MATRIX PRIVATE CAPITAL GROUP

CIO Market Outlook Q3 2022: "What's Next?"

July 2022

CIO Market Outlook Q3 2022: "What's Next?"

Matthew Rubin
Managing Partner,
Chief Investment Officer
MRubin@matrixpcg.com

New York (HQ)
400 Park Avenue 6th Floor
New York, NY 10022

Chicago
311 W. Monroe Street,
Suite 304
Chicago, IL 60606

Los Angeles
10250 Constellation Blvd
Los Angeles, CA 90067

Newport Beach
4041 MacArthur Blvd
Suite 400
Newport Beach, CA 92660

Palm Beach
515 N Flagler Drive
Suite P-300
West Palm Beach, FL 33401

212.254.4876
info@matrixpcg.com
matrixpcg.com

MATRIX
PRIVATE CAPITAL GROUP

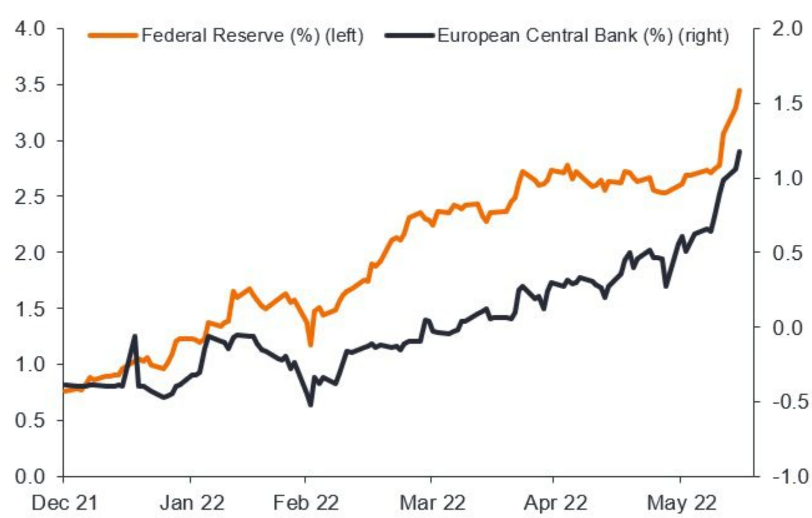
Market Recap

The second quarter was a volatile one for global asset classes as investors remained focused on rising inflation, further rate increases, geopolitical risks, and the potential for a global recession. U.S. stock indices posted negative returns for the second straight quarter, and like in the first quarter, the tech-heavy Nasdaq underperformed primarily due to rising interest rates. Similarly, we saw continued rotation from high valuation, growth-sensitive tech stocks to sectors of the market that are more resilient to rising rates and slowing economic growth. Outside the U.S., China's market managed to buck the downward trend, as markets cheered the government's effort in easing its Covid restrictions. The second quarter also proved difficult for bond markets – an asset class which often outperforms in times of significant volatility – as rising rates hampered bond returns.

Needless to say, the first half of the year has been a challenging one. The silver lining however is that sentiment is very negative at the moment, and a lot of potential "bad news" has been at least partially priced into stocks and bonds at these levels, creating the opportunity for positive 'surprises'. For instance, the speed and scale of the rethink on interest rates has been remarkable. Last September, financial markets had not fully priced in a rate hike from the U.S. Federal Reserve (Fed) for 2022; today, they are indicating that rates will rise by more than 3% in 2022 (See Display 1).

As we all know, markets can be emotionally driven, overshooting both on the upside and downside. Thus, it is crucially important to maintain good investment discipline, and make decisions based on the time-horizon of our investments and not to be overly swayed by short-term market swings.

Display 1: Market Expectations for Interest Rates at the End of 2022

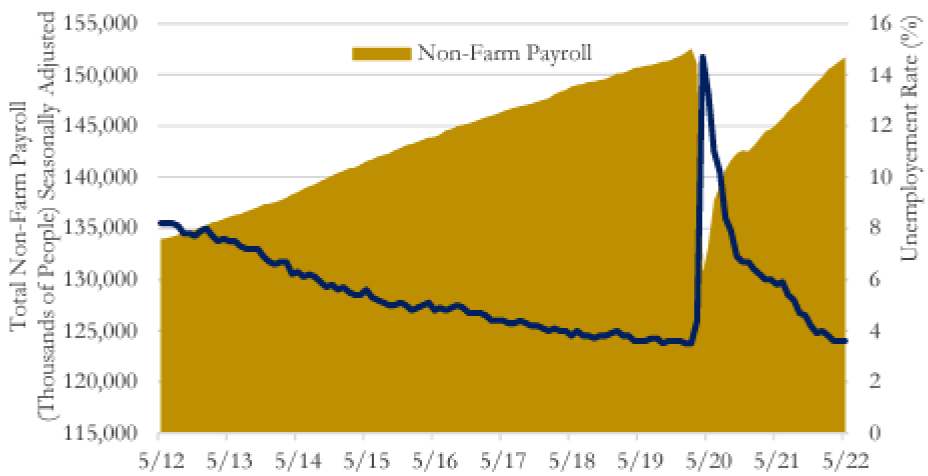


Source: Bloomberg as of June 14,2022

Fed Policy

A question that we are getting more frequently is whether the economy will suffer a 'soft' or 'hard' landing, given the aggressive rate hike policies. Historically, the Fed has not been able to use monetary policy to temper inflation without putting the economy into recession and, hence, we believe that this again will be the case. However, the better question is whether the economy will suffer a mild or deep recession. It is our belief that if the Fed doesn't overstep with interest rate hikes, we are likely to experience a mild recession, much more akin to that of 1990 than to 2001 or 2008, as many areas of the market, such as banks, are in much better shape.

Display 2: Total Non-Farm Payrolls and the Unemployment Rate



Source; U.S. Bureau of Labor

Looking forward, we believe that how effectively policymakers remove accommodations from global economies will remain a crucial theme over the next few years. In the near-term, we expect economic and job growth will moderate but remain strong toward year-end (See Display 2). Core measures of inflation (removing volatile food and energy prices) are similarly expected to moderate throughout the year but remain at levels well above the Fed's 2% target.

Portfolio Positioning

Given this macroeconomic backdrop, we have an overall quality bias to our tactical asset allocation recommendations. Within the context of one's long-term strategic allocation, we remain slightly overweight the U.S. equity market relative to both international developed and emerging market equities.

New York (HQ)
400 Park Avenue 6th Floor
New York, NY 10022

Chicago
311 W. Monroe Street,
Suite 304
Chicago, IL 60606

Los Angeles
10250 Constellation Blvd
Los Angeles, CA 90067

Newport Beach
4041 MacArthur Blvd
Suite 400
Newport Beach, CA 92660

Palm Beach
515 N Flagler Drive
Suite P-300
West Palm Beach, FL 33401

212.254.4876
info@matrixpcg.com
matrixpcg.com

MATRIX
PRIVATE CAPITAL GROUP

We prefer more stable and lower volatility sectors like healthcare, consumer staples and utilities to those higher growth and more volatile sectors like technology and telecommunications. With higher interest rates, we believe we will see weakness in consumer spending and maintain an underweight within the consumer discretionary sector.

Within fixed income, we are also overweight the U.S. relative to non-U.S. and emerging market debt. We prefer higher quality fixed income instruments and have begun to increase our allocations to municipal bonds, while maintaining our discipline around duration. We maintain a modest overweight to commodities in aggregate, with a slight preference towards oil, natural gas, and agriculture as it appears global geopolitical tensions will continue to hamper supply.

Overall, we believe the second half of 2022 will be a challenging time for global markets as the world continues to digest tighter monetary policies. It is now more critical than ever to examine one's strategic asset allocation in order to appropriately manage the risks as well as the opportunities present for the remainder of the year.

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

Cross-Asset Outlook: Jul '22

Jul '22 — Asset Class Views

Broad Assets	– –	–	==	+	++
Equities					
US Equity			●		
Developed Non-US			●		
Emerging Markets			●		
Fixed Income					
US Rates				●	
High Yield Credit		●			
Emerging Credit		●			
Commodities					
Crude Oil				●	
Gold			●		
Broad Comm.			●		

Asset Class Views

US Equity Sectors	– –	–	==	+
Technology			●	
Healthcare				●
Cons. Staples				●
Utilities				●
Cons. Discretionary	●			
Materials			●	
Industrials			●	
Financials			●	
Energy				●
Communications		●		
Real Estate			●	

Global Regional	– –	–	==	+	++
United States				●	
United Kingdom					●
Eurozone		●			
Developed Asia	●				
Emerging Asia		●			
Latin America				●	
Frontier Markets			●		

Commodities & FX	– –	–	==	+
Gold			●	
Silver		●		
Oil				●
NaturalGas				●
Agriculture				●
Metals			●	
DevelopedFX	●			
EmergingFX		●		

New York (HQ)
400 Park Avenue 6th Floor
New York, NY 10022

Chicago
311 W. Monroe Street,
Suite 304
Chicago, IL 60606

Los Angeles
10250 Constellation Blvd
Los Angeles, CA 90067

Newport Beach
4041 MacArthur Blvd
Suite 400
Newport Beach, CA 92660

Palm Beach
515 N Flagler Drive
Suite P-300
West Palm Beach, FL 33401

212.254.4876
info@matrixpcg.com
matrixpcg.com

MATRIX
PRIVATE CAPITAL GROUP

DISCLOSURES

We do not represent that the information contained herein is accurate or complete, and it should not be relied upon as such. Opinions expressed herein are subject to change without notice. Certain information contained herein (including any forward-looking statements and economic and market information) has been obtained from published sources and/or prepared by third parties and in certain cases has not been updated through the date hereof. While such sources are believed to be reliable, Matrix Private Capital Group does not assume any responsibility for the accuracy or completeness of such information. Matrix Private Capital Group does not undertake any obligation to update the information contained herein as of any future date.

Matrix Private Capital Group is an investment adviser registered with the U.S. Securities and Exchange Commission. Registration does not imply a certain level of skill or training. More information about Matrix Private Capital Group including its advisory services and fee schedule can be found in Form ADV Part 2 which is available upon request.
MPCG-22-53

New York (HQ)
400 Park Avenue 6th Floor
New York, NY 10022

Chicago
311 W. Monroe Street,
Suite 304
Chicago, IL 60606

Los Angeles
10250 Constellation Blvd
Los Angeles, CA 90067

Newport Beach
4041 MacArthur Blvd
Suite 400
Newport Beach, CA 92660

Palm Beach
515 N Flagler Drive
Suite P-300
West Palm Beach, FL 33401

212.254.4876
info@matrixpcg.com
matrixpcg.com

MATRIX
PRIVATE CAPITAL GROUP