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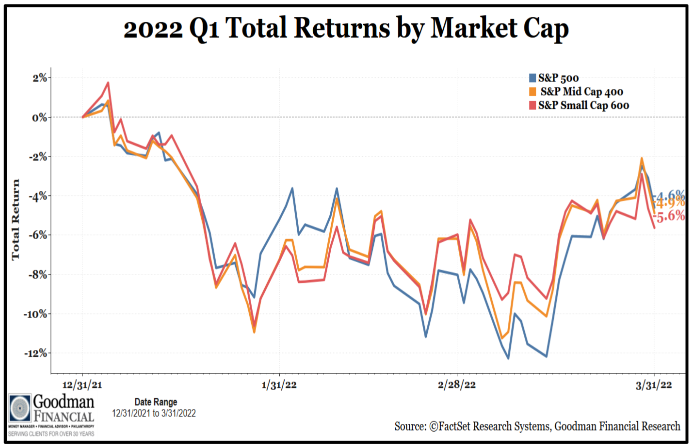
Q1 2022
MARKET & ECONOMIC REVIEW
Major Equity Market Indexes & Commentary

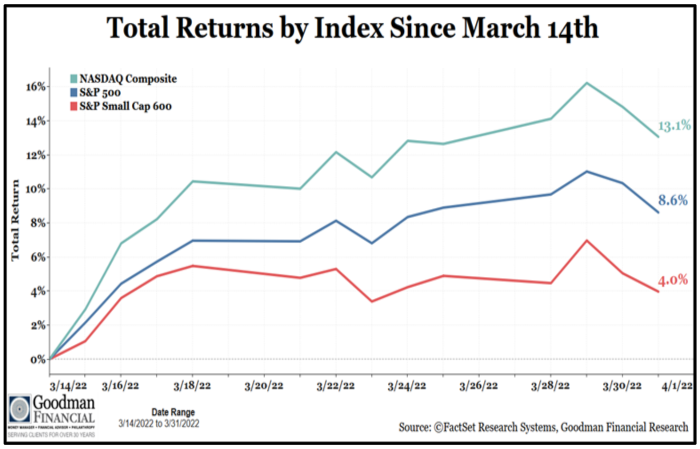
INDEX	DESCRIPTION	12/31/21	LOW CLOSE	HIGH CLOSE	3/31/22	QTD RETURN*
S&P 500	A market-capitalization weighted index of 500 large U.S companies.	4,766	4,171	4,797	4,530	-4.9%
DJIA	Dow Jones Industrial Average or "The Dow"; A price-weighted average of 30 major U.S. companies.	36,338	32,633	36,800	34,678	-4.6%
Nasdaq Composite Index	A market-capitalization weighted index comprised of over 3,000 companies, mostly in the technology and biotech industries.	15,645	12,581	15,833	14,221	-9.1%
Russell 2000	A market-capitalization weighted index tracking U.S. small-cap stocks.	2,245	1,931	2,273	2,070	-7.8%
NIKKEI 225	A price-weighted index comprised of Japan's top 225 most established companies (in Yen).	28,792	24,718	29,332	27,821	-3.4%
MSCI Emerging Markets	An index comprised of 23 MSCI indices from emerging economies including Brazil, China, India, Mexico, Russia, South Africa, and the UAE.	1,232	1,027	1,267	1,142	-7.3%
Stoxx Europe 600	An index comprised of 600 companies based in one of 18 EU countries including Austria, Belgium, Denmark, France, Germany, Ireland, Spain, and the United Kingdom (in Euro).	488	415	494	456	-6.5%

*** Excludes effects of dividends** **Sources: FactSet**

EQUITY MARKETS COMMENTARY

- As seen by all the downward red arrows above, this was a tough quarter for stocks - no matter the market cap (as seen in the chart below, left) or geography - as the market grappled with both Russia's invasion of Ukraine as well as a much more hawkish tone from the Federal Reserve (Fed). Within the S&P 500, only the Energy and Utility sectors posted positive returns, up 37.7% and 4.0%, respectively. Defensive sectors like Consumer Staples, Health Care and Financials did better than the growth sectors like Information Technology and Communication Services. This was a nice tailwind for aggregate GFC equity portfolios as we were well positioned within these sectors.
- As bad as performance was for stocks in the quarter, it would have been even worse were it not for an incredible recovery off the bottom in mid-March. For instance, the Nasdaq Composite index ("Nasdaq") was down over 20% for Q1 on March 14th, qualifying it for a "Bear Market". As seen in the chart below (right), the Nasdaq then bounced back 13.1% from that low to close out the quarter, down "only" -9.1%. That chart also shows how the S&P 500 index recovered only 8.6% from the same date while the S&P 600 small-cap recovered a mere 4.0% from that point. Of course, both of those indices were down much less than the Nasdaq for the quarter before the mid-March bottom. This caused aggregate GFC equity portfolios to give up some of their outperformance for Q1 in the final few weeks of the quarter.





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MARKET & ECONOMIC REVIEW

Fixed Income Rates & Commentary

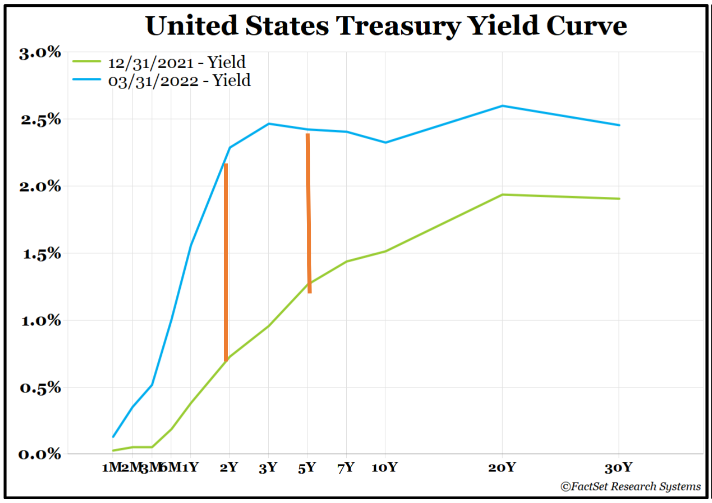
DESCRIPTION	12/31/21	3/31/22	QTD CHANGE IN BASIS POINTS*	DESCRIPTION	12/31/21	3/31/22	QTD CHANGE IN BASIS POINTS*
Federal Funds Target Rate	0.00%-0.25%	0.25%-0.50%	↑ +25	15 Yr. Mortgage Rate	2.33%	3.63%	↑ +130
90 Day Treasury Bill	0.06%	0.52%	↑ +46	30 Yr. Mortgage Rate	3.11%	4.42%	↑ +131
2 Yr. Treasury Note	0.73%	2.28%	↑ +155	Prime Rate (U.S.)	3.25%	3.50%	↑ +25
10 Yr. Treasury Note	1.52%	2.32%	↑ +80	LIBOR (3 Month)	0.21%	0.96%	↑ +75
30 Yr. Treasury Bond	1.90%	2.44%	↑ +54	5-Year CD	0.28%	0.29%	↑ +1

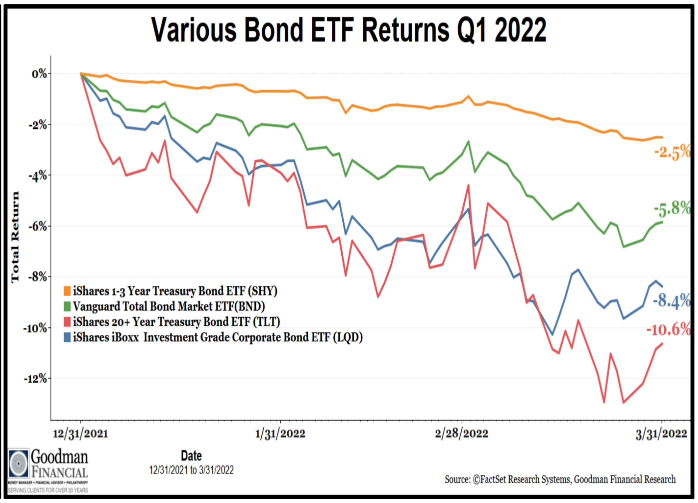
***One basis point is equal to 1/100th of 1% or 0.01%**

Sources: FactSet, Wall St. Journal, U.S. Treasury

FIXED INCOME COMMENTARY

- As noted by all the upward green arrows above, interest rates rose across all bond maturities. This can be seen graphically in the chart below (left), which shows the U.S. Treasury yield curve at 12/31/21 (green line) and the same curve at 3/31/22 (blue line). What can also be seen is that interest rates in the 2-year to 5-year part of the yield curve rose much more than shorter or longer maturities outside that window. The reason for this is that the Fed has taken on a much more hawkish tone and raised their own expectations about the amount of Federal Funds rate (a short term overnight rate) hikes ultimately required to bring down inflation. Bond markets took the Fed at their word and caused interest rates in that 2-year to 5-year window to rise by their own expectation of amount of future Fed rate hikes. This is also the window in which we are buying new bonds, so that is helping us get higher yields than we have seen in a long while.
- You have probably heard about how bond prices move inversely to interest rates. In other words, as interest rates rise, bond prices fall and vise-versa. So, with interest rates rising quite a bit in Q1, it is no surprise that bond prices fell during the quarter. In fact, it was the worst quarter for bond returns in over 40 years according to the ***Wall Street Journal.*** This can be seen in the chart below (right) which shows Q1 losses for various bond Exchange Traded Funds (ETFs). As seen, the iShares 1-3 Year Treasury Bond ETF (SHY) was down only 2.5% for the quarter, while the much longer dated iShares 20+ Year Treasury Bond ETF (TLT) was down a whopping 10.6%. Meanwhile, the iShares Investment Grade Corporate Bond ETF (LQD) which invests in the same sort of corporate bonds that we invest in was down 8.4%. Finally, the Vanguard Total Bond Market ETF (BND), one of the world's largest bond funds when factoring in all its various versions, was down 5.8% in Q1. GFC fixed income portfolios in the aggregate were also down in the quarter, but much less so than all of the aforementioned Bond ETFs, excepting SHY.





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Q1 2022
MARKET & ECONOMIC REVIEW
U.S. Economic Commentary

INDICATOR	DESCRIPTION	12/31/21	3/31/22	QTD CHANGE*
Weekly Initial Claims for Unemployment Insurance (in Thousands)	The number of new filings for unemployment insurance benefits. Most economists believe claims below 300,000 indicate a healthy labor market environment. **Initial claims ticked up very slightly this quarter, but are still near the lowest level since October 1969, when the U.S. population was 40% lower than today. It is still a tight job market.**	198	202	↑ +2.0%
Unemployment Rate	The percentage of total labor force that is unemployed but actively seeking employment. The U.S. Federal Reserve targets a long-run unemployment rate of between 4.5% and 5%. **The unemployment rate continues to fall and is now within striking distance of the 3.5% level it was prior to the pandemic, a 50-year low at that time.**	3.9%	3.6%	↓ -30 bps
Average Weekly Earnings	The average weekly salary earned by private, nonfarm employees. **Wage growth is above recent trends, growing in the 4-5% annualized rates the past few quarters. This will cause some persistency to overall inflation for the near future. This wage growth still falls short of current inflation rates, causing real wage growth to be negative.**	$1,086	$1,098	↑ +1.1%
Index of Consumer Sentiment	This index is published by the University of Michigan and reflects consumer attitudes towards the state of the economy. **The high and accelerating rate of inflation is the likely culprit for consumers' depressed state. But given the strong employment market (discussed below), the rate of sentiment decline is still a bit surprising.**	70.6	59.4	↓ -15.9%
ISM Purchasing Managers Index (PMI®)	This index represents economic activity in the manufacturing sector. Any value above 42.9 represents economic expansion. **While the index did decline this quarter, manufacturing is still growing, in order to replenish continued low customer inventories that were reduced by Covid related supply chain issues.**	58.7	57.1	↓ -2.7%
Existing Home Sales (in Millions) *	This data is provided by the National Association of Realtors®. It is a seasonally adjusted annualized rate and reflects completed transactions in houses, townhomes, and condominiums. **Existing home sales fell from last quarter, but are still near historically high levels. While down 6.8% from last quarter, they are only down 2.4% from last year.**	6.46	6.02	↓ -6.8%
US Capacity Utilization: Manufacturing *	The ratio of production capacity being used to produce finished products compared to the total capacity available. **Utilization ticked up from last quarter as manufacturers work to catch up to strong demand. This measure would likely be higher but for continuing supply chain issues.**	77.5%	78.2%	↑ +0.9%

***These items are as of 2/28/22, the date of the most recently published statistics**

Sources: FactSet, Federal Reserve Bank of St. Louis, The University of Michigan, U.S. Census Bureau, U.S Department of Labor, Institute of Supply Management

U.S. ECONOMIC HEALTH

- U.S. workers have rarely had it better. As mentioned above, the unemployment rate fell to 3.6% in March, near 50-year lows. Weekly initial unemployment claims also continue at historically low rates. Meanwhile, nearly 11 million jobs go begging to be filled and workers are seeing annualized wage growth at rates not seen in many years. All of this is causing more workers to re-enter the labor market, many of which had dropped out the past couple of years for various reasons related to the pandemic. As seen in the chart below (left), labor force participation fell quite a bit in 2020, but has slowly been creeping back up, and has actually accelerated in the past few months. These additional workers will help fill all those job openings and will likely keep the unemployment rate from dropping much further, which is actually a good thing for the economy.
- As mentioned above, existing home sales slipped a bit this quarter. But, as seen in the orange line in the chart below (right) those sales are still at historically high levels, indicating a still strong housing market. It is also important to keep in mind that this is a rather volatile data series, where monthly measure are a bit erratic. It is likely existing home sales might have been higher but for the fact that available existing homes for sale are near historic lows, as seen in the blue line in the same chart. This indicates to us that despite higher home prices and higher mortgage rates, the housing market is still strong.