Economic Commentary & Capital Market Update

Recap

The U.S. economy entered the second half of 2022 on a less-shaky footing than initially estimated. U.S. GDP contracted at a 0.6% annual rate from April to June, compared with an initial estimate of a 0.9% decline. One factor was an upward revision of consumer spending, which accounts for the bulk of U.S. economic output.

Still, the new GDP figures offered fresh evidence that the housing market has struggled under the weight of rising borrowing costs. Other recent economic figures pointed to a slowdown: An S&P Global purchasing managers index that measures activity in manufacturing and services was 45.0 in August, down from 47.7 in July, indicating a contraction. Business and consumer spending has also cooled. New orders for durable goods were unchanged in July compared with the prior month. Moreover, retail sales were flat in July.

There are signs that the U.S. labor market has remained strong: employers added 528,000 jobs in July and 315,000 in August, completing the recouping of the 22 million positions lost in the early months of 2020. The U.S. unemployment rate fell to 3.5%, matching a 50-year low. The strong labor market - and wage pressures that it has created - will continue to drive inflation.

Source: U.S. Board of Governors of the Federal Reserve System

Meanwhile, sentiment indicators also surprised to the upside. The ISM readings for the manufacturing sector slipped modestly but came in above

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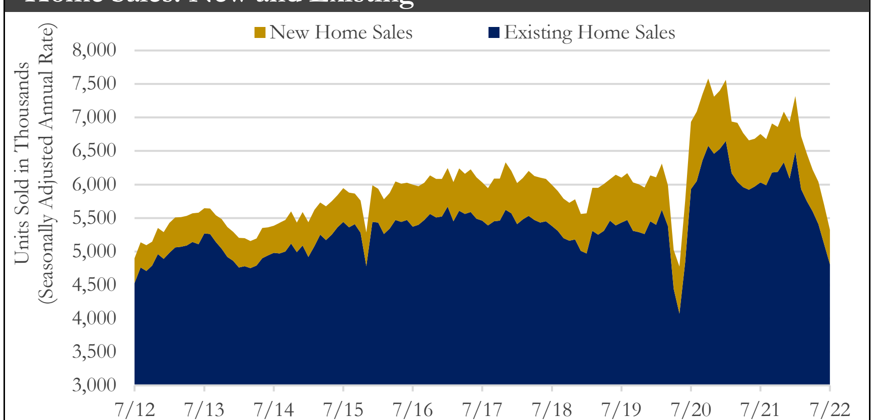
expectation. Demand has slowed with new orders contracting for the second month in a row. Still, this has come with less pressure on suppliers, as supplier delivery times rose at their slowest pace since before the pandemic. The ISM services index pointed to a broad pickup in services activity, proving again that there is still plenty of pent-up demand. The gap between the supplier deliveries time and the rest of the index's drivers narrowed in July and August – a month after a similar improvement in the manufacturing sector.

Overall, the U.S. economic recovery has followed an unusual trajectory, with weakening output but strong job gains. The Federal Reserve has been increasing interest rates as it works to curb inflation without severely cutting output.

Housing

It has become increasingly apparent that the housing sector is in a downturn. Real residential investment fell 16.2% in Q2, more than any other major sub-component of overall GDP. The plummet in residential investment has reflected the recent pullback in home buying brought on by higher mortgage rates. Aside from May's modest gain, new home sales have fallen in each month of 2022 so far. Continued weakness in pending home sales would suggest that home sales have further to fall.

Home Sales: New and Existing



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

Existing home sales fell for a sixth-straight month to the lowest level in over two years. The near doubling in mortgage rates over the past year has more clearly started to weigh on prices. With sale prices under pressure, builders have continued to scale back plans for new construction. If there

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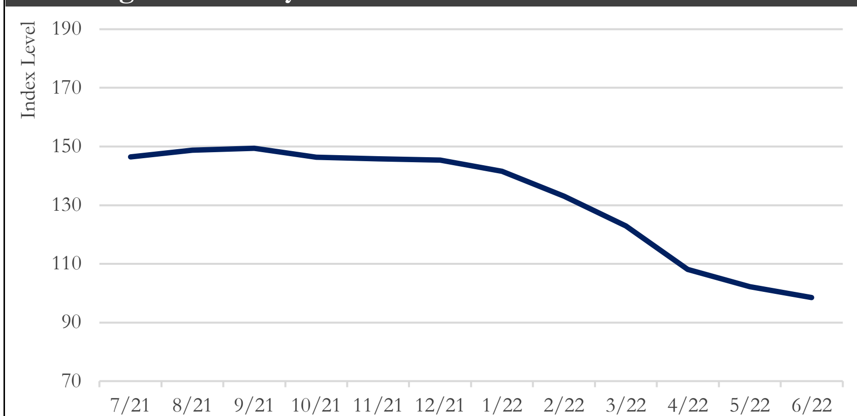
is a modicum of good news for the housing sector, it is that mortgage rates have come down slightly in recent weeks. Builders have also moved forward with multifamily units, limiting the total hit to housing supply from single-family construction declining under the weight of reduced affordability.

Housing Affordability Index



Source: National Association of Realtors

Labor Market

Monthly job growth has averaged around 500,000 through the first eight months of the year, while the unemployment rate has continued to drift lower. Labor demand have remained near historic highs, while the pool of available workers has continued to shrink – as evidenced by the core working age participation rate nearing pre-pandemic levels. Combined with slowing economic growth, this should give way to a weaker pace of hiring over the coming months, leading to a gradual increase in the unemployment rate.

As time passes, inflation will cool further as the economy weakens, and as a result rate cuts could begin in Q3-2023. In the near term, Fed tightening should push Treasury yields up across the entire curve, with yields on shorter-dated securities rising more than longer-dated ones. Once the FOMC is done tightening, however, the Treasury curve should start steepening again as rate cuts come more sharply into view.

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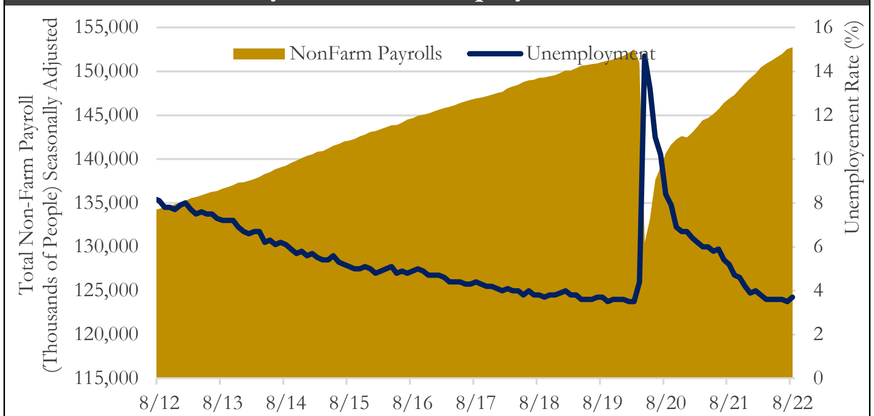
Total Non-Farm Payrolls and Unemployment Rate



Source: U.S Bureau of Labor Statistics

Inflation

U.S. inflation eased slightly but remained close to a four-decade high in July despite cooling energy prices. The consumer price index rose 8.5% in July from the same month a year ago, down from 9.1% in June. Core CPI increased 5.9% from the same month a year ago, a sign that broad price pressures have remained in the economy. The drop in inflation can be attributed primarily to lower commodity prices throughout July. Energy, agriculture, and precious metals prices all softened last month, which alleviated upward pressure on inflation.

Many of the underlying causes of excessive inflation are the same as they have been over the past year or so—supply chain issues, including those related to China's COVID containment policies, constrained housing supply, ongoing conflicts in Ukraine, fiscal stimulus, and limited domestic energy production.

With the FOMC dropping its forward guidance and moving to a data-dependent "meeting-by-meeting" assessment, July's inflation data alongside the strong employment report will give policymakers incentive to raise rates by 50-75 bps at its next meeting in September.

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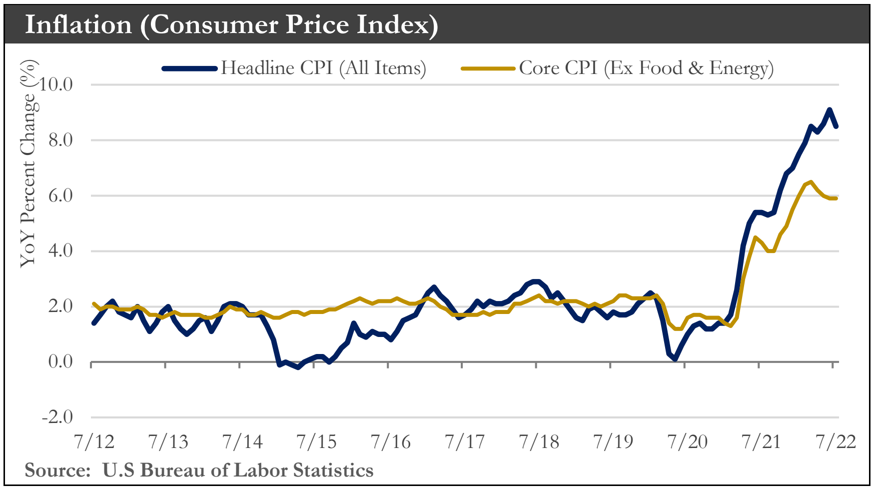

Monetary Policy

The Federal Reserve has been confronted with the challenge of tightening monetary policy enough to reduce inflation without quashing growth. July's job report showed the economy still firing on many cylinders, making it more likely central bank officials would raise rates to higher levels and keep rates at those levels for longer to cool the economy. The behavior of wages has been particularly important to the Fed right now because of concerns that companies are raising wages because they can pass higher labor costs onto consumers as a result of the current inflationary environment.

A slowdown in inflation in July, following recent indications of a robust labor market, has complicated the Federal Reserve's decision on how much to raise interest rates in September. July's inflation report kept the Fed's door open to a half-point rate increase in September if subsequent data confirmed price pressures were easing. But a 0.75-point rise could remain possible after recent reports of accelerating growth in jobs and wages have pointed to significant income gains that could sustain stronger spending and higher prices.

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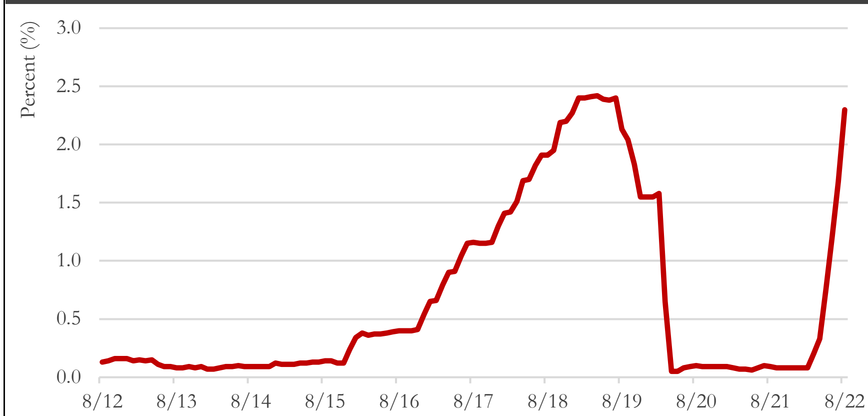

Source: Board of Governors of the Federal Reserve System

Outlook

Both the U.S. and global economic outlooks have dimmed over the past quarter. U.S. inflation is running close to a 40-year high, while unemployment is at half-century lows. Global economies are reeling from the effect of multiple shocks—the coronavirus pandemic, a massive fiscal and monetary policy response, and the fallout from Russia's war in Ukraine. Central bankers could soon confront difficult trade-offs between bringing down inflation and preventing a large rise in unemployment.

The higher interest rates required to fight inflation will further cool demand. The U.S. could see substantial downgrades to economic growth, as interest-rate-sensitive sectors bear the brunt of the markdowns. Growth is expected to fall meaningfully below its long-run trend pace, and unemployment rates would rise from their current low levels. A recession is not necessarily in the cards, but with growth close to stall speed, there is a very thin margin for error if another shock hits economies. Higher interest rates are needed to control inflation from getting out of control throughout much of the world, fanned by the knock-on effects of the war in Ukraine on commodity prices. The path of the conflict could remain highly uncertain, but, six months in, it is clear that Russian energy will be constrained on international markets for quite some time, prolonging high energy prices. With all this uncertainty, monetary authorities have their work cut out for them trying to reduce excess demand for goods and services as well as labor, without snuffing out the economy's growth entirely.

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U.S. growth is expected to slow towards year-end as the monetary pendulum swings from accommodative to outright restrictive by later this fall. Growth is expected to decelerate to 0.9% on a Q4/Q4 basis and average 2.2% for 2022 – a marked slowdown from last year's 5.7%.

Sources: Department of labor, Department of Commerce, Morningstar, Bloomberg, Institute for Supply Management

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Index Performance as of: 8/31/2022

	1 Week	1 Month	QTD	3 Month	YTD	1 Year	3 Year	5 Year	10 Year
Russell									
3000 Value	-3.79	-2.99	3.62	-5.51	-10.00	-6.49	8.95	7.77	10.44
3000	-4.41	-3.73	5.30	-3.51	-16.92	-13.29	11.90	11.29	12.77
3000 Growth	-5.01	-4.44	6.98	-1.38	-23.13	-19.45	13.95	14.23	14.75
1000 Value	-3.74	-2.98	3.45	-5.58	-9.85	-6.23	8.86	7.87	10.52
1000	-4.40	-3.84	5.12	-3.69	-16.90	-12.97	12.13	11.61	12.98
1000 Growth	-5.03	-4.66	6.78	-1.67	-23.19	-19.07	14.51	14.78	15.09
Mid Cap Value	-3.87	-3.06	5.28	-6.29	-11.80	-7.80	9.55	7.49	10.81
Mid Cap	-4.11	-3.14	6.42	-4.20	-16.53	-14.83	9.36	9.17	11.61
Mid Cap Growth	-4.55	-3.28	8.56	0.45	-25.09	-26.71	6.98	10.16	12.06
2000 Value	-4.61	-3.16	6.21	-4.28	-12.17	-10.19	10.37	6.56	9.49
2000	-4.68	-2.05	8.18	-0.72	-17.16	-17.89	8.59	6.95	10.01
2000 Growth	-4.74	-0.94	10.15	3.33	-22.29	-25.27	5.93	6.69	10.16
Standard & Poors									
S&P 500	-4.45	-4.08	4.77	-3.88	-16.14	-11.23	12.39	11.83	13.08
Consumer Disc	-5.16	-4.57	13.51	1.25	-23.75	-16.18	10.04	12.57	14.50
Consumer Staples	-3.68	-1.75	1.48	-1.06	-4.18	4.09	9.84	9.22	10.60
Energy	-3.10	2.83	12.82	-6.14	48.75	75.84	18.64	10.25	4.88
Financials	-3.53	-2.01	5.05	-6.40	-14.62	-12.38	9.42	8.27	12.66
Health Care	-3.67	-5.78	-2.65	-5.24	-10.77	-6.30	13.39	10.98	14.42
Industrials	-4.65	-2.81	6.43	-1.44	-11.44	-9.71	9.00	8.07	11.81
Information Technology	-5.85	-6.12	6.59	-3.35	-22.09	-14.35	20.53	19.92	18.74
Materials	-4.37	-3.47	2.45	-11.73	-15.88	-10.09	12.36	8.74	10.04
Real Estate	-3.63	-5.61	2.44	-4.63	-18.07	-9.70	5.57	8.52	9.18
Communication Services	-3.40	-4.20	-0.64	-8.28	-30.61	-35.21	4.51	5.36	5.53
Utilities	-2.76	0.51	6.04	0.76	5.45	11.73	9.41	9.84	11.31
Other U.S. Equity									
Dow Jones Industrial Avg.	-4.30	-3.72	2.84	-3.90	-12.01	-9.07	8.33	9.88	11.77
Wilshire 5000 (Full Cap)	-4.40	-3.62	5.61	-3.30	-17.52	-14.53	11.54	11.01	12.56
International Equity - Broad Market									
MSCI EAFE	-2.56	-4.75	0.00	-9.28	-19.57	-19.81	2.39	1.63	5.00
MSCI EM	0.94	0.42	0.17	-6.49	-17.49	-21.82	2.73	0.59	2.92
MSCI Frontier Markets	-0.72	1.81	3.07	-2.43	-18.15	-16.60	1.29	1.11	5.07
MSCI ACWI	-3.41	-3.68	3.04	-5.64	-17.75	-15.89	8.03	6.97	8.70
MSCI ACWI Ex USA	-1.70	-3.22	0.10	-8.51	-18.34	-19.53	2.87	1.67	4.48
MSCI AC Asia Ex Japan	1.90	-0.01	-1.22	-5.65	-17.30	-21.74	3.84	1.51	5.16
International Equity - Country Region									
MSCI Brazil	-4.58	6.40	12.28	-9.23	15.37	-6.14	-3.33	-0.18	-1.04
MSCI BRIC	2.43	1.93	-1.72	-1.48	-18.45	-25.51	-0.88	-0.53	2.86
MSCI China	4.10	0.22	-9.30	-3.34	-19.51	-28.20	-2.19	-2.34	4.65
MSCI Europe	-3.30	-6.23	-1.59	-11.38	-22.05	-21.59	2.22	1.23	4.70
MSCI India	1.56	4.11	13.81	6.14	-3.54	-3.17	15.16	8.61	9.47
MSCI Japan	-1.54	-2.55	3.00	-5.13	-17.87	-18.97	2.31	1.97	6.23
MSCI EM Latin America	-4.52	2.72	7.10	-11.11	6.49	-7.09	-1.47	-1.69	-1.59
Fixed Income									
Barclays U.S. Aggregate	-0.37	-2.83	-0.45	-2.01	-10.75	-11.52	-1.99	0.52	1.35
ICE BofAML US 3M Trsy Bill	0.04	0.16	0.21	0.23	0.36	0.37	0.57	1.12	0.66
Barclays U.S. Gov't	-0.14	-2.46	-0.92	-1.78	-9.87	-10.70	-2.20	0.33	0.85
Barclays U.S. Credit	-0.57	-2.83	0.12	-2.49	-13.70	-14.44	-2.14	0.95	2.17
Barclays High Yield Corp.	-1.64	-2.30	3.46	-3.50	-11.22	-10.60	1.03	2.58	4.51
Barclays Municipal	-0.29	-2.19	0.39	-1.25	-8.62	-8.64	-0.83	1.28	2.25
Barclays TIPS	-1.23	-2.66	1.58	-1.64	-7.49	-5.98	2.65	3.22	1.73
Barclays Gbl Agg Ex USD	-0.97	-4.99	-3.17	-7.52	-19.13	-22.06	-6.35	-3.11	-1.61
Barclays Global Aggregate	-0.69	-3.95	-1.90	-5.05	-15.55	-17.62	-4.39	-1.46	-0.28
JPM EMBI Global Div	-1.20	-0.95	1.92	-4.41	-18.78	-20.83	-5.24	-1.33	1.91
Alternative Investments									
Alerian MLP	-3.39	3.98	16.96	0.64	28.70	33.36	7.51	3.67	1.66
Bloomberg Commodity	-2.44	0.09	4.35	-6.89	23.59	27.74	17.15	8.75	-1.15
FTSE NAREIT Equity REIT	-3.86	-5.97	2.54	-5.06	-18.17	-9.96	3.28	5.63	7.45
S&P Global Natural Res.	-3.81	0.66	4.21	-12.17	2.78	9.21	13.48	8.26	4.82
S&P N. Amer Natural Res.	-4.07	0.62	8.11	-9.14	25.27	40.85	16.27	8.55	3.45