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Capital Markets Review and Outlook

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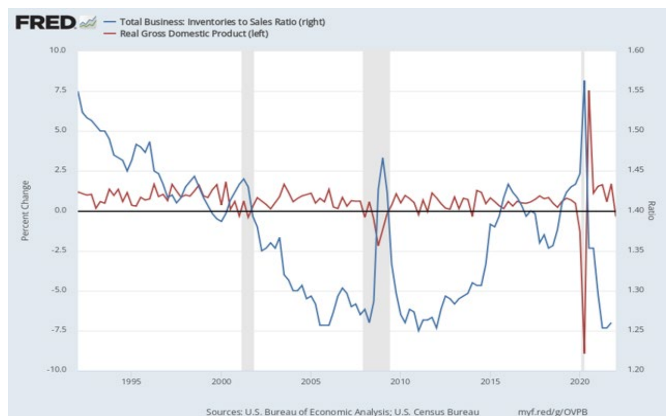
April 2022

Economy and Outlook

In April, the war in Ukraine, which was precipitated by Russia's illegal invasion, continued unabated and at an intensified pace for the second full month. Widespread destruction and loss of civilian lives are resulting from indiscriminate Russian missile strikes in Ukraine. With the war not producing the quick victory Vladimir Putin expected, the specter of nuclear war is now being alluded to by Russia due to the strong military support coming to Ukraine from the United States, Europe and other allies. Such talk is undoubtedly dangerous rhetoric that reflects the difficult position Mr. Putin now finds himself in for launching an unprovoked war. On the coronavirus pandemic front, there has recently been an increase in the number of infections and hospitalizations. However, the CDC estimates that 60% of the U.S. population have antibodies from previous Covid-19 infections. So, between vaccinations, boosters and prior infections, there is a lot of protection from serious illness and death. Despite the negative effects from the war in Ukraine and the lingering effects of the global pandemic, the U.S. economy remains resilient. The -1.7% decline in 2022 Q1 GDP (the first decline since mid-2020) shown in the chart on this page (red line) is due to technical factors and actually showcases the strength of the U.S. economy relative to the rest of the world. Reflecting strong domestic consumer demand, the trade deficit shaved off more than 3 percentage points from the GDP figure. The weakness in exports was due to weaker foreign economies. A slower pace of inventory accumulation also reduced GDP by almost 1 percentage point. As the blue line in the chart shows, the business inventory-to-sales ratio is near its lowest recorded level which means inventory stockpiling will be additive to economic growth going forward. Excluding net trade and the change in inventories, consumer spending, which is the primary driver for the economy, grew at an annualized pace of 2.7%. Additionally, business spending increased at an even faster 9.2% rate. Inflation remains a problem globally as the war in Ukraine and widespread sanctions on Russia pressure commodity prices higher. Central banks raised rates aggressively to combat high inflation with the Bank of England and the Bank of Canada both raising their benchmark interest rates by 50 bp to 1% in April. The ECB gave clear signs that it would likely end its



quantitative easing (bond buying) program by September. As of this writing, the U.S. Federal Reserve also increased its benchmark rate by 50 bp raising the range of the federal funds rate to 0.75% to 1%. The question, of course, is whether the Fed waited too long to begin closing the monetary spigot now that the inflation genie is galloping ahead.

Equity Markets

Equity markets reversed course and resumed their decline in April as interest rates and inflation continued to surge higher. The broad domestic equity market represented by the Russell 3000 index dropped sharply ending the month with a loss of -9% which brought the year-to-date decline to -13.8%. While a double-digit decline in just 4 months is, understandably, disconcerting, it is important for long-term investors to keep the downturn in perspective. Despite the magnitude of the decline, the annualized returns for the past 2-, 3- and 5-year time periods are positive double-digit returns (+20.9%, +13.1% and +13% respectively), while the 10-year annualized return is +13.3%. By capitalization, Large Cap (-8.9%) outperformed Small Cap (-9.9%) for the second consecutive month. Year-to-date, Large Cap's outperformance has widened to +310 bp. As is typically seen in market downturns, Value outperformed Growth across all market capitalizations in April. For the first four months of the year, Value's outperformance over Growth has averaged a remarkable +14 percentage points. From a sector perspective, the down market favored Defensives over Cyclicals. The only sector with a positive return for the month was Consumer Staples (+2.6%), while Communications (-15.6%), Consumer Discretionary (-13%) and Technology (-11.3%) were the worst performers. Despite the +5.5% increase in oil prices, the Energy sector lost -1.5%. However, year-to-date, Energy is the best sector with a gain of almost +37%. The sharp rise in yields across the Treasury yield curve weighed on Financials which lost -9.9% in April despite the modest steepening in the Treasury yield curve. Despite the myriad negative factors ranging from the war in Ukraine and slower economic growth to rising inflation and a stronger U.S. dollar, international equity markets did a little better, relative to the U.S. in April. For the month, the MSCI Developed Markets index lost -6.5% while the Emerging Markets index declined -5.6%. Germany with a loss of -8.2% was one of the worst performers in the Developed Markets reflecting the country's dependence on energy imports from Russia. Year-to-date, the German equity market (-20%) had the steepest loss among developed markets. Japan was the worst performer in April with a loss of -8.8% as the Japanese yen lost -6% against the U.S. dollar. The United Kingdom was a relative outperformer for the month with a decline of -3.7% despite the -4.1% decline in the value of the British pound. After its stellar performance in the 1st quarter of the year on the back of the rally in commodity prices, Brazil was the worst performer in April among major Emerging Markets with a loss of -13.7% for the month. Despite this loss, Brazil remains the best performer year-to-date with a gain of +17.3%. China's zero-Covid policy which has resulted in rolling lockdowns across major cities in China was another negative for the Chinese equity market which lost -4.1% for the month. Year-to-date, China has the worst performance with a loss of -17.7%.

Fixed Income Markets

Interest rates continued to surge higher in April as investors feared that inflation was not coming under control despite actions and statements from the Federal Reserve. For the month, 2-year Treasury yields climbed +42 bp to 2.7%, while longer term yields rose even more with 10-year and 30-year Treasury yields increasing +57 bp and +52 bp to end the month at 2.89% and 2.96% respectively. The Treasury yield curve underwent a bearish steepening with the 2-year/30-year Treasury yield spread widening by 10 bp to +26 bp. Mirroring the downturn in equity markets, the credit markets also sold off in April. Investment grade spreads widened 23 bp for the month resulting in an excess return of -164 bp. The credit quality curve also steepened as the Single-A and BBB-rated sectors underperformed the higher quality sectors. For the month, the best performing sector in terms of excess return was Automotive (-66 bp), while Media/Entertainment (-271 bp) was the worst performer. For the month, the Bloomberg/Barclays investment grade credit index lost -5.2% due to higher Treasury yields and wider credit spreads. Year-to-date, the loss for the credit index increased to -12.3%. The high yield sector outperformed its investment grade counterpart in April due to the former's higher coupon and shorter duration. For the month, the high yield sector declined -3.6% bringing its year-to-date loss to -8.2%. On a total return basis, Diversified Media (-1.8%) was the best performing sector for the second consecutive month, while Housing (-5%) was the worst performer. Yields in international developed bond markets also moved higher in April due to concerns about inflation, although the yield increases were less than in the U.S. Treasury market. A common theme, however, was the steepening in government bond yield curves which reflects investor worries about whether central banks are behind the curve in effectively combatting inflation. Although the yield spread differentials between non-U.S. and U.S. government securities widened in April, the international bond markets underperformed the U.S. due to the strength in the U.S. dollar. For the month, the FTSE non-US Government Bond index lost -7.8% compared to the -3.1% decline for the U.S. government bond market. For the first four months of 2022, the U.S. government bond index is outperforming the international bond index by +600 bp.

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		Returns as of 4/30/22 (In %)				
		Month	YTD	1 Year	3 Years	5 Years
Russell 3000®	US AllCap Equity	-9.0	-13.8	-3.1	13.1	13.0
Russell 1000®	US Large Cap Equity	-8.9	-13.6	-2.1	13.6	13.4
Russell 1000® Growth	US Large Cap Growth	-12.1	-20.0	-5.3	16.7	17.3
Russell 1000® Value	US Large Cap Value	-5.6	-6.3	1.3	9.6	9.1
Russell Midcap®	US Mid Cap Equity	-7.7	-12.9	-6.1	10.5	10.7
Russell Midcap® Growth	US Mid Cap Growth	-11.3	-22.4	-16.7	8.7	12.1
Russell Midcap® Value	US Mid Cap Value	-5.9	-7.7	0.0	10.2	8.6
Russell 2000®	US Small Cap Equity	-9.9	-16.7	-16.9	6.7	7.2
Russell 2000® Growth	US Small Cap Growth	-12.3	-23.3	-26.4	4.1	7.1
Russell 2000® Value	US Small Cap Value	-7.8	-10.0	-6.6	8.4	6.7
MSCI ACWI ex-US	Global Equity ex-US	-6.3	-11.4	-10.3	4.3	4.9
MSCI EAFE	Global Developed Mkts Equity	-6.5	-12.0	-8.1	4.4	4.8
MSCI EM	Emerging Mkts Equity	-5.6	-12.1	-18.3	2.2	4.3
Bloomberg/Barclays US Agg	US Core Fixed Income	-3.8	-9.5	-8.5	0.4	1.2
Bloomberg/Barclays US Interm. Agg	US Intermediate Fixed Income	-2.5	-7.1	-7.3	0.3	1.0
Bloomberg/Barclays US Credit	US Corporate Bonds	-5.2	-12.3	-10.1	0.8	1.9
Bloomberg/Barclays US MBS	US Mortgage Backed Securities	-3.5	-8.3	-8.8	-0.6	0.5
Bloomberg/Barclays US Corp HY	US High Yield	-3.6	-8.2	-5.2	2.8	3.7
FTSE Non-US WGBI	Global Fixed Income ex-US	-7.8	-14.4	-18.5	-3.6	-1.2

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