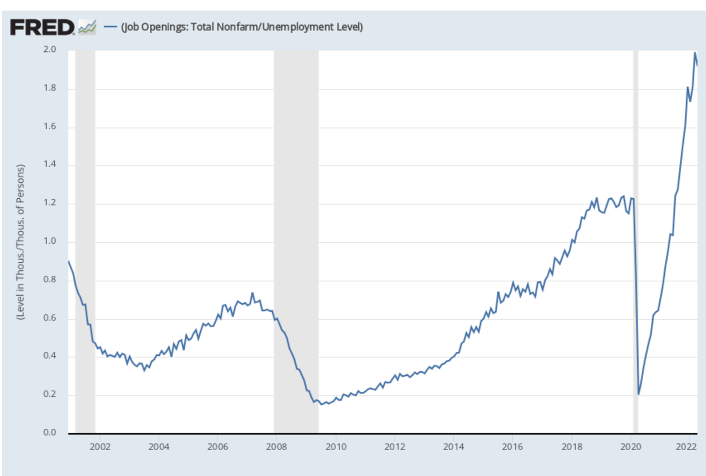
Capital Markets Review and Outlook

By: Cyril M. Theccanat, Chief Investment Officer

May 2022

Economy and Outlook

The ongoing geopolitical upheavals and the coronavirus pandemic remained major themes in the month of May. The war in Ukraine following Russia's unwarranted invasion back in February has dragged into a fourth month with a mounting toll on Ukrainians from the escalating loss of lives and property destruction. The war and sanctions on Russia also continue to pressure commodity prices higher. On the pandemic front, the United States crossed the grim milestone of 1 million deaths in May. Worldwide, the number of reported fatalities is now over 6 million. While infections have increased from the Omicron variants of the Covid-19 coronavirus, symptoms have generally been mild, especially for vaccinated people. Much of the world appears to be coping with the virus as almost 12 billion vaccine doses have been administered. China has taken a much stricter stance by imposing a zero-tolerance policy with rolling lockdowns even in large cities. This has further exacerbated supply chain problems globally which, in turn, is another factor stoking inflationary pressures. Despite rising prices and greater uncertainty, consumer spending in the U.S. remains firm helped by the $2+ trillion in savings accumulated from the record amounts of government aid during the pandemic, a robust jobs market and strong wage growth. The May employment report showed that payrolls increased by a better-than-expected 390,000 with the unemployment rate remaining at a low 3.6%. With inflation increasing at two to three times the Federal Reserve's 2% target, the central bank is focused on preventing a harmful and difficult-to-reverse wage-price spiral from developing. Currently, the constraint in the labor market is lack of supply. As the graph on the left shows, the number of jobs currently available is a record twice the number of people unemployed. Employers are, therefore, scrambling to hire workers which is pushing up wages. To prevent inflation from becoming entrenched in the economy, the Federal Reserve has signaled it will continue raising interest rates until inflation slows down. The monetary policy normalization process following an



extensive period of extraordinary monetary policy accommodation has given rise to the sharp increase in volatility across risk markets which is likely to continue in the near term.

Equity Markets

In the first half of May, equity markets continued to decline further from their levels in April as inflation fears grew and interest rates rose. These factors all reversed in the second of half of the month resulting in the broad domestic equity market represented by the Russell 3000 index closing the month little changed with a loss of -0.1%. Year-to-date, the index has lost -13.9%. While there were only relatively small differences in performance by capitalization, the differences in performance by style were more significant. Value continued its outperformance over Growth across all capitalizations in May. The outperformance ranged from +380 bp for Small Cap to +580 bp for Mid Cap. For the first 5 months of the year, Value's average outperformance over Growth has increased to almost +18 percentage points. Sector performance in May favored Defensives over Cyclicals as reflected in the +4.3% return for Utilities and +1.4% for Health Care, while Consumer Discretionary lost -4.9%. Energy remained in a world of its own with a gain of +15.8% on the heels of the sharp rise in oil and gas prices. The Energy sector is up a remarkable +59% in just the first 5 months of this year and has gained +76% over the trailing 1-year period. These results are driven by the war in Ukraine and the sanctions on Russia which have caused energy prices to skyrocket. International equity markets outperformed the U.S. due to stronger currencies (versus the U.S. dollar), rising commodity prices and a more supportive interest rate backdrop (relatively lower interest rates). The MSCI Developed Markets ex-US (EAFE) index rose +0.7% for the month driven by strong gains in Italy (+3.4% and Germany (+3.1%). Japan (+1.6%) and Canada (+1.4%) also posted positive returns while Australia (-1.1%) was the worst performer. However, year-to-date, Australia is the best performer due to its exports of commodities with an almost unchanged return of -0.1% compared to Germany which lost -17.6% for the same period. In Emerging Markets, Brazil rebounded strongly in May with a gain of +8.4% while China (+1.2%) finally turned in a positive return. For the first 5 months of the year, Brazil (+27.1%) has the best return and China (-16.7%) the worst. Year-to-date, the Developed Markets index (-11.3%) is slightly ahead of the Emerging Markets index which posted a loss of -11.8%.

Fixed Income Markets

As expected, the Federal Reserve raised interest rates (Federal Funds rate) by 50 bp in May. The Fed has also given clear indications that it will raise rates by 50 bp at each of its next two FOMC (Federal Open Market Committee) meetings in its efforts to bring down the current high inflation rate. Based on recent comments from senior Fed officials, the central bank is likely to continue raising interest rates this year until it sees evidence of a cooling in both the economy and inflation. Interest rates were whipsawed in May, rising in the first half of the month, and then declining in the second half as investors fretted about inflation and how much (or how little) the Federal Reserve would do. By the end of the month, short-term Treasury yields were significantly lower while long maturity yields climbed higher. Two-year and five-year Treasury yields declined 17 and 11 bp to end the month at 2.53% and 2.81% respectively. The yield on the 10-year Treasury note was 4 bp lower at 2.85%, while the yield on the 30-year Treasury bond rose 11 bp to 3.07%. The Treasury yield curve steepened significantly with the yield spread differential between the 2-year and the 30-year Treasury more than doubling to +54 bp at the end of the month. The investment grade bond sector had a positive tone in May as option-adjusted spreads (OAS) tightened resulting in an outperformance over duration-matched Treasuries. The sector posted its first positive monthly return (+0.9%) this year. The investment grade credit curve flattened as the Bloomberg Long Credit index gained +0.9% for the month compared to the Long Treasury index which lost -1.9%, while in the intermediate space, the Intermediate Credit index and Intermediate Treasury index rose +0.9% and +0.7% respectively. The gains in high yield were more muted with the Bloomberg High Yield index rising +0.2% in May. The quality curve in high yield steepened as the Ba index gained +1.5% while the Caa index lost -2.8% for the month. Year-to-date, high yield with a loss of -8% has outperformed the investment grade sector (-11.5%) handily. Despite the decline in the value of the U.S. dollar with the -0.4% decline in the trade-weighted dollar index (DXY), the international developed government bond market underperformed the U.S. as international government bond yields increased significantly across the yield curve. Ten-year yields in the United Kingdom and Germany rose by 25 bp while longer maturity yields (30-year bonds) rose by an even greater +37 bp. For the month, the FTSE non-US government bond index lost -0.2% compared to a gain of +0.2% for the U.S. government bond market. Year-to-date, the U.S. government bond index with a loss of -8.2% is significantly ahead of the international government bond index which has lost -14.5%, almost half of it due to the +6.8% rise in the value of the U.S. dollar (DXY).

			Returns as of 5/31/22 (In %)				
		Month	2QTD	YTD	1 Year	3 Years	5 Years
Russell 3000®	US AllCap Equity	-0.1	-9.1	-13.9	-3.7	15.6	12.7
Russell 1000®	US Large Cap Equity	-0.2	-9.1	-13.7	-2.7	16.0	13.1
Russell 1000® Growth	US Large Cap Growth	-2.3	-14.1	-21.9	-6.3	18.3	16.1
Russell 1000® Value	US Large Cap Value	1.9	-3.8	-4.5	0.9	12.8	9.5
Russell Midcap®	US Mid Cap Equity	0.1	-7.6	-12.9	-6.8	12.9	10.5
Russell Midcap® Growth	US Mid Cap Growth	-3.9	-14.7	-25.4	-18.7	9.4	10.7
Russell Midcap® Value	US Mid Cap Value	1.9	-4.1	-5.9	-0.1	13.4	9.1
Russell 2000®	US Small Cap Equity	0.2	-9.8	-16.6	-16.9	9.7	7.7
Russell 2000® Growth	US Small Cap Growth	-1.9	-13.9	-24.8	-25.7	6.2	6.9
Russell 2000® Value	US Small Cap Value	1.9	-6.0	-8.2	-7.7	12.2	7.8
MSCI ACWI ex-US	Global Equity ex-US	0.7	-5.6	-10.7	-12.4	6.5	4.4
MSCI EAFE	Global Developed Mkts Equity	0.7	-5.8	-11.3	-10.4	6.4	4.2
MSCI EM	Emerging Mkts Equity	0.4	-5.1	-11.8	-19.8	5.0	3.8
Bloomberg/Barclays US Agg	US Core Fixed Income	0.6	-3.2	-8.9	-8.2	0.0	1.2
Bloomberg/Barclays US Interm. Agg	US Intermediate Fixed Income	0.9	-1.7	-6.3	-6.7	0.1	1.1
Bloomberg/Barclays US Credit	US Corporate Bonds	0.9	-4.4	-11.5	-10.0	0.6	1.8
Bloomberg/Barclays US MBS	US Mortgage Backed Securities	1.1	-2.4	-7.3	-7.6	-0.7	0.6
Bloomberg/Barclays US Corp HY	US High Yield	0.2	-3.3	-8.0	-5.3	3.3	3.6
FTSE Non-US WGBI	Global Fixed Income ex-US	-0.2	-8.0	-14.5	-19.6	-4.1	-1.7

Disclosure: This Capital Market Review, written by Consequent Capital Management, represents the opinions, investment strategies and views of Consequent Capital Management and is based on current market conditions and is not intended to interpret laws or regulations. The views expressed in this Capital Market Review are subject to change without notice. This Capital Market Review commentary is provided for informational purposes only, based upon information generally available to the public from sources believed to be reliable, and should not be construed as investment or legal advice nor is it meant to be a solicitation or offer to purchase any product or service. Readers are encouraged to consult with their investment, legal or tax professional before making any investment decisions. This Capital Market Review is not designed to be a comprehensive analysis of any topic discussed herein and should not be relied upon as the only source of information used for making investment decisions. Consequent Capital Management believes the information contained in this material to be reliable but does not warrant its accuracy or completeness. Our discussion may include predictions, estimates or other information that might be considered forward-looking. While these forward-looking statements represent our current judgment on what the future holds, they are subject to risks and uncertainties that could cause actual results to differ materially. You are cautioned not to place undue reliance on these forward-looking statements, which reflect our opinions only as of the date of this presentation. Please keep in mind that we are not obligating ourselves to revise or publicly release the results of any revision to these forward-looking statements in light of new information or future events. Additionally, this Capital Market Review is not intended to represent advice or a recommendation of any kind, as it does not consider the specific investment objectives, financial situation, applicable risk factors, and/or particular needs of any individual client or investor and should not be relied upon as the basis for investment decisions. Past performance is not indicative or a guarantee of future results. Consequent Capital Management, LLC is registered with the U.S. Securities and Exchange Commission.

3333 Piedmont Road NE Suite 755 • Atlanta, GA 30305 • 404-883-2500 • consequentcm.com