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Capital Markets Review and Outlook

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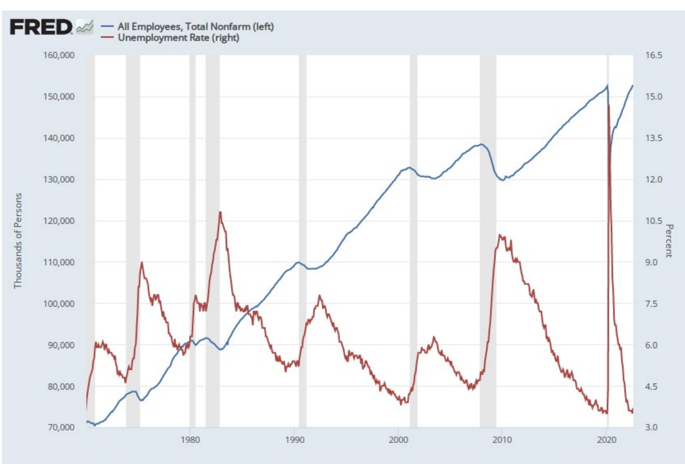
Economy and Outlook

In August, high inflation and rising interest rates continued as the dominant themes in the global financial markets. With inflation remaining persistently at high levels despite small declines recently, the drum beat of central bank rate hikes was marked with the Bank of England raising its key interest rate by 50 bp to 1.75%, the most in 27 years. The International Monetary Fund (IMF) has cut its global economic growth forecasts for 2022 to 3.2% and 2023 to 2.9% due to soaring global inflation, the slowdown in China and the effects of the war in Ukraine. The growth outlook for the United States was lowered by 1.5 percentage points to 2.3%. China's 3.3% projected growth for 2022 would be the lowest in 40 years, outside the decline in 2020 due to the Covid-19 crisis. Although goods price inflation is coming down with the recent decline in commodity prices, the services sector accounts for two-thirds of the U.S. economy, and inflation in this sector continues to rise on the heels of a strong employment picture along with high wage growth. The August payrolls report showed employers added 315,000 jobs for the month. Although the unemployment rate inched up to 3.7% as more workers joined the labor force, this rate is close to the lows seen in the past 50 years as shown in the chart on this page. The chart also shows that the U.S. economy has recovered the 22 million jobs lost during the pandemic with total employment now back to its pre-pandemic level from 2 ½ years ago in February 2020. The monthly employment report also showcased the persistent strength in wages with the 5.2% increase in hourly wages in August from a year earlier. At the annual symposium for central bankers in Jackson Hole, Wyoming in August, Fed chairman Jerome Powell repeatedly emphasized the central bank's commitment to continue raising interest rates until inflation comes down to the Fed's target of 2%. Following Mr. Powell's speech as well as comments from other central bank officials, it is now likely that the Fed will raise the federal funds by another 75 bp when it next meets in September. The Federal Reserve is seeking a meaningful softening in the labor market before it eases up on its interest rate hikes. As economic growth slows down in response to the Fed's



actions, corporate earnings are likely to follow suit into 2023. Investors in risk markets will now need to recalibrate their expectations accordingly and brace for a period of elevated volatility.

Equity Markets

Sharply higher interest rates and renewed fears about their impact on corporate earnings weighed on equity markets in August after July's strong performance. The broad domestic equity market represented by the Russell 3000 index closed lower, losing -3.7% for the month. Year-to-date, the index is down -16.9%. Performance was differentiated by capitalization with Small Cap (-2.1%) and Mid Cap (-3.1%) outperforming Large Cap which lost -3.7% in August. In terms of performance differentiation by style, higher interest rates weighed especially hard on Large Cap Growth which lost -4.7% compared to the -3% decline for Large Cap Value. However, quarter-to-date, Growth has outperformed Value across the capitalization spectrum in contrast to the outperformance of Value over Growth for the year. The decline in the markets led to a reversal in sector performance with Defensives outperforming Cyclicals in August. The Consumer Staples sector with a decline of -1.8% outperformed Consumer Discretionary which lost -4.6%. The Utilities sector gained +0.5% while Information Technology with a loss of -6.1% was the worst performing sector. Energy was the best performing sector in August with a gain of +2.8% despite the mixed performance in energy prices with the continued decline (-9.1%) in oil prices but sharply higher (+12.5%) natural gas prices. This sector continues to be supported by the strong earnings and dividend increases reported by energy companies. Year-to-date, Energy remains the best performing sector with a gain of +48.7%. International equity markets were a tale of two markets in August: the MSCI Developed Markets index slumped -4.7% while the corresponding Emerging Markets index rose +0.4% for the month. Among developed markets, Germany (-6.4%) and France (-6.3%) were the worst performers. Europe has been most negatively impacted by the war in Ukraine and a recession looks increasingly likely for the region. Germany, Europe's largest economy, is most dependent on Russian natural gas imports, and Russia is increasingly likely to limit, and even completely curtail, all gas exports to the region. The continued strength in the U.S. dollar also weighed on developed market returns with the dollar's +2.7% rise versus the euro resulting in the common currency's drop below parity for the first time in 20 years. Emerging equity markets held up better helped in part by the stabilization in China's equity market which rose slightly (+0.2%) following its significant decline this year. Unlike most central banks around the world which are raising interest rates, the People's Bank of China (PBoC) further cut its policy rate. The government also announced new stimulus measures to support the economy. The Emerging Markets index was also supported by the strong gains for the month in Brazil (+6.4%) and India (+4.1%). Also, while the U.S. dollar was up strongly against developed market currencies, it was only little changed against emerging market currencies. Year-to-date, the Developed Markets index with a loss of -19.6% trails the Emerging Markets index by almost 200 bp.

Fixed Income Markets

Interest rates shot up in August as Fed chairman Jerome Powell made it clear that the central bank would continue to tighten monetary policy underscoring its commitment to curb inflation.

Yields across the Treasury yield curve from 6 months out to 30 years closed the month above 3%. Yields on 2-year through 10-year Treasurys spiked higher by 48 to 60 bp with the yield on the 5-year Treasury note closing the month at 3.3%, an increase of 60 bp for the month. The Treasury yield curve flattened further with the 2-year/10-year yield spread ending the month at -30 bp. At the beginning of the year, this spread was at +79 bp. Unlike the equity markets, the investment grade corporate bond and high yield markets were positive in August in terms of spread tightening. While total returns were negative for the month, this was due to the sharp rise in Treasury yields. In the investment grade sector, the corporate quality curve flattened as the BBB-rated sector outperformed higher quality sectors. On the other hand, the credit curve steepened as short and intermediate issues outperformed longer maturity securities. Outperforming sectors in the investment grade sector included Energy, Automotive and Insurance while Healthcare and Media/Entertainment were among the laggards. For the month, the Bloomberg Investment Grade index lost -2.8% bringing its year-to-date decline to -13.7%. The high yield sector extended its outperformance over its investment grade counterpart in August with a decline of -2.3% for the month. Similar to the investment grade sector, the high yield quality curve flattened as the Single-B and lower sectors outperformed the BB-rated sector. In August, the spread on the BB-rated sector widened by 17 bp while the Single-B sector's spread tightened by 20 bp. Outperforming sectors for the month were Metals/Mining and Energy while Healthcare was the worst performer. For the first 8 months of the year, the Bloomberg High Yield index lost -11.2%, outperforming the Investment Grade index by +250 bp. Interest rates were up sharply across international government bond markets as central banks aggressively tightened monetary policies to convey their determination in bringing down high inflation rates. Yield increases in many cases were significantly greater than the corresponding increases in the U.S. Treasury market. In the United Kingdom, yields on 2-year and 5-year government securities skyrocketed by over +120 bp in contrast to the +55 to +60 bp increase for corresponding U.S. Treasurys. In Canada and Germany, yields on 2-year government securities rose by +71 and +93 bp respectively. Additionally, the U.S. dollar extended its strengthening trend with the dollar index (DXY) rising by +2.9% in August. As a result, the FTSE non-US government bond index lost -5.8% for the month compared to the -2.5% decline for the U.S. government bond index. Year-to-date, the FTSE non-US Government Bond index's loss of -21.8% is more than twice the -9.9% decline for the U.S. government bond index.

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				Returns as of 8/31/22 (In %)			
		Month	3QTD	YTD	1 Year	3 Years	5 Years
Russell 3000®	US AllCap Equity	-3.7	5.3	-16.9	-13.3	11.9	11.3
Russell 1000®	US Large Cap Equity	-3.8	5.1	-16.9	-13.0	12.1	11.6
Russell 1000® Growth	US Large Cap Growth	-4.7	6.8	-23.2	-19.1	14.5	14.8
Russell 1000® Value	US Large Cap Value	-3.0	3.5	-9.8	-6.2	8.9	7.9
Russell Midcap®	US Mid Cap Equity	-3.1	6.4	-16.5	-14.8	9.4	9.2
Russell Midcap® Growth	US Mid Cap Growth	-3.3	8.6	-25.1	-26.7	7.0	10.2
Russell Midcap® Value	US Mid Cap Value	-3.1	5.3	-11.8	-7.8	9.6	7.5
Russell 2000®	US Small Cap Equity	-2.0	8.2	-17.2	-17.9	8.6	6.9
Russell 2000® Growth	US Small Cap Growth	-0.9	10.2	-22.3	-25.3	5.9	6.7
Russell 2000® Value	US Small Cap Value	-3.2	6.2	-12.2	-10.2	10.4	6.6
MSCI ACWI ex-US	Global Equity ex-US	-3.2	0.1	-18.3	-19.5	2.9	1.7
MSCI EAFE	Global Developed Mkts Equity	-4.7	0.0	-19.6	-19.8	2.4	1.6
MSCI EM	Emerging Mkts Equity	0.4	0.2	-17.5	-21.8	2.7	0.6
Bloomberg/Barclays US Agg	US Core Fixed Income	-2.8	-0.5	-10.8	-11.5	-2.0	0.5
Bloomberg/Barclays US Interm. Agg	US Intermediate Fixed Income	-2.5	-0.4	-7.8	-8.8	-1.2	0.6
Bloomberg/Barclays US Credit	US Corporate Bonds	-2.8	0.1	-13.7	-14.4	-2.1	1.0
Bloomberg/Barclays US MBS	US Mortgage Backed Securities	-3.4	-0.3	-9.1	-9.7	-2.0	0.1
Bloomberg/Barclays US Corp HY	US High Yield	-2.3	3.5	-11.2	-10.6	1.0	2.6
FTSE Non-US WGBI	Global Fixed Income ex-US	-5.8	-3.8	-21.8	-25.6	-8.4	-4.1