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SERVING CLIENTS FOR OVER 30 YEARS

Q2 2022 MARKET & ECONOMIC REVIEW

Major Equity Market Indexes & Commentary

INDEX	DESCRIPTION	3/31/22	LOW CLOSE	HIGH CLOSE	6/30/22	QTD RETURN*
S&P 500	A market-capitalization weighted index of 500 large U.S companies.	4,530	3,667	4,583	3,785	-16.4%
DJIA	Dow Jones Industrial Average or "The Dow"; A price-weighted average of 30 major U.S. companies.	34,678	29,889	35,161	30,775	-11.3%
Nasdaq Composite Index	A market-capitalization weighted index comprised of over 3,000 companies, mostly in the technology and biotech industries.	14,221	10,646	14,533	11,029	-22.4%
Russell 2000	A market-capitalization weighted index tracking U.S. small-cap stocks.	2,070	1,650	2,095	1,708	-17.5%
NIKKEI 225	A price-weighted index comprised of Japan's top 225 most established companies (in Yen).	27,821	25,749	28,247	26,393	-5.1%
MSCI Emerging Markets	An index comprised of 23 MSCI indices from emerging economies including Brazil, China, India, Mexico, Russia, South Africa, and the UAE.	1,142	988	1,162	1,001	-12.4%
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).	456	402	463	407	-10.7%

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

EQUITY MARKETS COMMENTARY

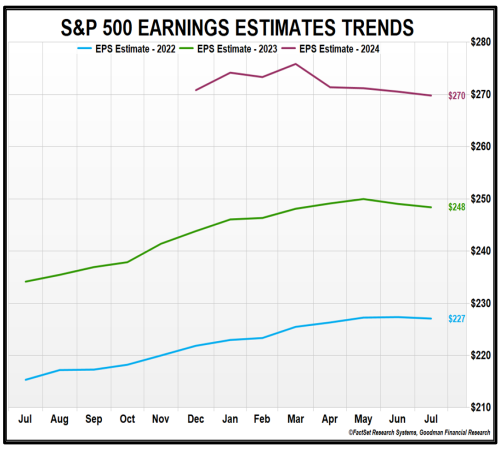
- As seen in the table above, the difficult equity market environment from the first quarter carried over into the second quarter. The second quarter was an ugly one for stocks with double digit declines seen in all major US indexes. The S&P 500, the Nasdaq Composite Index, and the Russell 2000 all slid into bear market territory while the Dow has managed to avoid this designation for now by a small margin. The red matrix table below shows Value stocks held up better than Growth across market caps, with Large-cap Growth performing the worst of all styles and sizes. This provided a tailwind for GFC equity portfolios which were well positioned across size and style.
- The second quarter earnings season is right around the corner when companies will be releasing their quarterly results. As seen in the chart below (right), consensus earnings estimates for S&P 500 companies have been roughly flat over the past several months but there is growing concern that high inflation, rising interest rates, and a strong dollar may be eating into profits. This leads us to believe that these estimates are too high and downward revisions are on the horizon. Given the recent equity market sell off, lower expectations and downward revisions are likely already priced in, but to the extent that negative revisions are greater than expected the markets could experience more near-term turbulence.

Table Comprised of the Following Indexes:

S&P 500 Large-Cap Total Return Index
S&P 500 Large-Cap Value Total Return Index
S&P 500 Large-Cap Growth Total Return Index
S&P 400 Mid-Cap Total Return Index
S&P 400 Mid-Cap Value Total Return Index
S&P 400 Mid-Cap Growth Total Return Index
S&P 600 Small-Cap Total Return Index
S&P 600 Small-Cap Value Total Return Index
S&P 600 Small-Cap Growth Total Return Index

Q2 2022 Return By Market Segment

	Value	Core	Growth
Large	-11.3%	-16.1%	-20.8%
Mid	-13.5%	-15.4%	-17.5%
Small	-12.7%	-14.1%	-15.6%



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Fixed Income Rates & Commentary

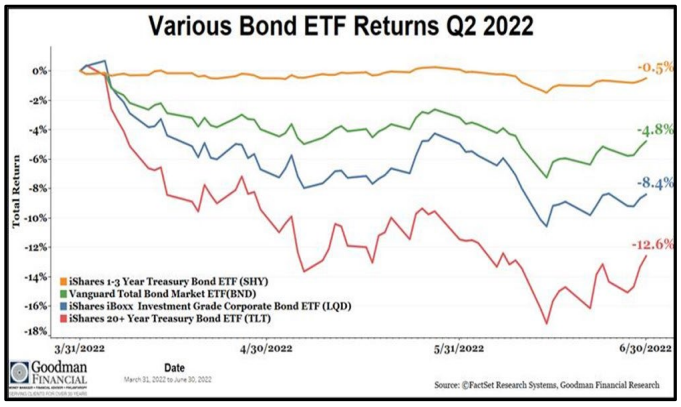
DESCRIPTION	3/31/22	6/30/22	QTD CHANGE IN BASIS POINTS*	DESCRIPTION	3/31/22	6/30/22	QTD CHANGE IN BASIS POINTS*
Federal Funds Target Rate	0.25%-0.50%	1.50%-1.75%	↑ +125	15 Yr. Mortgage Rate	3.63%	4.92%	↑ +129
90 Day Treasury Bill	0.52%	1.75%	↑ +123	30 Yr. Mortgage Rate	4.42%	5.81%	↑ +139
2 Yr. Treasury Note	2.28%	2.92%	↑ +64	Prime Rate (U.S.)	3.50%	4.75%	↑ +125
10 Yr. Treasury Note	2.32%	2.98%	↑ +66	LIBOR (3 Month)	0.96%	2.29%	↑ +133
30 Yr. Treasury Bond	2.44%	3.14%	↑ +70	5-Year CD	0.29%	0.39%	↑ +10

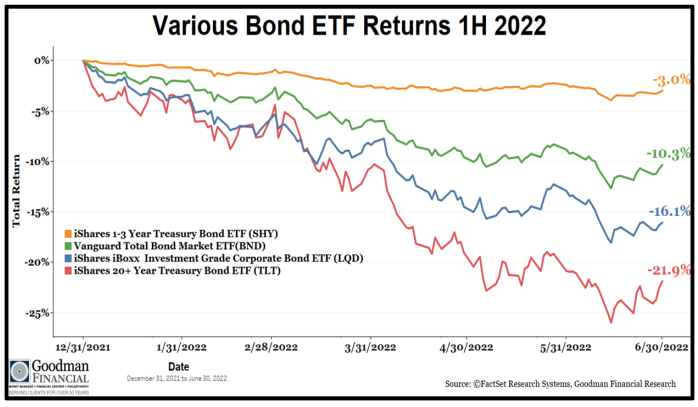
***One basis point is equal to 1/100th of 1% or 0.01%**

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

FIXED INCOME COMMENTARY

- In the table above, changes in interest rates during the second quarter bear a striking resemblance to the trend that started earlier this year. Rates across all maturities continued to rise as the Federal Reserve (the Fed) attempts to combat the worst inflation in 40 years by increasing the cost of borrowing. During the first half of 2022, the Fed hiked the Federal Funds Target Rate (Fed Funds rate) three times by a combined 1.5%. Rates are expected to increase further during the remainder of 2022 with estimates forecasting a Fed Funds rate of 3.25%-3.5% by year-end.
- Short-term rates saw the largest percentage increase during the quarter with the Fed Funds rate and the 90 Day Treasury Bill rate increasing by 1.25% and 1.23%, respectively. Longer maturity Treasury rates increased as well but by a lesser amount as these rates had priced in some of the expected Fed Funds rate increases during the first quarter. Of note, the 10 Year Treasury Note ended the quarter just under 3% but rate volatility and economic uncertainty had pushed that yield to nearly 3.5% intra-quarter. Additionally, mortgage rates have risen precipitously in 2022 with the 30 Year Fixed rate ending the quarter at 5.81%, up from 3.25% at the start of the year.
- As expected, Bond ETF returns were negatively impacted by increasing interest rates as seen in the charts below. The iShares 20+ Year Treasury Bond ETF (TLT) was down 12.6% in the second quarter bringing the total decline to 21.9% in 1H 2022. Shorter maturities fared much better, as seen with the iShares 1-3 Year Treasury ETF (SHY) down only 0.5% in the second quarter for a total decline of 3.0% in the first half of 2022.





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Q2 2022 MARKET & ECONOMIC REVIEW

U.S. Economic Commentary

INDICATOR	DESCRIPTION	3/31/22	6/30/22	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. **Weekly initial claims were slightly higher than economist forecasts at the end of the quarter, but the current level is still historically low indicating a healthy labor market.**	202	231	↑ 14.0%
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 held steady at 3.6%, only slightly above the 50-year low of 3.5% seen prior to the pandemic.**	3.6%	3.6%	→ 0 bps
Average Weekly Earnings*	The average weekly salary earned by private, nonfarm employees. **Wage growth is running in the 4-5% annualized rates for 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 (see below).**	$1,098	$1,105	↑ +0.8%
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, the rate of sentiment decline is still a bit surprising.**	59.4	50.0	↓ -15.8%
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 expanding in order to replenish continued low customer inventories that were reduced by Covid related supply chain issues.**	57.1	53.0	↓ -7.2%
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 declined further during the quarter and are now near more normalized levels seen pre-pandemic. Home sales would likely be higher if not for historically low inventory levels of homes for sale.**	6.02	5.41	↓ -10.1%
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 as supply chain issues began to finally lessen.**	78.2%	80.3%	↑ +2.7%

***These items are as of 5/31/22, 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

- Many of the previous quarter's themes persisted during the second quarter. Unemployment remains near a 50-year low and initial jobless claims indicate a very healthy labor market, all while consumer sentiment continues to drift lower. In fact, the June Consumer Sentiment Index reading reached an all-time low for the survey (as seen in the chart below on the left). Despite expectations that consumer incomes will continue to rise, and the labor market will remain strong, concerns over widespread inflation and the Fed's actions to reign it in seem to be weighing more heavily on sentiment and raising fears of a recession. These concerns are not unfounded due to the deterioration of real (inflation-adjusted) average weekly earnings, as seen in the chart below on the right. Over the past year, average weekly earnings increased by 4.3% to $1,105, according to the most recent available data from May 2022. However, inflation of 8.5% has more than offset rising wages resulting in a real wage decline of 4.2%.
- It's worth noting that sentiment has bottomed out near or below 60 just five times since 1971 with returns for the S&P 500 averaging 21.6% over the subsequent 12-months, according to research by J.P. Morgan Asset Management.