

MARKET OUTLOOK | FRANCIS J. PERFETUO, JR., CFA

We hope you are enjoying the summer!

As we enter the 3rd quarter of 2022, I wanted to connect with you on current news, ongoing developments, and provide an update on market performance:



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- In the news:
 - o The Federal Reserve (Fed) has now raised interest rates 3 times in 2022 for a total of 150bps. They also continue to signal that they will keep raising rates throughout the year based on their data points. The goals of this shift in monetary policy are to help fight inflation and to keep the economic recovery on track, with the hopes of avoiding a recession
 - o After another strong year in 2021, certain markets have continued to struggle for the first 6 months of 2022. For the rest of 2022, we expect slowing economic growth, a continued strong labor market, strong consumer demand, healthy earnings, and continued improvements in global supply chains, all while the Fed deals with the challenges of managing inflation
 - o The hostilities in Ukraine continue to add to the existing inflation problem and put strain on the global economy
- Developments to monitor:
 - o The Fed and Inflation – investors are closely monitoring the Fed for any changes to their plans. With inflation pressures not yet abating we can expect the Fed to stay aggressive until we have evidence that inflation has peaked, and this could keep pressure on the markets
 - Contributing to the recent 9.1% inflation spike is healthy consumer demand, higher energy prices, Ukraine related sanctions, global supply chain disruptions, and the improved labor market/wage growth.
 - One important fact is that this measure of CPI is backward looking, so real-time reductions in fuels and food related commodities like wheat may be leading us to a lower inflation figure next month – and this would be a positive for the markets
 - o Recessionary concerns are growing – if the economy slows too much we could enter a short recession mostly likely in 2023
 - o Earnings – 2nd quarter earnings are just starting. Although it is too soon to make broad based comments we are optimistic that current economics will support healthy earnings. This should continue to support current market valuations and a more favorable outlook.
 - o Mid-Term Elections – it is still early but the impact on the upcoming mid-term elections and the current political landscape is worth monitoring for larger economic and policy shifts.
- Market Performance for YTD 2022 (1/1/22 - 06/30/22):
 - o Equity Benchmarks 1
 - S&P 500 (US Large Caps): -19.9%
 - Russell 2000 (US Small Caps): -23.4%
 - MSCI EAFE (International Developed): -19.6%
 - o Fixed Income Benchmark 1,2
 - ICE BofAML US Corp & Govt 1-10 Yr A-Rated (Bonds): -6.0%
 - Barclays US Aggregate Bond Index (Bonds): -10.4%

- Fixed Income markets have been impacted by the rise in interest rates causing pricing pressures for bonds
 - o Alternative Investment Benchmark 3
 - HFRX Global Hedge Fund Index (Alternative Investments): -3.0%

While we are not happy with recent market performance, we know that volatility and short term Market weakness is normal under current conditions. We are quite happy with the performance of our Alternative Investment Portfolio which has produced strong results in 2022. Our portfolio is well positioned for a more stable market environment with a primary focus on risk management and diversification. This approach continues to produce long term and sustainable investment results.

I will continue to monitor all market developments with a particular focus on the Fed and inflation, interest rates, Ukraine, corporate earnings, and the overall economic landscape.

As always, thank you for your trust and confidence in our Team!

1 Source: Blackrock

2 Source: ICE Index Platform

3 Source: HedgeFundResearch.com (Returns through 5/31/22)

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