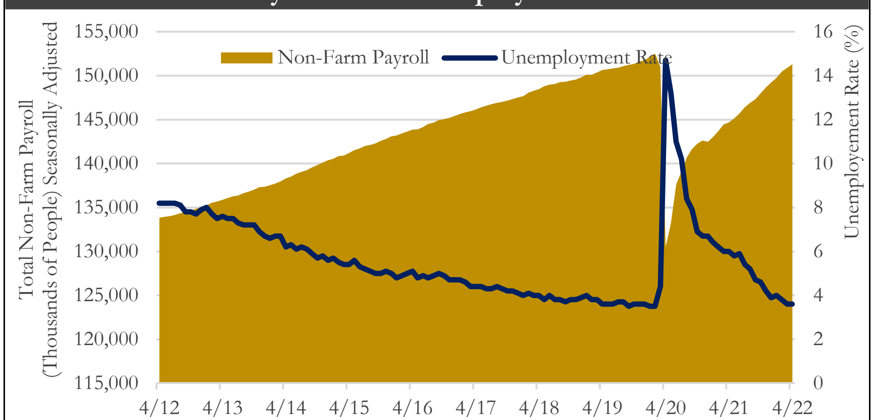
Economic Commentary & Capital Market Update

Recap

Economic activity was off to a solid start in the second quarter. Retail sales rose in April for the fourth straight month. April's unemployment rate of 3.6% remained just a shade above the 50-year low set just before the pandemic. Job openings across the U.S. reached a record high of 11.5 million in March. Data on the production side of the economy were even rosier. Industrial production increased 1.1% in April while manufacturing output (which comprises about 75% of total industrial output) increased 0.8%. Despite all the supply chain woes, labor shortages, and uncertainty, American factories are producing more goods than they were before the pandemic.

Total Non-Farm Payrolls and Unemployment Rate



Source: U.S Bureau of Labor Statistics

However, demand for goods, while remaining well above its pre-pandemic trend, is beginning to show tentative signs of reversing. In addition, production elsewhere in the world, most notably in China, has been disrupted due to strict COVID policies and disruptions from the war in Ukraine. In short, supply chains are not fixed, demand is still somewhat unbalanced, and the labor market is still tight. That said, industry appears to be steadily returning to some semblance of normality.

One sector of the U.S. economy that did show tentative signs of cooling: the housing market. Both housing starts and existing home sales declined in April, hitting the lowest level since June 2020. Still, the rapid pace at which homes continue to sell is evidence that demand is unlikely to completely collapse even as borrowing costs climb higher. Furthermore, while home price growth looks set to slow, remarkably low inventory levels stand to keep home price appreciation firmly in positive territory. Small businesses have also flashed warning signs on the U.S. economy as

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inflation, supply-chain snarls, a shortage of workers, and rising interest rates darken the outlook for entrepreneurs.

The U.S. economy started the year on the wrong foot. Real GDP declined 1.4% on a quarterly basis in Q1-2022. On top of a relatively smaller inventory build, imports surged well ahead of the pace of exports during the first quarter, widening the trade deficit substantially. Together, inventories and net exports subtracted 4.0 percentage points off of the top-line real GDP growth during the quarter. The core parts of GDP, which better reflect underlying economic activity, advanced solidly, with growth in consumer spending, business investment, and residential investment all rising during the quarter.

Continued growth in these core segments of the economy has been a timely reminder that households and businesses have remained in strong financial shape thanks in large part to accommodative fiscal and monetary policy for much of the past two years.

Consumer spending growth should slow. Moreover, the absence of fiscal and monetary stimulus means economic growth is set to moderate significantly, a slowdown amplified by inflation pressures. Real GDP growth should amount to 2.4% for 2022 as a whole and growth should cool to 2.0% in 2023.

Inflation remaining persistently high has been another factor contributing to the slowdown. While inflation has likely peaked, and price pressures should abate somewhat over the remainder of the year, the climb down should remain challenging. COVID-related lockdowns in China have presented some new uncertainty regarding the pace at which goods prices will decelerate. What's more, with no resolution to the war in Ukraine in the foreseeable future, energy and food prices stand to remain elevated with an increased risk of moving higher.

Labor Market

April's employment report showed continuing strong job growth. While the labor force participation rate declined, labor supply should continue to trend higher as weaker household finances and abundant job opportunities bring more individuals back into the market. The upward trend in labor demand has lost steam in recent months, but job openings and the share of businesses reporting difficulty filling positions remain near record highs. This strong demand backdrop has further affirmed the expectation for the unemployment rate to resume its downward march and reach 3.2% within the first half of 2023. Further tightening in the labor market should keep compensation growth hot. However, tighter monetary

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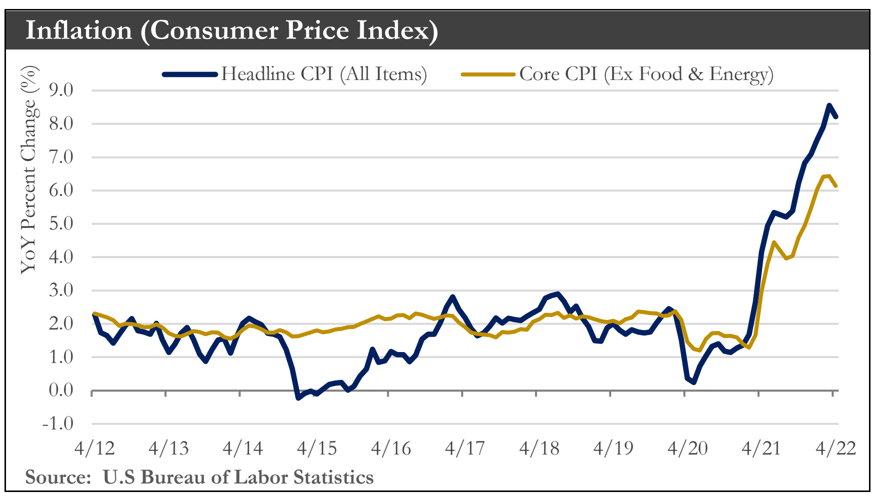
policy, inflation, and an unsustainably tight labor market will lead to noticeably slower job growth through 2023, pushing the unemployment rate up in the second half of 2023.

Inflation

April's consumer price data has given some weight to the notion that inflation may have peaked in the United States, with the CPI decelerating on both a month-on-month and a year-over-year basis. While the directional improvement is welcome, inflation continues at a blistering pace with prices up 8.3% over the past year. What's more, progress on the inflation front could come dangerously close to stalling this summer. Shelter inflation is yet to peak, food and energy prices remain pressured by the fallout from the crisis in Ukraine and easing in core goods inflation is likely to be slow amid further trade disruptions stemming from China's lockdowns. More generally, the exceptionally tight jobs market is keeping the heat turned up on labor costs. Inflation will remain slow to fall back as a result. The Fed's preferred gauge of PCE inflation should continue to stay comfortably above 4% by the end of 2022.



Housing Market

One part of the economy that already appears to be losing a bit of momentum is the housing market. Mortgage rates have moved sharply higher in recent weeks and now stand above 5.0%. Higher financing costs have further eroded affordability at a time when home prices continue to rise at a double-digit pace and inventory levels continue to hover at near-

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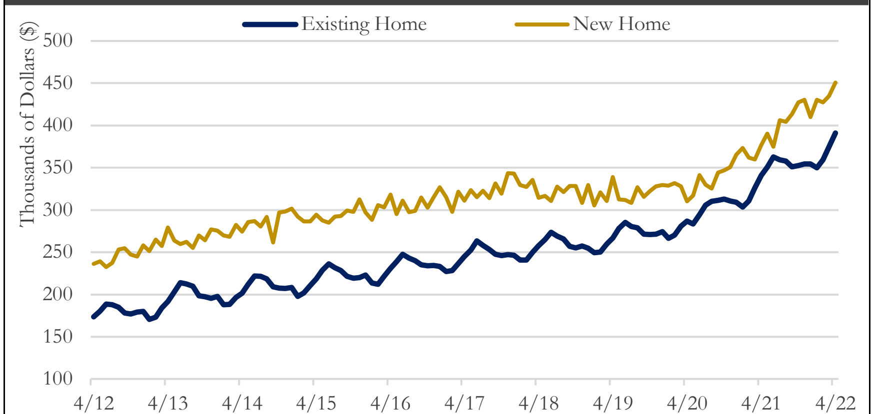
record lows. The residential sector has embodied many of the challenges facing the U.S. economy over the past two years. Supply is severely constrained, all while demand has been hot. Some slowing now seems inevitable, but buyer demand is likely to remain resilient thanks to an incoming wave of young Millennial buyers.

U.S. Home Median Sales Price



Source: U.S. Census Bureau, National Association of Realtors

Monetary Policy

The Fed will likely raise the effective federal funds rate at a slightly more aggressive pace this year. The Fed started with a 25-basis point hike at its March meeting and followed up with a 50-basis point hike after its most recent meeting in early May. Inflation has continued to run well above its target, meaning that the Fed is likely to continue with a string of 50-basis point moves throughout the summer. Specifically, look for 50-basis point hikes at the June, July, and September FOMC meetings. Furthermore, five more 25-bps rate hikes over the next two years are expected, with the fed funds rate peaking at a 3.50%-3.75% range in Q2-2023.

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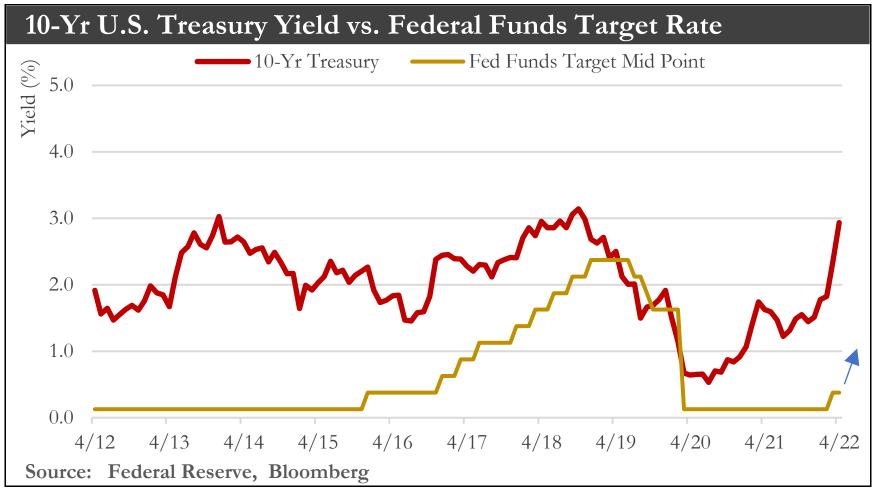
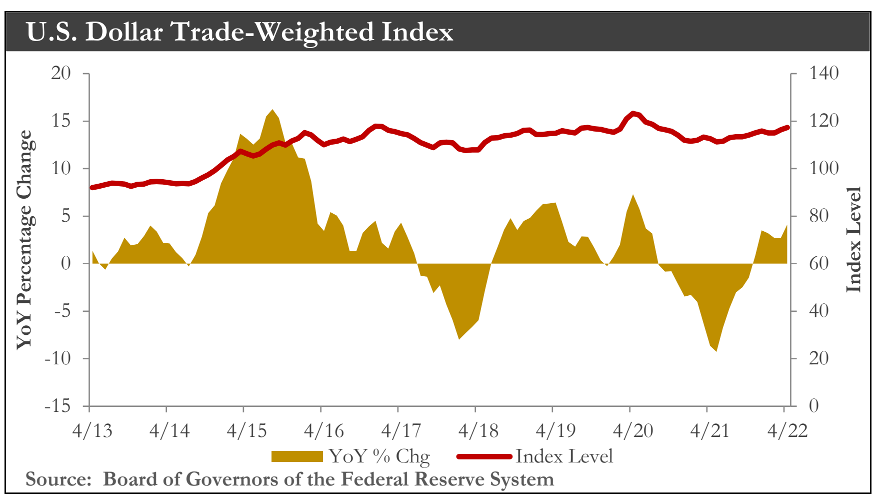


U.S. Dollar

The combination of firming interest rate hike expectations and heightened geopolitical tensions have led to a meaningful appreciation in the U.S. dollar vis-à-vis most G10 and emerging market currencies and this trend is likely to continue. As the Fed tightens policy aggressively, capital flows should revert toward the United States. Consequently, the dollar should benefit and strengthen against G10 and developing currencies going forward. The emerging market currencies have been the most vulnerable against this backdrop, especially as political risks rise and central banks across the developing world run out of space to lift interest rates. Currencies in Latin America would weaken the most as election-related risks in Brazil and Columbia



weigh on each currency, and as political instability in Chile and Peru

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Places depreciation pressure on their respective currencies. As far as the G10 currencies, financial markets may be priced for too much tightening by many foreign central banks. As markets adjust to a more gradual pace of tightening abroad, G10 currencies should weaken giving the U.S. dollar a tailwind.

Eurozone

Eurozone growth appears to be softening somewhat but has remained reasonably resilient considering the Ukraine crisis and elevated energy prices. Meanwhile, headline inflation has moved sharply higher, driven by gains in energy prices, and inflation trends look likely to remain elevated for some time.

Given steady enough growth and faster inflation, the European Central Bank (ECB) is expected to raise policy rates by September, or perhaps even earlier. While that might help to limit euro declines, with the ECB moving more gradually than the Fed, moderate softness is anticipated in the single European currency over the medium term. Based on the current fluid situation, the Eurozone GDP growth forecast for 2022 has come down slightly to 3.0%.

Global Economy

Accelerating inflation, the war in Ukraine, and lockdowns in China dented international commerce in April, a sign the global economy has entered a rough patch as policymakers battle to sustain growth.

The war is intensifying the supply-chain disruptions and inflation that many countries were facing because of the pandemic. Price pressures could strengthen more than anticipated in the coming months and prompt more aggressive financial tightening measures from policymakers. That, in turn, would further dent the growth in both rich and developing worlds, while risking widespread debt distress among highly indebted lower-income nations and corporate borrowers.

Global economic growth is expected to slow significantly this year as the repercussions of the war in Ukraine have spread worldwide, a setback for many nations already grappling with the Covid-19 pandemic and rising inflation and interest rates. The world's economy is still expected to expand 3.5% this year, down from 6.1% last year.

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Outlook

The global economy is in danger of entering a period of high inflation and weak growth which could erode living standards around the world. Inflation, particularly the rising cost of food and energy, is becoming a greater longer-term concern and will be a dominant theme among global leaders in the months ahead.

Americans accumulated savings during the pandemic, as many reduced expenses and received government stimulus. That is now reversing. The savings rate fell in the first quarter to the lowest in nine years. For now, the fundamentals of the U.S. economy are solid, with households still in a strong position financially. The underlying strength of household and business balance sheets is one of the reasons why the U.S. economy is expected to maintain a positive trajectory in 2022.

Downside Risks

But the risk of a recession in the U.S. has risen in recent weeks, and certain supply-related problems—such as supply chains disrupted by Covid-19 lockdowns in China and the Ukraine war—could be largely beyond the ability of central banks to address.

One risk is that persistently high inflation could ultimately cause consumers to cut spending and businesses to slow hiring to maintain profit margins. If that happens, there would, for a period at least, be high inflation and rising unemployment—a combination generally known as stagflation that defined the 1970s.

A combination of higher inflation and rising interest rates could weaken the balance sheets of households and businesses, leading to an increase in delinquencies, bankruptcies, and other forms of financial distress. Households could be affected by job losses, higher interest payments, and a reduction in house prices caused by higher mortgage rates and decreased housing demand.

However, vulnerabilities from business and household debt are moderate due, in part, to a strong labor market, high personal savings, remaining pandemic relief programs, and rising house prices. A prolonged conflict in Ukraine could have adverse consequences on U.S. financial markets, particularly through exposure to tumult in commodities markets. Meanwhile, business credit quality could be eroded by a steep rise in rates that would increase business borrowing costs, which in turn could have negative consequences on employment

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and business investment.

The United States in many ways is best positioned to meet these challenges, given the strength of the labor market and the economy. However, there could be some pain involved in the U.S. as the Fed moves to raise interest rates further to tamp down high inflation.

Sources: Department of Labor, Department of Commerce, Morningstar, Bloomberg

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Index Performance as of: 5/31/2022

	1 Week	1 Month	QTD	3 Month	YTD	1 Year	3 Year	5 Year	10 Year
Russell									
3000 Value	3.32	1.94	-3.95	-1.29	-4.76	0.35	12.70	9.38	11.96
3000	5.05	-0.13	-9.10	-6.15	-13.89	-3.69	15.60	12.75	14.00
3000 Growth	7.01	-2.30	-14.11	-10.92	-22.06	-7.61	17.50	15.50	15.68
1000 Value	3.21	1.94	-3.81	-1.09	-4.52	0.93	12.75	9.50	12.06
1000	5.01	-0.15	-9.05	-5.98	-13.72	-2.71	16.02	13.12	14.24
1000 Growth	7.04	-2.32	-14.12	-10.76	-21.88	-6.26	18.31	16.14	16.06
Mid Cap Value	4.58	1.92	-4.14	-1.22	-5.88	-0.06	13.37	9.10	12.31
Mid Cap	5.33	0.08	-7.63	-5.26	-12.87	-6.78	12.86	10.48	12.78
Mid Cap Growth	7.07	-3.87	-14.69	-13.33	-25.43	-18.72	9.44	10.65	12.59
2000 Value	5.06	1.92	-5.99	-4.15	-8.25	-7.67	12.21	7.83	10.71
2000	5.67	0.15	-9.77	-8.65	-16.56	-16.93	9.70	7.72	10.83
2000 Growth	6.41	-1.89	-13.93	-13.53	-24.79	-25.73	6.18	6.87	10.55
Standard & Poors									
S&P 500	4.87	0.18	-8.55	-5.16	-12.76	-0.30	16.43	13.39	14.40
Consumer Disc	12.29	-4.85	-17.22	-13.16	-24.69	-11.79	12.23	12.02	15.04
Consumer Staples	1.56	-4.61	-2.17	-0.40	-3.16	9.20	13.71	8.84	11.37
Energy	3.25	15.77	13.99	24.20	58.47	76.10	20.62	10.98	6.81
Financials	4.60	2.73	-7.41	-7.58	-8.78	-4.91	13.35	11.10	14.35
Health Care	0.72	1.44	-3.34	2.04	-5.83	8.69	17.12	13.79	15.93
Industrials	3.95	-0.48	-7.97	-4.86	-10.14	-8.58	11.58	8.73	12.59
Information Technology	6.51	-0.85	-12.04	-8.97	-19.39	1.95	26.26	21.93	20.21
Materials	3.08	1.14	-2.39	3.57	-4.70	0.32	20.23	12.44	12.09
Real Estate	1.93	-5.02	-8.40	-1.26	-14.10	5.11	10.23	10.48	10.55
Communication Services	6.10	1.79	-14.11	-13.29	-24.35	-21.06	9.72	7.22	7.43
Utilities	0.38	4.32	-0.11	10.24	4.65	17.69	12.09	10.30	11.48
Other U.S. Equity									
Dow Jones Industrial Avg.	3.38	0.33	-4.51	-2.14	-8.43	-2.65	12.30	11.88	12.91
Wilshire 5000 (Full Cap)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
International Equity - Broad Market									
MSCI EAFE	2.15	0.75	-5.77	-5.16	-11.34	-10.39	6.43	4.18	7.15
MSCI EM	6.04	0.44	-5.15	-7.29	-11.76	-19.84	4.99	3.80	4.17
MSCI Frontier Markets	1.56	-6.37	-8.91	-9.04	-16.11	-10.34	3.20	2.90	5.60
MSCI ACWI	4.36	0.12	-7.90	-5.90	-12.83	-6.79	11.71	9.01	10.25
MSCI ACWI Ex USA	3.40	0.72	-5.61	-5.46	-10.74	-12.41	6.49	4.42	6.39
MSCI AC Asia Ex Japan	6.19	0.46	-4.73	-7.36	-12.34	-21.61	5.91	4.37	6.30
International Equity - Country Region									
MSCI Brazil	2.56	8.38	-6.48	7.42	27.11	-0.06	-0.55	4.83	0.22
MSCI BRIC	6.23	0.02	-4.56	-10.13	-17.23	-29.80	-0.27	2.34	3.41
MSCI China	8.36	1.18	-2.95	-10.71	-16.73	-35.94	-0.11	1.31	5.04
MSCI Europe	2.65	0.75	-5.05	-5.14	-12.04	-9.76	7.13	4.10	7.36
MSCI India	2.98	-5.82	-7.40	-4.02	-9.12	1.38	9.71	8.59	9.68
MSCI Japan	0.33	1.64	-7.31	-7.78	-13.43	-13.33	5.10	3.67	6.99
MSCI EM Latin America	3.00	8.18	-5.87	6.43	19.80	3.85	1.66	3.33	0.04
Fixed Income									
Barclays U.S. Aggregate	-0.04	0.64	-3.17	-5.86	-8.92	-8.23	0.00	1.18	1.71
ICE BofAML US 3M Trsy Bill	0.02	0.07	0.08	0.11	0.12	0.14	0.69	1.12	0.64
Barclays U.S. Gov't	-0.50	0.19	-2.86	-5.86	-8.23	-7.45	-0.25	0.91	1.09
Barclays U.S. Credit	0.62	0.89	-4.40	-6.80	-11.50	-9.99	0.62	1.83	2.77
Barclays High Yield Corp.	3.02	0.25	-3.32	-4.43	-8.00	-5.27	3.33	3.57	5.42
Barclays Municipal	2.03	1.49	-1.32	-4.52	-7.47	-6.80	0.50	1.78	2.54
Barclays TIPS	0.13	-0.99	-3.02	-4.82	-5.95	-1.45	4.45	3.68	2.00
Barclays Gbl Agg Ex USD	-0.82	0.01	-6.82	-9.81	-12.55	-16.69	-2.65	-0.86	-0.53
Barclays Global Aggregate	-0.46	0.27	-5.22	-8.11	-11.06	-13.22	-1.44	0.08	0.48
JPM EMBI Global Div	1.60	0.03	-5.57	-6.41	-15.03	-15.39	-2.09	0.06	3.22
Alternative Investments									
Alerian MLP	4.91	7.73	7.64	9.84	27.88	27.55	6.13	2.62	2.60
Bloomberg Commodity	-0.42	1.52	5.73	14.87	32.74	41.89	19.82	10.85	0.86
FTSE NAREIT Equity REIT	2.92	-6.23	-10.35	-4.48	-13.81	3.88	7.15	7.40	8.81
S&P Global Natural Res.	2.68	4.74	0.18	7.67	17.01	19.52	18.55	12.71	7.05
S&P N. Amer Natural Res.	3.39	10.04	6.56	16.48	37.86	45.81	20.30	10.42	5.62