MARCH 2022 MARKET REVIEW

Global equities staged a comeback in March after falling into correction territory for the first time since early 2020. For the quarter, the MSCI World fell 4% as investors digested the impact of Russia's invasion of Ukraine coupled with higher interest rates and inflation. Equity portfolios have held up remarkably well despite constant negative headlines and weakening fundamentals. Fixed income portfolios, however, have struggled adjusting to global central bank policy normalization, aimed at combatting record levels of inflation. The major market impact of the war has been the increase in commodity prices across energy, agriculture, and metal markets. Higher commodity prices should push inflation readings and interest rates higher in the short term, however, there is the possibility that commodity prices have already peaked. The most important topics we are thinking about right now are whether the Fed can engineer a soft landing and whether inflation rates can decline without triggering a recession. There are also several scenarios that could play out in Ukraine, making portfolio positioning difficult, as each of which would uniquely impact global markets.

	3/31/2022 Level	QTD Change	1 Year Change
S&P 500	$4,530	-4.6%	15.7%
MSCI ACWI Ex USA	$283	-5.4%	-1.5%
MSCI Emerging Markets	$566	-7.0%	-11.4%
Bloomberg US Aggregate	$2,215	-5.9%	-4.2%
10 Year Treasury Rate	2.32%	+80 BP	+58 BP
Bloomberg Commodity Index	$124	25.5%	49.1%
Bitcoin	$47,063	-0.3%	-19.9%

Heading into 2022, we were positioned for a mild rotation out of US equities and into international equities; and out of growth and momentum sectors and into value or quality sectors. The rationale behind this was that many of the major beneficiaries of the Covid crisis can be characterized as growth companies, and given the skyrocketing demand for work-from-home (WFH) based products and services, certain companies pulled forward years of revenue – Zoom and Peloton are two great examples. As revenue for these WFH winners grew, the performance (and valuation) gap between growth and value widened. As the world returns to normal post Covid, the equity market winners should emerge from value-oriented sectors such as financials and industrials, as those sectors benefit from higher global trade, increased mobility, and higher interest rates. In turn, this should help international markets that have higher weightings to banks and industrial conglomerates relative to the US market. Our overweight to value (versus growth) has benefitted portfolios, but our regional view did not add to or subtract from portfolios. Value outperformed growth in the first quarter (both domestically and globally) by over 8%, and we believe that value has the potential to outperform over the next year as well.

Data Source: Y Charts

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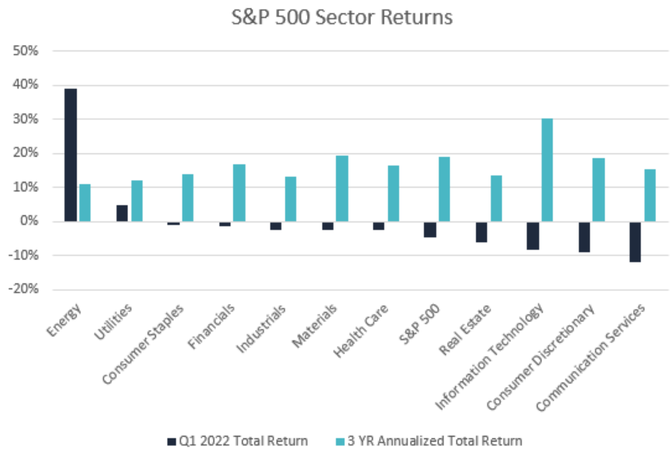
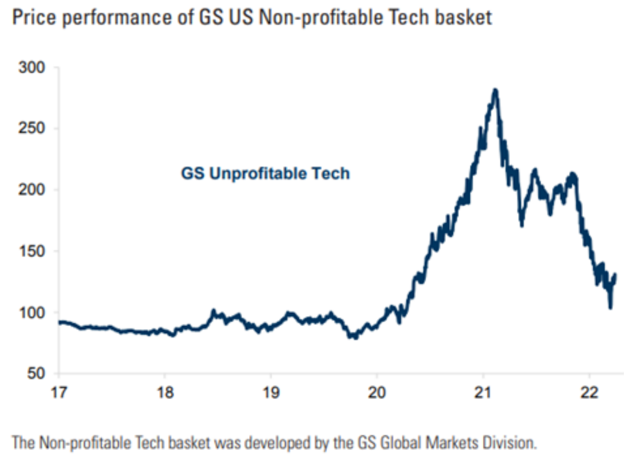
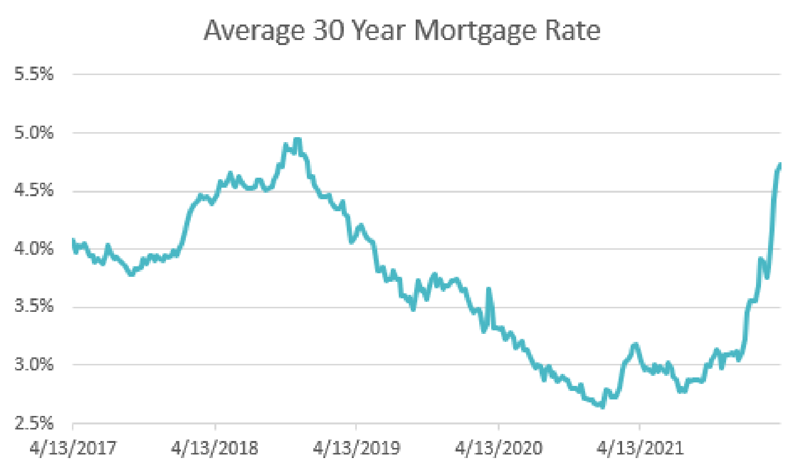


Data Source: Y Charts



Source: Goldman Sachs Global Investment Research

In the first quarter, the dispersion of returns was rather narrow from a regional standpoint, while there was one standout performer on a sector basis; Energy. All major regions fell mid-single digits for the quarter, while only two US sectors were positive: Energy (which soared almost 40% on higher commodity prices), and Utilities, which returned 4%. Energy and Utilities are decidedly the laggards over the past three years despite the strength in the first quarter, which is one of the indicators of the rotation that has occurred in equity markets. US Technology stocks fell on average 8% during the first quarter, while many high-flying technology companies have been hit harder than that (per the above chart, from Goldman Sachs) due in part to the increase in interest rates. We have tended to avoid tech companies that have exorbitant valuations and expenses significantly higher than revenue, and rather focus on those companies with current (and future) profits, coupled with low levels of debt and high levels of cash.



Data Source: Y Charts

The Fed, along with other global central banks, has begun carving the path towards normalizing monetary policy coming out of the pandemic. In March, the Fed approved a 0.25% interest rate hike, raising rates for the first time since 2018. The market has also begun to price in additional hikes, including the potential for half point increases during the second quarter. Aggressive action is needed to combat accelerating inflation, but an unintended consequence of this process is the resulting large spike in mortgage rates across the US. The average 30-year mortgage rate is now 4.7%, relative to 3.1% at the end of last year. Currently, the average single family home sale price is $511k, and assuming a 20% down payment, the increase in mortgage rates equates to a $360 higher monthly mortgage payment (excluding taxes and insurance) – this is 21% higher than 90 days ago. If you live in a high-demand city and have recently looked through your Zillow app, you may be feeling as though you are being priced out of the real estate market, as housing costs have continued to increase. The US consumer has been one of the major driving forces behind the strong run in equity markets over the past 5 years. Housing costs and living expenses are increasing much faster than wages are, thus reducing levels of disposable income and hurting consumer confidence. Some of these factors may prove to be temporary, and despite certain positive features of the economy, the near-term outlook for balanced portfolios has clearly worsened.

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