

**Current Investment Strategy and Themes**

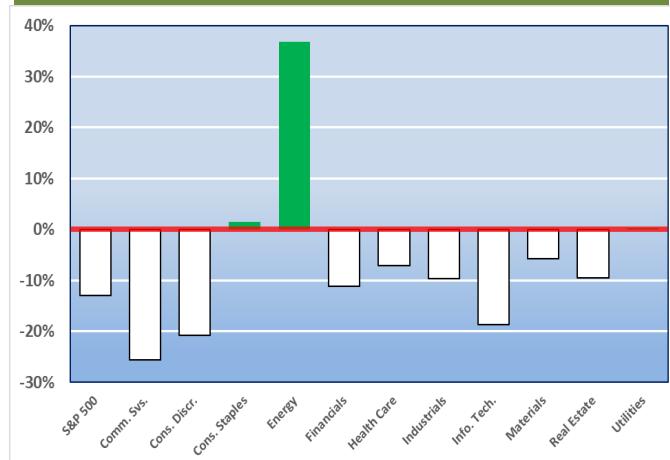
- *All asset classes are acting like high-risk assets, safety is hard to find.*
- *The transition to a monetary tightening policy and higher rates hurts stocks AND bonds.*

**The Markets in Review: May 2022**

- Stock and bond markets fell sharply in April. The rates of decline for some sectors of the equity market dropped at rates last seen in the Covid panic of March 2020, and financial panic of October 2008. Declines in all segments of the bond market produced the worst combination of stock and bond portfolio returns since the bottom of the bear market in 2009. That low return was at the end of bear market cycle of 2008/2009. This return is at the beginning of Federal Reserve monetary policy tightening cycle and interest rate increases. That previous bottom was at the beginning of the zero-interest policy and Quantitative Easing (QE). The more than dozen years policy is coming to an end and the traditional stock/bond portfolio is under pressure to generate safety, income, and growth.
- The potential of transitory inflation first seen in late 2020 has been replaced by inflation levels not seen since the 1970s. Massive monetary and fiscal policy stimulus plus supply chain disruptions entrenched trends in embedded structural problems that will not go away in the short-run. Curing an economy of inflationary pressures is neither painless or quick. The last inflationary cycle that ravaged consumers and financial markets lasted more than a dozen years from the late 1960s to the early 1980s, consuming four presidents and three Federal Reserve Board chairmen. Solutions ranged from Wage and Price controls, bureaucratic regulatory proposals, energy transition away from fossil fuels, and old fashioned jawboning and slogans. Only through a painful reassertion of monetary and interest rate policy was inflation defeated leading to the great bull market in stocks and bonds that began in 1982.
- The forty-year decline in interest rates, consistent real economic and earnings growth (except the financial crisis period) combined with rising equity valuations led investors across the balanced to full equity allocation risk horizon to achieve returns above the very long-term historical average. At year end 2021, the trailing 40-year annualized return for the S&P 500 was 12.35%, and the Bloomberg Aggregate Bond index return of 7.42%. Results for the trailing 10-year period are shocking in the level of premium earned for stocks versus bonds. The S&P 500 trailing 10-year return is 16.35% and 2.90% for the bond index. The premium is not sustainable and reflects the policy experiment in zero-interest rates.
- The new regime of renewed inflation and reverting Fed policy dictate investors contemplate more than a traditional stock bond mix and factor into account inflation and market hedges such as commodity exposure, duration management to protect against rate increases, and non-correlated assets and strategies. While these strategies appear very defensive, investors cannot discard from their portfolio the true growth opportunities that will arise from disruptive technologies and their impact on long-term economic growth.

Key Market Indicators				
Bullish	Favorable	Neutral	Cautious	Bearish
	Apr 2022	Year to Date	Last 12 Months	Current View
Equities				
U.S. Large Cap	-8.72%	-12.92%	0.21%	Neutral
U.S. Small Cap	-9.91%	-16.69%	-16.87%	Cautious
International Developed	-6.47%	-12.00%	-8.15%	Favorable
Emerging Markets Equity	-5.56%	-12.15%	-18.33%	Neutral
Fixed Income				
U.S. Aggregate	-3.79%	-9.50%	-8.51%	Cautious
U.S. Government	-3.05%	-8.41%	-7.31%	Cautious
U.S. Corporate	-5.24%	-12.27%	-10.13%	Neutral
U.S. High Yield	-3.56%	-8.22%	-5.22%	Cautious
Non-U.S. Developed	-7.73%	-14.31%	-18.33%	Cautious
Emerging Market Debt	-5.48%	-10.28%	-14.71%	Bearish
Alternatives				
REITs	-4.39%	-8.08%	11.92%	Neutral
Commodities	3.25%	30.02%	43.85%	Favorable
Managed Futures	6.67%	21.11%	16.50%	Neutral
Hedge Funds	-0.90%	-2.24%	-1.57%	Favorable

Source: Morningstar, data as of 4/30/2022

**Sector Returns 2022 (through Apr 30)**


Source: Morningstar

# Important Disclosures

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## Index definitions:

- “U.S. Large Cap” represented by the S&P 500 Index.
- “U.S. Small Cap” represented by the Russell 2000 Index.
- “International” represented by the MSCI Europe, Australasia, Far East (EAFE) Net Return Index.
- “Emerging” represented by the MSCI Emerging Markets Net Return Index.
- “U.S. Aggregate” represented by the Bloomberg Barclays U.S. Aggregate Bond Index.
- “U.S. Government” represented by the Bloomberg Barclays U.S. Government Bond Index.
- “U.S. Corporate” represented by the Bloomberg Barclays U.S. Credit Bond Index.
- “U.S. High Yield” represented by the Bloomberg Barclays U.S. Corporate High Yield Index.
- “Non-U.S. Developed” represented by the S&P International Treasury ex U.S. Index.
- “Emerging Market Debt” represented by the JP Morgan GBI-EM Global Core Index
- “REITs” represented by the FTSE North American Real Estate Investment Trust (REIT) Equity REITs Index.
- “Commodities” represented by the Dow Jones Commodity Index.
- “Managed Futures” represented by the Credit Suisse Managed Futures Index.
- “Global Macro” represented by the Credit Suisse Global Macro Index

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