14.10% | 11.07% | 12.17% | 9.91% |
| Russell 2000 | -7.53% | 14.78% | 19.93% | 25.49% | -11.03% | 11.70% | 9.71% | 11.02% | 8.69% |
| Russell 1000 Growth | -9.04% | 27.59% | 38.49% | 36.39% | -1.51% | 23.57% | 20.87% | 17.03% | 10.47% |
| Russell 1000 Value | -0.74% | 25.12% | 2.78% | 26.52% | -8.28% | 12.99% | 10.26% | 11.68% | 8.06% |

## International Equity

| MSCI Index | Q1 2022 | 2021 | 2020 | 2019 | 2018 | 3-Year | 5-Year | 10-Year | 20-Year |
|---|---|---|---|---|---|---|---|---|---|
| EAFE | -5.91% | 11.26% | 7.82% | 22.01% | -13.79% | 7.78% | 6.71% | 6.27% | 5.98% |
| Europe | -11.14% | 13.54% | 7.89% | 23.20% | -16.90% | 6.84% | 5.61% | 6.13% | 5.05% |
| Japan | -6.61% | 1.71% | 14.48% | 19.61% | -12.88% | 6.83% | 6.10% | 6.46% | 5.19% |
| China | -14.19% | -21.72% | 29.49% | 23.46% | -18.88% | -3.01% | 3.51% | 4.54% | 10.40% |
| Emerging Markets | -6.97% | -2.54% | 18.31% | 18.42% | -14.57% | 4.93% | 5.97% | 3.36% | 8.61% |
| ACWI ex US | -5.44% | 7.82% | 10.65% | 21.51% | -14.20% | 7.51% | 6.76% | 5.55% | 6.41% |

## US Fixed Income

| Bloomberg Barclays Index | Q1 2022 | 2021 | 2020 | 2019 | 2018 | 3-Year | 5-Year | 10-Year | 20-Year |
|---|---|---|---|---|---|---|---|---|---|
| Aggregate | -5.93% | -1.54% | 7.51% | 8.72% | 0.01% | 1.69% | 2.14% | 2.24% | 4.00% |
| Treasury Bills | 0.03% | 0.04% | 0.54% | 2.21% | 1.83% | 0.74% | 1.07% | 0.59% | 1.20% |
| Corporates | -7.69% | -1.04% | 9.89% | 14.54% | -2.51% | 3.02% | 3.34% | 3.65% | 5.12% |
| Securitized MBS/ABS/CMBS | -5.00% | -1.04% | 4.18% | 6.44% | 0.99% | 0.66% | 1.44% | 1.76% | |
| High Yield | -4.84% | 5.28% | 7.11% | 14.32% | -2.08% | 4.58% | 4.69% | 5.74% | 7.47% |
| Munis | -6.23% | 1.52% | 5.21% | 7.54% | 1.28% | 1.53% | 2.52% | 2.88% | 4.16% |

## US Equity Sectors

| Index | Q1 2022 | 2021 | 2020 | 2019 | 2018 | 3-Year | 5-Year | 10-Year | 20-Year |
|---|---|---|---|---|---|---|---|---|---|
| Technology | -8.36% | 34.52% | 43.88% | 50.29% | -0.29% | 30.50% | 26.79% | 20.55% | 12.53% |
| Real Estate | -6.32% | 46.14% | -2.17% | 29.00% | -2.23% | 13.69% | 12.57% | 9.74% | |
| Industrials | -2.36% | 21.10% | 11.05% | 29.32% | -13.32% | 13.14% | 11.24% | 12.67% | 8.46% |
| Energy | 38.99% | 54.35% | -33.68% | 11.81% | -18.10% | 10.96% | 6.68% | 4.17% | 7.60% |
| Consumer Discretionary | -9.03% | 24.43% | 33.30% | 27.94% | 0.82% | 18.58% | 17.14% | 16.69% | 10.76% |
| Communication Services | -11.92% | 21.57% | 23.61% | 32.69% | -12.53% | 15.49% | 9.57% | 9.92% | 6.66% |
| Consumer Staples | -1.01% | 18.63% | 10.75% | 27.61% | -8.39% | 13.99% | 10.15% | 11.51% | 9.08% |
| Utilities | 4.77% | 17.67% | 0.52% | 26.35% | 4.11% | 12.19% | 11.42% | 11.75% | 8.78% |
| Materials | -2.38% | 27.28% | 20.73% | 24.58% | -14.70% | 19.20% | 13.27% | 11.34% | 9.21% |
| Financials | -1.48% | 34.87% | -1.76% | 32.09% | -13.04% | 16.66% | 12.30% | 13.80% | 5.05% |
| Health Care | -2.58% | 26.13% | 13.45% | 20.82% | 6.47% | 16.46% | 15.09% | 15.86% | 9.33% |
| | | | Calendar Year Returns | | | | Annualized Returns | | |

# DISCLOSURES

The economic forecasts set forth in this material may not develop as predicted and there can be no guarantee that strategies promoted will be successful.

Content in this material is for general information only and not intended to provide specific advice or recommendations for any individual.

Financial planning is a tool intended to review your current financial situation, investment objectives and goals, and suggest potential planning ideas and concepts that may be of benefit. There is no guarantee that financial planning will help you reach your goals.
Rebalancing a portfolio may cause you to incur tax liabilities and/or transaction costs and does not assure a profit or protect against a loss.

Likewise, it is important to remember that no investment strategy assures success or protects against loss. Past performance is no guarantee of future results. Asset allocation does not ensure a profit or protect against loss. There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not protect against market risk. All investing involves risk which you should be prepared to bear.

All indexes mentioned are unmanaged indexes which cannot be invested into directly.  Unmanaged index returns do not reflect fees, expenses, or sales charges.  Index performance is not indicative of the performance of any investment.  Past performance is no guarantee of future results.

The Standard & Poor's 500 Index is a capitalization weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The Russell 3000 Index is a market-capitalization-weighted equity index maintained by FTSE Russell that provides exposure to the entire U.S. stock market. The index tracks the performance of the 3,000 largest U.S.-traded stocks which represent about 98% of all U.S incorporated equity securities.

The NASDAQ Composite Index measures all NASDAQ domestic and non-U.S. based common stocks listed on The NASDAQ Stock Market. The market value, the last sale price multiplied by total shares outstanding, is calculated throughout the trading day, and is related to the total value of the Index.

The S&P Midcap 400 Stock Index is an unmanaged index generally representative of the market for the stocks of mid-sized US companies.

The Russell 2000 Index is an unmanaged index generally representative of the 2,000 smallest companies in the Russell 3000 index, which represents approximately 10% of the total market capitalization of the Russell 3000 Index.
The Russell 1000 Growth Index measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.

Russell 1000 Value Index measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.

The prices of small cap stocks and mid cap stocks are generally more volatile than large cap stocks.

The MSCI EAFE Index is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US & Canada.  The MSCI EAFE Index consists of the following developed country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the UK.

The MSCI Europe Index captures large and mid cap representation across 15 Developed Markets (DM) countries in Europe. With 445 constituents, the index covers approximately 85% of the free float-adjusted market capitalization across the European Developed Markets equity universe.

The MSCI Japan Index is designed to measure the performance of the large and mid cap segments of the Japanese market. With 322 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in Japan.

The MSCI China Index captures large and mid cap representation across China A shares, H shares, B shares, Red chips, P chips and foreign listings (e.g. ADRs). With 709 constituents, the index covers about 85% of this China equity universe. Currently, the index includes Large Cap A and Mid Cap A shares represented at 20% of their free float adjusted market capitalization.

The MSCI EM (Emerging Markets) Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of the emerging market countries of the Americas, Europe, the Middle East, Africa and Asia. The MSCI EM Index consists of the following emerging market country indices:  Brazil, Chile, Colombia, Mexico, Peru, Czech Republic, Egypt, Greece, Hungary, Poland, Qatar, Russia, South Africa. Turkey, United Arab Emirates, China, India, Indonesia, Korea, Malaysia, Philippines, Taiwan, and Thailand.

The MSCI ACWI ex USA Index captures large and mid cap representation across 22 of 23 Developed Markets (DM) countries (excluding the US) and 27 Emerging Markets (EM) countries. With 2,354 constituents, the index covers approximately 85% of the global equity opportunity set outside the US.

The Bloomberg Barclays U.S. Aggregate Bond Index is an index of the U.S. investment-grade fixed-rate bond market, including both government and corporate bonds.

The Bloomberg Barclays Capital U.S. Credit Bond Index measures the performance of investment grade corporate debt and agency bonds that are dollar denominated and have a remaining maturity of greater than one year.
The Bloomberg Bloomberg Barclays Capital US Corporate High Yield Bond index is an index representative of the universe of fixed-rate, non-investment grade debt.

The Bloomberg Barclays Insured Municipal Bond Index is a total return performance benchmark for municipal bonds that are backed by insurers with Aaa/AAA ratings and have maturities of at least one year.

Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and bonds are subject to availability and change in price.

# DISCLOSURES

**United States Economic Data – Definitions**

**Leading Economic Indicators**
The Conference Board US Leading Economic Indicators Index (LEI) is designed to forecast future activity based on economic variables that tend to move before changes in the overall economy. The index contains 10 data points. Updated monthly. Data goes back to 1960.

**Financial Conditions Index**
The Bloomberg US Financial Conditions Index tracks the overall level of financial stress in the money market, bond, and equity markets to help assess the availability and cost of credit. A positive value indicates accommodative financial conditions, while a negative value indicates tighter financial conditions. The number is a Z-Score that indicates the number of standard deviations by which current conditions deviate from normal levels. Updated daily. Data goes back to 1990.

**ISM Manufacturing Index**
The ISM Manufacturing PMI Index is based on a survey of more than 300 manufacturing firms - the index monitors employment, production, inventories, new orders, and supplier deliveries. A reading above 50 percent indicates that the manufacturing economy is generally expanding; below 50 percent indicates that it is generally contracting. Updated monthly. Data goes back to 1948.

**ISM Services Index**
The ISM Non-Manufacturing PMI Index is based on a survey of more than 300 non-manufacturing firms. The index is a composite of four indicators with equal weights: Business Activity, New Orders, Employment, and Supplier Deliveries. A reading above 50 percent indicates that the non-manufacturing economy is generally expanding; below 50 percent indicates that it is generally contracting. Updated monthly. Data goes back to 1997.

**Retail Sales**
The US Census Bureau Retail Sales data tracks the resale of new and used goods to the general public for personal or household consumption. Data is adjusted for seasonal variation and holiday and trading-day differences and calculated from a survey of approximately 5,500 retail and food services firms. Updated monthly. Data goes back to 1992.

**Michigan Consumer Sentiment**
The University of Michigan collects data on consumer attitudes and expectations. The index is comprised of measures of attitudes toward personal finances, general business conditions, and market conditions or prices. Updated monthly. Data goes back to 1966.

**Debt-to-Service Ratio**
The Federal Reserve Household Debt Service and Financial Obligations. Also known as Household Debt Service Ratio (DSR). Calculated as Household debt service payments and financial obligations as a percentage of disposable personal income; seasonally adjusted. Updated quarterly. Data goes back to 1979.

**Unemployment Rate**
The Bureau of Labor Statistics Unemployment Rate tracks the number of unemployment persons as a percentage of the labor force. The labor force is calculated as the total number of employed plus unemployed. The unemployment rate is calculated from the Current Population Survey (CPS). Updated monthly. Data goes back to 1948.

**Change in Nonfarm Payrolls**
The Bureau of Labor Statistics Nonfarm Payrolls measures the monthly change in the number of employees on business payrolls. Approximately 140k businesses and government agencies representing 690k individual worksites are surveyed each month. Data is from the Current Employment Statistics (CES) survey. Updated monthly. Data goes back to 1939.

**JOLTS Job Openings**
The Job Openings and Labor Turnover Survey (JOLTS) is conducted by the Bureau of Labor Statistics of the U.S. Department of Labor. The program involves the monthly collection, processing, and dissemination of job openings and labor turnover data. The data, collected from sampled establishments on a voluntary basis, include employment, job openings, hires, quits, layoffs and discharges, and other separations. Updated monthly. Data goes back to 2000.

**Existing Home Sales**
The National Association of Realtors Existing Home Sales SAAR tracks total existing home sales including single family homes, townhomes, condominiums, and co-ops. All sales are based on closings from Multiple Listing Services. Updated monthly. Data goes back to 1999.

**Case-Shiller Home Price Index**
The S&P Case-Shiller US National Home Price Index tracks the value of single-family housing within the United States. The index is a value-weighted average of 20 metro areas. Updated monthly. Data goes back to 2001.

**30-Year Fixed Rate Mortgage**
Bankrate.com calculates the national average 30-year Fixed Rate Mortgage. Updated daily. Data goes back to 1998.

**Core PCE Inflation**
The Core Personal Consumption Expenditure (PCE) index measures the prices paid by consumers for goods and services without the volatility caused by movements in food and energy prices to reveal underlying inflation trends. The FOMC targets an average of +2.0% Y/Y growth in Core PCE Inflation. Updated monthly. Data goes back to 1960.

**Consumer Price Index**
The Bureau of Labor Statistics Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services. The index does include food and energy prices. Updated monthly. Data goes back to 1914.

**Average Hourly Earnings**
The Bureau of Labor Statistics Average Hourly Earnings tracks total hourly renumeration (in cash or in kind) paid to employees in return for work done (or paid leave). Data is from the Current Employment Statistics (CES) survey. Updated monthly. Data goes back to 2007.