



**MATRIX**  
PRIVATE CAPITAL GROUP



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# CIO Market Outlook Q1 2022: Rates and Fundamentals

February 2022

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The beginning of 2022 has marked a noticeable change in broad market performances as the U.S. economy is buffeted by some economic forces such as elevated inflation. The Federal Reserve is now faced with the tough decision to remove some of the excess liquidity in the economy to quell price raises and public discontent.

As such, we believe the Fed will begin implementing tightening policies as soon as next month and will lean on the more aggressive side, at least in the near term, given the strength of the labor market domestically. Despite the market angst and increased volatility, we are confident that the economic recovery will remain intact for 2022, albeit at a slower pace than witnessed last year.

### Display 1: Manufacturing PMI Remains Solidly in Expansion Mode



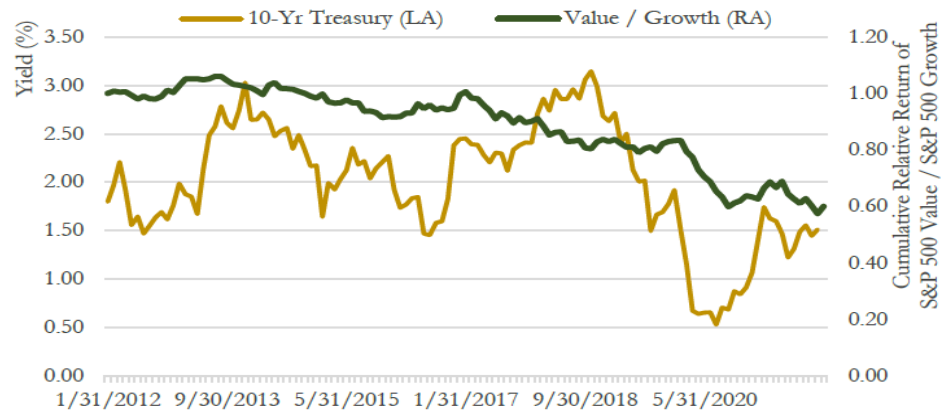
Source: ISM; Data from Jan 2015 – Dec 2021. Index levels above 50 indicates expansion.

### Sentiment Change Towards Quality and Visibility of Earnings

The potential shift in monetary policy appears to have also brought about some changes in the market. Most noticeably, interest rates on all segments of the Treasury curve have drifted higher – causing losses to bond holders. Within equities, sentiment has shifted away from high growth potential investments to those with more stability and higher quality of earnings. Value stocks are so far outpacing growth stocks handily. At the extremes, we are seeing a selloff in some ‘bubble’ areas such as ‘meme’ stocks, and cryptocurrencies. We believe this ‘re-rating’ of securities is positive for the market as it removes some irrationality, albeit at a cost of near-term volatility.



Display 2: Value/Growth Performance to Reverse?



Source: Standard & Poor's, Bloomberg

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Look to Value and Remain Risk-On

We have become accustomed to strong market performance over the past year with minimal drawdowns. But recent volatility, which remains mild in relation to long-term equity dynamics, is a reminder of why it is important to continually monitor our overall investment policy and objectives.

As investors, it is paramount to remain disciplined and focused on diversification during these periods. In fact, volatility often creates the opportunity to identify segments of the market which have become oversold or overlooked. As mentioned, we believe lower volatility, higher quality Value oriented stocks both in U.S. sectors and global regions will continue to outperform in this environment. And as before, we continue to be broadly overweight commodities, as a hedge against further rise in inflation.

Q1 '22	Asset Class Views					US Equity Sectors	Asset Class Views				
Broad Assets	--	-	==	+	++	Technology	--	-	==	+	++
<b>Equities</b>						Healthcare			•		
US Equity					•	Cons. Staples					•
Developed Non-US				•		Utilities				•	
Emerging Markets				•		Cons. Discretionary			•		
<b>Fixed Income</b>						Materials			•		
US Rates				•		Industrials			•		
High Yield Credit				•		Financials			•		
Emerging Credit				•		Energy			•		
<b>Commodities</b>						Communications	•				
Crude Oil				•		Real Estate				•	
Gold				•							
Broad Comm.				•							
<b>Global Regional</b>						<b>Commodities &amp; FX</b>					
United States					•	Gold			•		
United Kingdom				•		Silver			•		
Eurozone				•		Crude Oil				•	
Developed Asia	•					Natural Gas			•		
Emerging Asia				•		Agriculture				•	
Latin America				•		Metals				•	
Eastern Europe				•		Developed FX			•		
Frontier Markets				•		Emerging FX			•		

+ , == , - denotes positive, neutral, and negative views, respectively

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*MPCG-22-09*

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