WINTHROP WEALTH

Q2'2022 MARKET REVIEW & OUTLOOK

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- **US Equity Markets**: The S&P 500 decreased by -16.1% in the second quarter, the worst quarterly decline since Q1 2020. The year-to-date drop for the S&P 500 is now -20.0%, which is the worst start to a calendar year since 1962. The S&P also fell into the technical definition a bear market, a decline of -20% on a closing basis, when the index fell by -23.0% from January 3rd through June 16th. The primary factors driving the decline in the stock market have been the same all year: increased inflation expectations, the Fed tightening monetary policy, the Russia/Ukrainian war, and covid induced shutdowns in China.

- **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 -4.7% in the quarter, bringing the year-to-date decline to -10.4%. The Agg had its worst ever start to a calendar year since inception of the index in 1976. An increase in interest rates had a negative impact on returns (bond prices move inversely to interest rates). Bonds have not provided ballast for most year as interest rates have increased, but we expect the negative correlation between stocks and bonds to return in the future once yields level out.

- **10-Year Treasury Yield**: The 10-Year Treasury yield increased by about 67 basis points to 3.01% as expectations of inflation continued to move higher. The 10-Year yield hit its highest level since 2011 when it reached 3.47% on June 14th before declining to its current level.

- **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 is tightening monetary policy in response. The latest FOMC projections show inflation ending the year at +4.3% before falling to +2.7% 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 will tighten monetary policy and overall financial conditions by raising interest rates and shrinking the size of their balance sheet. The Fed's pivot to restrictive monetary policy this year has been jarring for financial markets. Going forward, our sense is that the Fed will try to quickly raise rates to about 3% unless there are signs of disinflation (best case) or a significant market decline and economic slowdown (worst case).

- **US Economy**: Our view is that the that the economy is slowing from the post-pandemic boom due to fading stimulus, rising inflation, Fed tightening, and surging commodity prices. Economic growth estimates have been decreasing over the past several weeks as economic indicators, consumer spending, and the housing market have all weakened while inflation has stayed elevated. The open question is whether the economy is headed for a slowdown/mild recession or a more severe contraction. Right now, we see a slowdown/mild recession as the most probable outcome. However, the longer inflation stays elevated, the more likely it becomes that the Fed will have to overtighten monetary policy and potentially cause a significant recession to finally bring it down.

- **Market Outlook**: Our long-term outlook on the US equity market is more optimistic now than it was at the beginning of last year, given the decline. Historically, the S&P 500 has produced an annualized return of about +9.4% per year. We expect some reversion to the mean after periods of very strong or negative performance. While the short-term environment is unsteady, the market would react favorably to any signs of disinflation, decreased Fed tightening expectations, a cease fire, or China moving away from their zero covid policy. We suspect that for the market to reach a sustainable bottom, Fed tightening expectations need to soften, ideally through signs of disinflation. Over the long-term, we suspect this difficult economic environment has created a strong buying opportunity for investors willing to live with some short-term discomfort. At some point, the market will bottom and stocks will move higher. We believe those who were able to either stay invested, rebalance, or add to their existing holdings will eventually be rewarded.

  Please see some of our most recent market commentaries:
  - **Market Timing Does Not Work**
  - **Stagflation**
  - **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?**

The S&P 500 decreased by -16.1% in the second quarter, the worst quarterly decline since Q1 2020. The year-to-date drop for the S&P 500 is now -20.0%, which is the worst start to a calendar year since 1962. The S&P also fell into the technical definition a bear market, a decline of -20% on a closing basis, when the index fell by -23.0% from January 3rd through June 16th. This was the first bear market for the S&P 500 since the index fell by nearly -34% from February 19, 2020 through March 23, 2020. The primary factors driving the decline in the stock market have been the same all year: increased inflation expectations, the Fed tightening monetary policy, the Russia/Ukrainian war, and covid induced shutdowns in China.

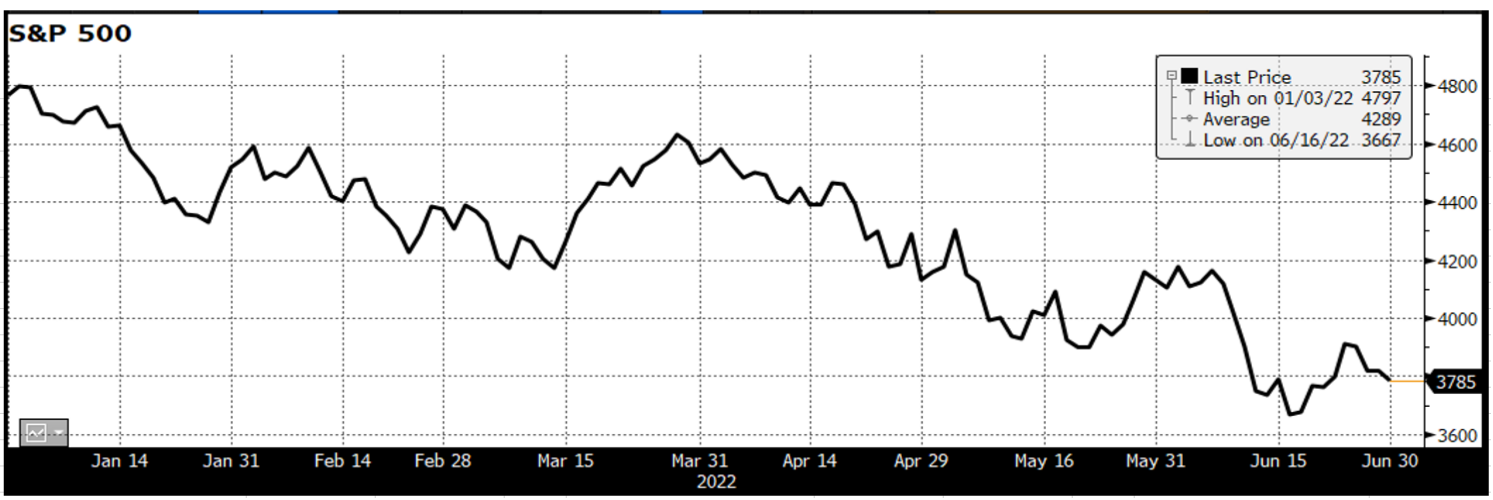
Last year, we pointed out that the stock market was coming off an unusual stretch of strong returns with very low volatility. In 2021, the S&P 500 was higher by +28.7% while the largest peak-to-trough decline was only -5.2%. This compared very favorably to the historical averages, as since 1928, the S&P has produced a total annualized return of +9.4% 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**: Mid Caps (-15.4%) outperformed Large (-16.1%) and Small Caps (-17.2%).
- **Style**: Value (Russell 1000 Value: -12.2%) exceeded Growth (Russell 1000 Growth: -20.9%).
- **Sector**: All eleven sectors were negative in the quarter with Consumer Staples (-4.6%) and Utilities (-5.1%) as the top performers, and Communication Services (-20.7%) and Consumer Discretionary (-26.2%) and as the laggards.

	Returns					Fundamental Estimates		
Bloomberg Barclays Index	**Q2 2022**	**2022**	**2021**	**2020**		**Yield to Maturity**	**Credit Spread (bps)**	**Duration**
Aggregate	-4.69%	-10.35%	-1.54%	7.51%		3.7%	55	6.4
Treasury Bills	0.12%	0.15%	0.04%	0.54%		1.5%		0.1
Corporates	-7.26%	-14.39%	-1.04%	9.89%		4.7%	155	7.5
High Yield	-9.83%	-14.19%	5.28%	7.11%		8.9%	569	4.2
Securitized MBS/ABS/CMBS	-3.90%	-8.70%	-1.04%	4.18%		3.8%	50	5.7
Munis	-2.94%	-8.98%	1.52%	5.21%		3.2%		6.8

Source: Bloomberg

S&P 500 - 2022



Source: Bloomberg

What we will remember about the first half of 2022:

- **Volatility**: The S&P 500 moved +/- 2% on 21% of trading days this year; far greater than 3% of trading days in 2021.
- **Bigger ≠ Better**: The average stock in the S&P 500 is down by -15.7% year-to-date. The top 5 stocks in the S&P 500 (Apple, Microsoft, Amazon, Alphabet, and Tesla) are down on average -28.6%.
- **Negative Wealth** Effect: The total market cap of the S&P 500 has decreased by nearly $9 trillion this year.
- **Crypto Collapse**: The price of Bitcoin is down nearly -73% from its recent high on 11/10/21. According to Bloomberg, since last November the entire crypto market value has declined from around $3 trillion to less than $1 trillion.
- **SPACs Splattered**: The De-Spac Index, a group of 25 companies that went public through a business combination with a Special Purpose Acquisition Company (SPAC), is down by -67.7% year-to-date and by -84.5% from its peak level on 2/15/21.

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 -4.7% in the quarter, bringing the year-to-date decline to-10.4%. The Agg had its worst ever start to a calendar year since inception of the index in 1976. An 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 for most of the year as interest rates have increased, but we expect the negative correlation between stocks and bonds to return in the future once yields level out. We will also point out 10-Year Treasury yield peaked this year at 3.47% on June 14th before declining to the current level of 3.01%. Over that period the Agg index increased by +2.6%.

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Securitized MBS/ABS/CMBS	-3.90%	-8.70%	-1.04%	4.18%		3.8%	50	5.7
Munis	-2.94%	-8.98%	1.52%	5.21%		3.2%		6.8

Source: Bloomberg

Treasury Yields

Treasury yields increased significantly this year 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.

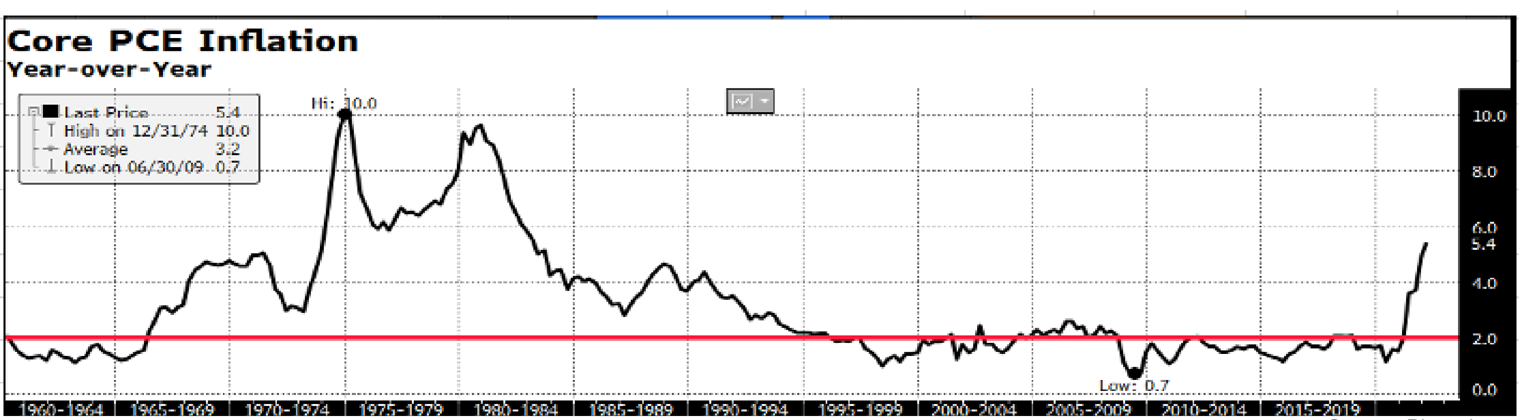
The 2-Year Treasury yield increased by about 62 basis points to 2.95% as investors began pricing in Fed rate hikes over the next few years. The 10-Year Treasury yield increased by about 67 basis points to 3.01% as expectations of inflation continued to move higher. The 10-Year yield hit its highest level since 2011 when it reached 3.47% on June 14th before declining to its current level. Going forward, we expect that interest rates will eventually hit a ceiling not too much higher than their recent peak 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 3.8%).

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 3.7% at the end of the quarter.

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 is tightening monetary policy in response. The most recent reading of the Fed's preferred inflation measure, Core PCE, came in at +4.7% in May; while this is below the peak level of +5.3% in February, it is still well above the target of about 2%. The latest FOMC projections show inflation ending the year at +4.3% before falling to +2.7% 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: After raising interest rates by 0.75% at the June 15th meeting, the top-end of the federal funds rate now stands at 1.75%. June was the first meeting since November 1994 where the Fed raised interest rates by 0.75%. While the Fed has raised rates swiftly this year, they are likely only about halfway through the current tightening cycle. The FOMC's most recent Summary of Economic Projections (SEP) showed that the median participant expected the federal funds rate at 3.4% in 2022 and 3.8% in 2023. At the latest FOMC press conference, Fed Chair Powell estimated that a peak federal funds rate between 3.5% and 4.0% should be appropriate to bring inflation back down to 2%.

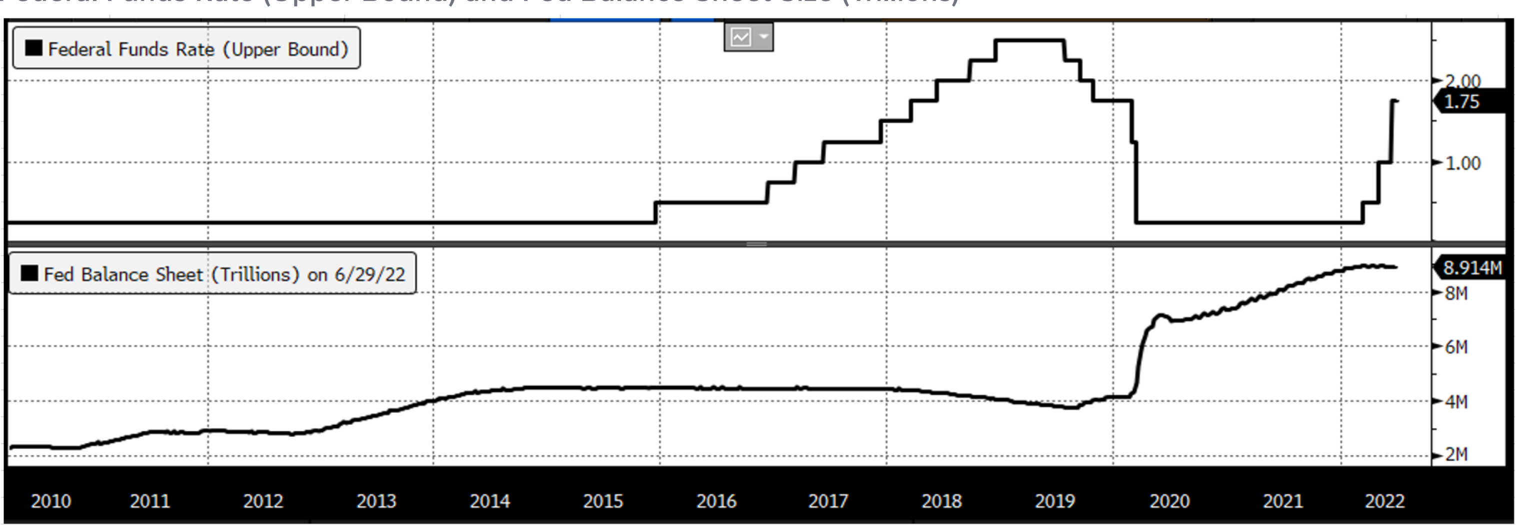
Balance Sheet Runoff Plan: The Fed is also beginning to reduce the size of their nearly $9 trillion balance sheet. The runoff plan started in June and will ramp up to monthly caps of about $60 billion for Treasuries and $35 billion for agency mortgage-backed securities. The monthly reduction of about $95 billion will be larger than the $50 billion per month pace that was used during the 2017-2019 runoff plan. At the current runoff rate, it will take over 4 years for the Fed's balance sheet to decrease to its pre-pandemic size.

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 will tighten monetary policy and overall financial conditions by raising interest rates and shrinking the size of their balance sheet. 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.

Chair Powell has recently turned a bit unsure as to whether the Fed 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. Powell admitted that while achieving a soft-landing is challenging, it ultimately might depend on factors outside of the Fed's control, including the Russia/Ukrainian war and China's covid lockdowns.

The Fed's pivot to restrictive monetary policy this year has been jarring for financial markets. Just 18 months ago, the Fed was projecting that inflation would end 2022 under 2% and they would not raise rates until 2024. Going forward, our sense is that the Fed will try to quickly raise rates to about 3% unless there are signs of disinflation (best case) or a significant market decline and economic slowdown (worst case). Fed Chair Powell has demonstrated that he is data dependent and will quickly change policy as the economy and markets evolve. In other words, we expect the actual path of monetary policy over the next 18 months to look a lot different than what the Fed is currently estimating.

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



Source: Bloomberg

US ECONOMY

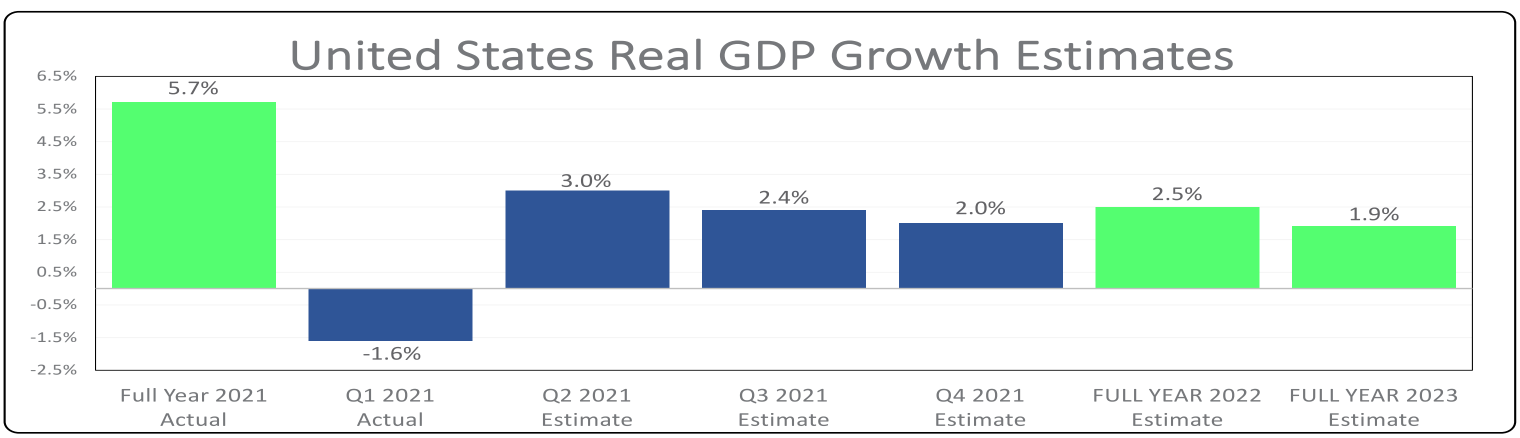
Our view is that the that the economy is slowing from the post-pandemic boom due to fading stimulus, rising inflation, Fed tightening, and surging commodity prices. The current period is best characterized by high inflation and a lot of uncertainty caused by Fed tightening expectations, the Russia/Ukraine War, and China's covid lockdowns. Both the war and China's covid policies are putting more stress on global supply chains and upward pressure on already elevated inflation. The Fed has started tightening monetary policy by raising interest rates and decreasing the size of their balance sheet.

After increasing by +5.7% in 2021, Real GDP Growth is estimated at +2.5% in 2022 and +1.9% in 2023. Economic growth estimates have been decreasing over the past several weeks as economic indicators, consumer spending, and the housing market have all weakened while inflation has stayed elevated. The labor market continues to show signs of strength, but we do expect the unemployment rate to tick up over the next few months as several major firms have begun to announce hiring freezes or layoffs. The open question is whether the economy is headed for a slowdown/mild recession or a more severe contraction. Right now, we see a slowdown/mild recession as the most probable outcome. However, the longer inflation stays elevated, the more likely it becomes that the Fed will have to overtighten monetary policy and potentially cause a significant recession to finally bring it down. Please see **page 6** for our thoughts on a recession and market performance during these periods.

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)	**3.0%**	6.0%	↓	9.7%	↓	3.3%	↓	3.1%	↓	Conference Board
Financial Conditions Index	**-1.22**	-0.09	↓	1.36	↓	0.33	↓	0.25	↓	Bloomberg
ISM Manufacturing Index	**53.0**	57.1	↓	60.9	↓	56.1	↓	54.5	↓	Institute for Supply Mgmt
ISM Services Index	**52.7**	58.8	↓	62.1	↓	54.8	↓	54.8	↓	Institute for Supply Mgmt
Consumer										
Retail Sales (Y/Y)	**8.1%**	7.1%	↑	19.4%	↓	7.2%	↑	5.3%	↑	University of Michigan
Michigan Consumer Sentiment	**50.0**	59.4	↓	85.5	↓	86.4	↓	86.7	↓	US Census Bureau
Debt-to-Service Ratio	**9.5%**	9.1%	↑	9.2%	↑	9.6%	↓	9.8%	↓	Federal Reserve
Labor Market										
Unemployment Rate	**3.6%**	3.6%	↑	5.9%	↓	5.0%	↓	5.5%	↓	Bureau of Labor Statistics
Change in Nonfarm Payrolls	**390,000**	398,000	↓	557,000	↓	86,390	↑	148,529	↑	Bureau of Labor Statistics
JOLTS Job Openings	**11,400,000**	11,855,000	↓	9,852,000	↑	7,742,897	↑	6,363,263	↑	Bureau of Labor Statistics
Housing Market										
Existing Home Sales (Annual Rate)	**5,410,000**	5,750,000	↓	5,970,000	↓	5,613,900	↓	5,388,400	↑	Ntl Association of Realtors
Case-Shiller Home Price Index (Y/Y)	**21.2%**	21.2%	↑	19.2%	↑	8.4%	↑	7.7%	↑	S&P
30-Year Fixed Rate Mortgage	**5.7%**	4.9%	↑	3.1%	↑	3.8%	↑	3.9%	↑	Bankrate.com
Inflation										
Core PCE Inflation (Y/Y)	**4.7%**	5.2%	↓	3.6%	↑	2.3%	↑	1.9%	↑	Bureau of Econ Analysis
Consumer Price Index (Y/Y)	**8.6%**	8.5%	↑	5.4%	↑	3.0%	↑	2.1%	↑	Bureau of Labor Statistics
Average Hourly Earnings (Y/Y)	**5.2%**	5.6%	↓	4.0%	↑	3.9%	↑	3.0%	↑	Bureau of Labor Statistics

Source: Winthrop Wealth and Bloomberg



Source: Bloomberg

UNITED STATED RECESSIONS AND S&P 500

The National Bureau of Economic Research (NBER) Business Cycle Dating Committee is charged with maintaining official records of expansions and recessions in the United States. The NBER defines a recession as a significant decline in economic activity while an expansion is defined as a period where economic activity rises substantially. According to the NBER, since 1929 there have been 15 recessions in the US lasting an average of 13 months each.

In our opinion, the current environment likely achieves the NBER's definition of a recession, albeit a mild one for now. Real GDP increased by +6.9% in Q4 2021 before falling to -1.6% in Q1 2022. The Atlanta Fed's Q2 2022 GDP estimate is currently at -1.0%, which is far below the consensus estimate of +3.0%. The wide range of outcomes for Q2 GDP demonstrates the uncertainty in the current environment. No one would be shocked if Q2 GDP ends up as another negative reading. While the NBER does not view two consecutive negative quarters of GDP growth as a recession, the current period probably meets the test of a significant decline in economic activity. The NBER usually waits for several months after the fact to announce the official start and end dates for recessions. Therefore, it is possible the United States is already in a recession that started in early 2022. Of course, not all recessions are created equal. The current period looks far better than past severe recessions like the Great Depression or Financial Crisis.

We will point out that recessions can reward long-term investors and create strong near-term buying opportunities. During the last 15 recessions, the S&P 500 declined by an average of -30.0%. However, once the market bottomed, performance was very strong over subsequent 1-YR (+50.1%), 3-YR (+79.0%), and 5-YR (+142.1%) periods.

Of course, calling market tops and bottoms in real-time is extraordinarily difficult. In investing, perfect can be the enemy of good. While it would be nice to make the perfect investment at THE market bottom, we advise not letting that temptation stop you from making a good investment today. No one knows when the ultimate market bottom will occur since it can only be identified in hindsight (although this will not stop the pundits from guessing). If you believe the current environment is at least a good time to invest, then we suggest taking advantage by rebalancing, repositioning, or putting some new capital to work.

In the current period, the S&P 500 declined by -22.8% from January 3rd through June 17th as the market was beginning to price in a recession. We are not sure if June 17th marks the bottom for this period, however, in our opinion a decline of that magnitude creates opportunities for long-term investors. Unless your view is that this is the start of another Great Depression or Financial Crisis, then a lot of the damage in the equity market may have already occurred at the recent low. We are continuing to try and make lemonade out of lemons by tax-loss harvesting, repositioning, rebalancing, and putting money to work for clients who have recently contributed cash to their portfolios. While the market may have another leg lower, we suspect that over time we will look back on this period as another strong buying opportunity during a difficult economic environment.

United States Recessions			S&P 500 Performance						
Economic Growth Peak	Economic Growth Trough	Peak to Trough (Months)	S&P 500 Peak	S&P 500 Tough	Peak to Trough (Months)	Peak to Tough Decline	1-Year Post Trough	3-Year Post Trough	5-Year Post Trough
August 1929	March 1933	44	September 1929	June 1932	33	-86.2%	121.4%	117.7%	287.9%
May 1937	June 1938	13	March 1937	March 1938	13	-51.3%	34.8%	36.3%	82.8%
February 1945	October 1945	8	January 1945	January 1945	0	-3.5%	42.7%	24.9%	74.6%
November 1948	October 1949	11	June 1948	June 1949	12	-15.5%	59.9%	132.8%	206.8%
July 1953	May 1954	10	January 1953	September 1953	8	-12.4%	45.6%	137.3%	165.0%
August 1957	April 1958	8	July 1957	October 1957	3	-19.8%	36.2%	52.0%	68.9%
April 1960	February 1961	10	January 1960	October 1960	10	-11.1%	34.8%	55.9%	106.0%
December 1969	November 1970	11	May 1969	May 1970	13	-32.2%	48.9%	71.3%	56.1%
November 1973	March 1975	16	January 1973	October 1974	21	-44.8%	44.4%	76.4%	122.9%
January 1980	July 1980	6	February 1980	March 1980	1	-16.7%	44.4%	82.5%	133.5%
July 1981	November 1982	16	January 1981	August 1982	19	-19.1%	66.1%	111.0%	300.3%
July 1990	March 1991	8	July 1990	October 1990	3	-19.2%	33.5%	70.8%	126.4%
March 2001	November 2001	8	January 2001	September 2001	8	-29.1%	-11.1%	22.2%	49.7%
December 2007	June 2009	18	October 2007	March 2009	17	-55.2%	72.3%	115.0%	208.8%
February 2020	April 2020	2	February 2020	March 2020	1	-33.8%	77.8%		
Average (15)		13			11	-30.0%	50.1%	79.0%	142.1%
Median (15)		10			10	-19.8%	44.4%	73.8%	124.7%
Average (14. Ex. Great Depression)		11			9	-26.0%	45.0%	76.0%	130.9%
Median (14. Ex Great Depression)		10			9	-19.5%	44.4%	71.3%	122.9%

Source: National Bureau of Economic Research (NBER) and Bloomberg

OUTLOOK

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

ECONOMIC GROWTH

Our view is that the that the economy is slowing from the post-pandemic boom due to fading stimulus, rising inflation, Fed tightening, and surging commodity prices. Economic growth estimates have been decreasing over the past several weeks as economic indicators, consumer spending, and the housing market have all weakened while inflation has stayed elevated.

The open question is whether the economy is headed for a slowdown/mild recession or a more severe contraction. Right now, we see a slowdown/mild recession as the most probable outcome. However, the longer inflation stays elevated, the more likely it becomes that the Fed will have to overtighten monetary policy and potentially cause a significant recession to finally bring it down.

Real GDP Estimates:

- 2022: +2.5%
- 2023: +1.9%

MONETARY POLICY

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 will tighten monetary policy and overall financial conditions by raising interest rates and shrinking the size of their balance sheet.

- **Interest Rates**: After raising interest rates by 0.75% at the June 15th meeting, the top-end of the federal funds rate now stands at 1.75%. The FOMC's most recent Summary of Economic Projections (SEP) showed that the median participant expected the federal funds rate at 3.4% in 2022 and 3.8% in 2023.
- **Balance Sheet Runoff Plan**: The balance sheet runoff started in June and will ramp up to monthly caps of about $60 billion for Treasuries and $35 billion for agency mortgage-backed securities.

The Fed's pivot to restrictive monetary policy this year has been jarring for financial markets. Going forward, our sense if that the Fed will try to quickly raise rates to about 3% unless there are signs of disinflation (best case) or a significant market decline and economic slowdown (worst case).

CORPORATE EARNINGS

S&P 500 earnings estimates have continued to increase over the past several weeks. Although most assume that estimates will need to be cut if the economy continues to slow. Second quarter earnings season, which kicks off in mid-July, will be critically important to assess how corporations are navigating the current environment and for their outlook on future conditions.

S&P 500 Earnings Estimates

- 2022: $230 (+10%)
- 2023: $251 (+9%)

Over long time periods, earnings drive stock prices.

VALUATION

Most valuation measures have become more reasonable since the start of the year. We will caution that if earnings estimates get lowered, the current P/E ratio is inflated.

The P/E ratio is calculated as the current price divided by the earnings-per-share.

- Forward P/E (next 12-months): 15.8x.
- 25-Year Average: 16.8x.

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

The primary factors driving the decline in the stock market have been the same all year: increased inflation expectations, the Fed tightening monetary policy, the Russia/Ukrainian war, and covid induced shutdowns in China. Only one or two of these issues on their own would be enough to cause some investor consternation, but each of them occurring simultaneously has created a very challenging short-term environment.

Our long-term outlook on the US equity market is more optimistic now than it was at the beginning of the year, given the decline. Historically, the S&P 500 has produced an annualized return of about +9.4% per year. We expect some reversion to the mean after periods of very strong or negative performance. While the short-term environment is unsteady, the market would react favorably to any signs of disinflation, decreased Fed tightening expectations, a cease fire, or China moving away from their zero covid policy. We suspect that for the market to reach a sustainable bottom, Fed tightening expectations need to soften, ideally through signs of disinflation. Over the long-term, we suspect this difficult economic environment has created a strong buying opportunity for investors willing to live with some short-term discomfort. At some point, the market will bottom and stocks will move higher. We believe those who were able to either stay invested, rebalance, or add to their existing holdings will eventually be rewarded.

We are sticking with our investment philosophy of maintaining a long-term viewpoint as the present environment is very volatile and fluid. Given all the uncertainty, we are maintaining a disciplined approach while continuing to look for opportunities to tax loss harvest, reposition and rebalance portfolios, and selectively put money to work for clients that have recently made contributions to their accounts. We did take the opportunity to reposition many portfolios by increasing the equity percentage when the S&P 500 fell close to bear market territory. This was not an attempt to call the bottom, but rather to take advantage of a significant decline by rebalancing for long-term investors. We expect to have more opportunities to rebalance over the next several months as our base case is that volatility will continue.

At Winthrop Wealth, we believe the right mindset paired with a comprehensive financial plan and a thorough investment process can provide confidence in working towards 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**
- **Withdrawing Money**
- **Is this a good time to invest new money?**

During periods of market volatility, we follow the same playbook and convey the same messages. At Winthrop Wealth, we believe the right mindset paired with a comprehensive financial plan and a thorough investment process can provide confidence in working towards your long-term financial goals, especially during times of heightened market volatility.

The Right Mindset – Take a long-term viewpoint and avoid the impulse to market time

"Don't try to buy at the bottom and sell at the top. It can't be done - except by liars." -Bernard Baruch

Market volatility is stressful and controlling your emotions during these periods is critical. Market timing decisions are often emotional rather than rational and data based. Making sudden large adjustments to portfolios is value destructive over time and a major reason for poor investor performance. Our investment philosophy is, never time the market. Please see our Client Question titled Market Timing Does Not Work, where we demonstrate that: the stock market goes up over time despite frequent drawdowns, the average investor underperforms due to market timing mistakes, and the benefit of a diversified portfolio and a long time horizon.

Financial Plan

"The Best way to measure your investing success is not by whether you're beating the market but by whether you've put in place a financial plan and behavioral discipline that are likely to get you where you want to go." -Benjamin Graham

We believe financial planning drives the investment strategy and provides a roadmap to each client's unique goals and objectives. The comprehensive financial plan defines cash flow needs, optimizes account structures, considers tax mitigation strategies, and periodcally evaluates financial risks as circumstances and/or goals change.

We also stress test the financial plan for many different environments including extreme volatility and market declines. The financial plan does not assume perpetually strong markets and linear returns. Rather it assumes that your portfolio will go through periods of weakness throughout your investment time horizon. We often update financial plans during and after volatility to quantify the impact that the market decline had on the probability that the client will reach their long-term goals and objectives. Since we account for market volatility and declines, the financial plan is less likely to be damaged when these periods inevitably occur.

Investment Process

"Good times teach only bad lessons: that investing is easy, that you know its secrets, and that you needn't worry about risk. The most valuable lessons are learned in tough times." -Howard Marks

Our investment management process is designed to provide well-diversified portfolios constructed with a methodology based on prudent risk management, asset allocation, and security selection. 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.

Market volatility can be used to our advantage by tax-loss harvesting or reallocating to more attractive securities:

- **Tax-loss Harvesting**: Tax-loss harvesting is achieved by selling an investment with a loss and immediately purchasing a different security with similar (but not identical) exposure. The loss on the sold security can be used to offset taxable gains. Since we simultaneously sell a security to capture a loss and purchase a different holding with similar exposure, the client is never out of the market. We can capture losses during declines, and as the market recovers the new position also recovers PLUS the client has a tax-loss to offset future gains. Please see our **Client Question on Tax Loss Harvesting**.

- **Repositioning Portfolios**: Repositioning portfolios means that we can increase the overall equity allocation and/or we can reallocate among various asset classes. During a market selloff, portfolio equity allocations often fall below their target levels. For example, assume a portfolio is invested to its target allocation of 60% equities and then the stock market declines -10%. The new allocation would be about 54% or -6% below the target level. We can use the market decline as an opportunity to buy stocks at lower prices to bring the allocation back to the 60% target level. Furthermore, we can rotate to the equity asset classes that have become more attractive (for equities, we allocate across regions, countries, market caps, factors, styles, sectors, and industries). Keep in mind, some of the best buying opportunities occur during periods of market turmoil.

SECOND QUARTER 2022 MARKET RETURNS

US Equity										
Index	**Q2 2022**	**2022**	**2021**	**2020**	**2019**	**2018**	**3-Year**	**5-Year**	**10-Year**	**20-Year**
S&P 500	-16.11%	-19.97%	28.68%	18.39%	31.47%	-4.39%	10.57%	11.29%	12.93%	9.06%
Russell 3000	-16.71%	-21.11%	25.64%	20.88%	31.01%	-5.25%	9.75%	10.58%	12.56%	9.13%
Dow Jones Industrial Average	-10.78%	-14.44%	20.95%	9.72%	25.34%	-3.48%	7.23%	9.98%	11.69%	8.81%
Nasdaq	-22.27%	-29.22%	22.21%	45.05%	36.74%	-2.81%	12.23%	13.51%	15.48%	11.80%
S&P 400	-15.44%	-19.57%	24.73%	13.65%	26.17%	-11.10%	6.83%	7.00%	10.87%	9.52%
Russell 2000	-17.21%	-23.45%	14.78%	19.93%	25.49%	-11.03%	4.17%	5.14%	9.33%	8.14%
Russell 1000 Growth	-20.92%	-28.07%	27.59%	38.49%	36.39%	-1.51%	12.57%	14.28%	14.78%	10.31%
Russell 1000 Value	-12.22%	-12.87%	25.12%	2.78%	26.52%	-8.28%	6.83%	7.14%	10.48%	7.83%
International Equity										
MSCI Index	**Q2 2022**	**2022**	**2021**	**2020**	**2019**	**2018**	**3-Year**	**5-Year**	**10-Year**	**20-Year**
EAFE	-14.51%	-19.57%	11.26%	7.82%	22.01%	-13.79%	1.07%	2.20%	5.39%	5.27%
Europe	-15.86%	-25.23%	13.54%	7.89%	23.20%	-16.90%	-0.91%	0.48%	5.49%	4.41%
Japan	-14.63%	-20.27%	1.71%	14.48%	19.61%	-12.88%	1.01%	1.76%	5.58%	4.03%
China	3.41%	-11.26%	-21.72%	29.49%	23.46%	-18.88%	-0.57%	2.14%	5.48%	10.45%
Emerging Markets	-11.45%	-17.63%	-2.54%	18.31%	18.42%	-14.57%	0.57%	2.18%	3.06%	8.42%
ACWI ex US	-13.73%	-18.42%	7.82%	10.65%	21.51%	-14.20%	1.35%	2.50%	4.83%	5.78%
US Fixed Income										
Bloomberg Barclays Index	**Q2 2022**	**2022**	**2021**	**2020**	**2019**	**2018**	**3-Year**	**5-Year**	**10-Year**	**20-Year**
Aggregate	-4.69%	-10.35%	-1.54%	7.51%	8.72%	0.01%	-0.93%	0.88%	1.54%	3.56%
Treasury Bills	0.12%	0.15%	0.04%	0.54%	2.21%	1.83%	0.57%	1.05%	0.60%	1.18%
Corporates	-7.26%	-14.39%	-1.04%	9.89%	14.54%	-2.51%	-0.99%	1.28%	2.61%	4.59%
Securitized MBS/ABS/CMBS	-3.90%	-8.70%	-1.04%	4.18%	6.44%	0.99%	-1.33%	0.46%	1.25%	
High Yield	-9.83%	-14.19%	5.28%	7.11%	14.32%	-2.08%	0.21%	2.10%	4.47%	7.27%
Munis	-2.94%	-8.98%	1.52%	5.21%	7.54%	1.28%	-0.18%	1.51%	2.38%	3.82%
US Equity Sectors										
Index	**Q2 2022**	**2022**	**2021**	**2020**	**2019**	**2018**	**3-Year**	**5-Year**	**10-Year**	**20-Year**
Technology	-20.24%	-26.91%	34.52%	43.88%	50.27%	-0.30%	18.68%	20.20%	18.66%	12.95%
Real Estate	-14.72%	-20.11%	46.14%	-2.17%	29.00%	-2.23%	6.95%	8.46%	7.66%	
Industrials	-14.78%	-16.79%	21.10%	11.05%	29.32%	-13.32%	6.03%	6.74%	11.29%	8.42%
Energy	-5.29%	31.64%	54.35%	-33.68%	11.81%	-18.10%	10.02%	6.93%	4.24%	7.56%
Consumer Discretionary	-26.16%	-32.82%	24.43%	33.30%	27.94%	0.82%	5.37%	9.74%	13.50%	9.79%
Communication Services	-20.71%	-30.16%	21.57%	23.61%	32.69%	-12.53%	5.35%	6.14%	5.99%	6.84%
Consumer Staples	-4.62%	-5.58%	18.63%	10.75%	27.61%	-8.39%	10.85%	8.78%	10.67%	8.99%
Utilities	-5.09%	-0.56%	17.67%	0.52%	26.35%	4.11%	9.01%	9.78%	10.47%	9.51%
Materials	-15.90%	-17.90%	27.28%	20.73%	24.58%	-14.70%	10.25%	8.73%	9.90%	8.39%
Financials	-17.50%	-18.73%	34.87%	-1.76%	32.09%	-13.04%	6.65%	7.16%	12.43%	4.45%
Health Care	-5.91%	-8.33%	26.13%	13.45%	20.82%	6.47%	13.60%	12.15%	14.96%	9.98%
	Calendar Year Returns						**Annualized Returns**			

Source: Bloomberg

DEFINITIONS

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.

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.