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IN THIS ISSUE

QUARTERLY MARKET INSIGHT
1ST QUARTER 2022

SPOTLIGHT

COMMODITY PRICES

Russia's invasion of Ukraine and a growing set of sanctions on Moscow have amplified a trend of higher commodity prices. The S&P GSCI, an index tracking market-weighted prices of commodities futures, climbed 29% in the first three months of 2022 to record its strongest quarterly gain since 1990. U.S. West Texas Intermediate (WTI) crude oil futures surged 34.3% from $92.10 per barrel on February 23 to $123.70 on March 8. European natural gas prices more than doubled in the two weeks following the invasion. Prices of key industrial metals including nickel, aluminum and copper have all touched multi-decade highs in recent weeks. U.S.-based wheat futures climbed 60% from February 16 through March 7 to record a new all-time high. The price of potash, a critical fertilizer component, has also soared in recent weeks amid growing concerns about supplies from Belarus, a staunch ally of Russia.

Russia, the world's 11th-largest economy in 2020, is the world's top exporter of natural gas. It ranks second and third, respectively, among global exporters of oil and coal. Russia supplies roughly 10% of the world's aluminum and copper. It also holds about 20% of the global battery-grade nickel supply and 40% of global palladium reserves. Russia and Ukraine combined account for roughly 30% of annual global wheat sales.

In early March, the Biden administration announced a ban on all Russian oil, natural gas, and coal imports into the U.S. This was mostly an escalation of rhetoric, however, as America imports relatively few Russian energy commodities. The European Union, which is much more dependent on Russian energy, recently announced a multi-year plan to wean itself off Russian gas, but the 27-nation bloc has not implemented an outright ban. German, Italian and Hungarian governments appear particularly wary of boycotting Russian energy given their economies' heavy reliance on imported natural gas. Major Asian energy importers, including India, have continued to buy Russian oil and gas, often at a steep discount.

The war's disruption of Black Sea shipping lanes is the greatest logistical concern for most commodity markets except Russian gas entering Europe. Millions of barrels of oil per day and roughly 25% of global grain exports flow through the Black Sea for global distribution. In Europe, finding new supplies of natural gas is the most pressing issue for large economies like Germany and Italy. These countries could begin importing significantly more liquefied natural gas (LNG) from the U.S. and other countries like Qatar. This is a more realistic long-term option, however, it would require massive investment to dramatically expand capacity to convert LNG back to its gaseous state.

SHORT-TERM IMPACTS

Rising food insecurity and related social unrest in low-income countries that import large amounts of key grains like wheat and corn is likely to be among the war's most acute short-term impacts. Ukraine's corn crop may not get planted at all this spring. Winter crops like wheat and barley, which are planted in October, are likely to be smaller this year due to shortages of fertilizer and pesticides. The summer harvest of wheat planted last fall is likely to be diminished by the war. Russian grain production has been mostly unaffected by the war, but exports will be curtailed by the reluctance of Western banks and trading firms to facilitate financing and shipping.

According to The Economist, food accounts for more than 20% of consumer spending across most of the developing world and roughly 40% in sub-Saharan Africa. Several commentators have observed that Egypt, with a population of 102 million, faces a particularly high risk of social unrest due to soaring food prices. Support for the Egyptian government will likely plummet if it is no longer able to provide subsidized bread and wheat to many of its citizens. India, Turkey, Thailand, and other net importers of commodities could face balance of payments problems, downward pressure on their currencies and sharply higher sovereign bond yields. There will also be some winners from surging commodity prices. Major oil exporters in the Persian Gulf region should be able to offset surging food import prices with higher oil export revenue. Brazil, one of the world's foremost commodity exporters, could benefit from the current environment.

In the U.S., an extended period of higher commodity prices could prevent consumer inflation from decelerating in coming months. JPMorgan analysts estimate that if WTI crude oil prices averaged $120 per barrel for the rest of 2022, retail gasoline would average about $4.20 per gallon compared to a daily annual average of $3.02 in 2021. This would increase the average American household's living expenses by $1,000 or more. This type of oil price shock will most likely be a drag on economic growth in 2022. Yet, the likelihood of a U.S. recession appears low given the strong labor market and relatively healthy state of consumer balance sheets.

ECONOMY

GROWTH EXPECTED TO SLOW

After expanding at an impressive 5.7% clip in 2021, the U.S. economy faces an assortment of headwinds to begin the new year. Chief among them is the war in Ukraine, which is likely to have a moderately adverse impact on domestic growth in the first half of the year. The conflict has already pushed energy and agricultural commodity prices higher (see Spotlight section) and could exacerbate pressure on strained global supply chains. U.S. consumers spend considerably less on energy as a proportion of their disposable income than in previous generations. Yet, a 47% increase in the AAA daily national gasoline price from $2.88 per gallon on March 31, 2021 to $4.22 per gallon on March 31, 2022 is likely to cause consumers to consider pulling back on spending. According to a recent Bloomberg survey of 60 economists, U.S. GDP growth is projected to slow to an annualized rate of 1.5% in the first quarter after expanding at a blistering 6.9% pace in the final three months of 2021. Economists surveyed by Bloomberg in the first week of April projected U.S. GDP will expand 3.4% in 2022, down from projections of 3.9% growth in December. A robust domestic labor market (which added 1.68 million jobs in the first quarter) and resilient consumer spending should prevent U.S. economic growth from decelerating too sharply in 2022.

The Federal Open Market Committee (FOMC) voted 8-1 to increase its policy rate by 25 basis points to a range of 0.25% to 0.50% at its March 15-16 meeting. This was the first time the Federal Reserve raised interest rates since December 2018. The lone dissenting vote was St. Louis Fed President James Bullard, who supported a 0.50% hike at the March meeting. As seen in Chart 1 and discussed further in the Fixed Income section, the median FOMC participant expects six additional quarter percentage-point rate hikes in 2022 to take the policy rate to roughly 1.9% by year end.

ECONOMIC INDICATORS	LATEST	3MO PRIOR	CHANGE*
REAL GDP (QoQ ANNUALIZED)	6.9%	2.3%	▲
TRADE BALANCE	-89.2	-80.1	▼
UNEMPLOYMENT RATE	3.6%	3.9%	▲
NON-FARM PAYROLLS	431K	588K	▼
ISM MANUFACTURING	57.1	58.8	▼
ISM NON-MANUFACTURING	58.3	62.3	▼
RETAIL SALES (LESS AUTOS)	0.2%	-3.5%	▲
INDUSTRIAL PRODUCTION	0.9%	-0.4%	▲
HOUSING STARTS	1769M	1703M	▲
CONSUMER PRICE INDEX (YoY)	8.5%	7.0%	▼
CONSUMER CONFIDENCE	107.2	115.2	▼
EXISTING HOME SALES	6.02M	6.33M	▼
CONSUMER CREDIT	41.82B	38.45B	▲
CRUDE OIL PRICE	$100.28	$ 73.47	▼

Source: Bloomberg. Data as of 3/31/22. Past performance does not guarantee future results. *The change arrow is indicative of a positive or negative change in the economic nature of the data series. For example, a downward-pointing change arrow assigned to the crude oil price field will correspond with an increase in the actual price of crude oil over the last three months. This is because a short-term increase in the price of crude oil has historically been detrimental to aggregate U.S. consumer spending.

In the press conference following the March FOMC meeting, Fed Chair Jerome Powell indicated every meeting in 2022 will be "live." This suggests potential rate hikes in May, June, July, September, November, and December. Powell emphasized policymakers would act appropriately if evolving conditions indicated a more aggressive pace of tightening is needed. The core Personal Consumption Expenditures (PCE) index, which is the Fed's preferred measure of inflation, increased to 5.4% in February from a year ago. This marked its highest level in the data since 1983. FOMC participants increased their 2022 estimate for core PCE to 4.1% from their previous projection of 2.7% in December. The key economic interplay in 2022 will almost certainly be the magnitude of growth deceleration versus the rate at which inflation subsides from generational highs. The evolution of this dynamic will determine whether the Fed is able to engineer a so-called "soft landing" in which inflation cools toward policymakers' 2% long-term goal without tipping the U.S. economy into a recession.

EMPLOYMENT AND MANUFACTURING

The U.S. labor market continued its strong expansion in the first quarter. Nonfarm payrolls increased 431,000 in March, and payroll figures for January and February were upwardly revised by a combined 95,000. Job growth averaged 562,000 per month in the first quarter as the unemployment rate declined to 3.6% from 3.8% in January and now sits slightly above its pre-pandemic low of 3.5%. The U.S. labor force participation rate (the share of the U.S. population that is working or looking for work) ticked up to 62.4% in March but remains 1.0% below its pre-pandemic high of 63.4%. Average hourly wages climbed 0.4% in March from February and have risen 5.6% from a year ago.

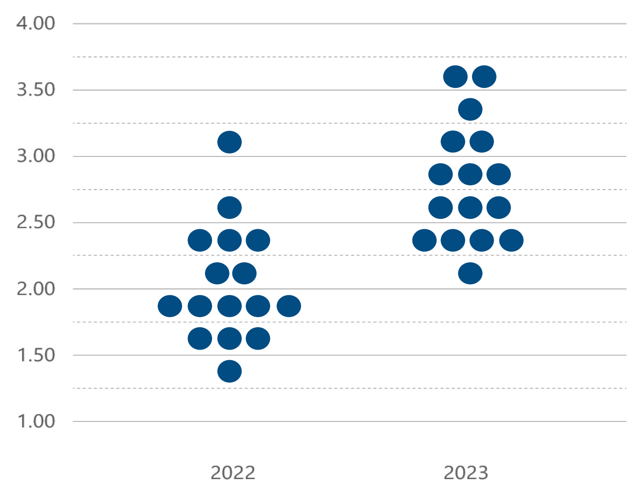
Economic activity in the domestic manufacturing sector expanded at a slower rate in March from February. The latest ISM Manufacturing Purchasing Managers' Index (PMI) slipped to 57.1% in March from 58.6% in the prior month. Although this was the lowest reading since September 2020, the index posted its 22nd consecutive month of expansion despite supply chain challenges. A PMI reading above 50% indicates the manufacturing economy is expanding.

HOUSING

Rising mortgage rates, higher home prices, and limited home supply weighed on housing market demand in February. Existing home sales fell 7.2% in February and were down 2.4% year over year. The average 30-year mortgage fixed interest rate increased to 4.8% by the final week of March, up from 3.11% at the end of 2021. The median price for existing homes sold last month climbed 15% from a year ago to $357,300.

In February, sales of new single-family homes came in at a seasonally adjusted annual rate of 772,000 units, according to estimates released by the U.S. Census Bureau and the Department of Housing and Urban Development. This is 2% below the revised January annual rate of 788,000 and 6.2% below the year ago February 2021 annual rate of 823,000. U.S. housing inventories remain very tight, which should continue to provide a strong foundation for home sales even if rising mortgage rates cut into demand. The growing build-to-rent market also could provide leeway for homebuilders to maintain their current pace of construction even if demand to purchase new homes softens.

CHART 1
RATE HIKES ARE COMING
FOMC DOT PLOT, MARCH 16, 2022



Source: Bloomberg. Each dot represents the projection of an FOMC participant for the appropriate federal funds rate at the end of 2022 and 2023.

EQUITY

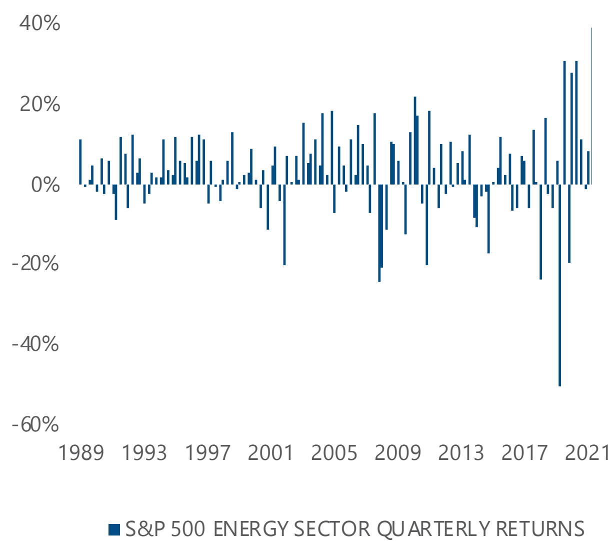
EQUITY MARKET TURBULENCE

Global equities faced a turbulent start to the year after strong performance in the fourth quarter and 2021. Market volatility rose significantly in the quarter as equities contended with the Federal Reserve's hawkish pivot to accelerate monetary policy tightening, rising bond yields, and the Russian invasion of Ukraine. During the 62 trading days of the quarter, the S&P 500 experienced 17 days with a loss greater than 1%. Throughout all of 2021, there were only 21 days in which the index fell 1% or more. The first two months of the year were the S&P 500's first consecutive monthly losses since the pre-COVID vaccine era in the fall of 2020. The index fell into correction territory in late February and experienced a 13.05% drawdown from January 3 through March 8. Equities continued their descent in the first half of March, followed by a sharp rally in the final two weeks of the quarter. The relief rally occurred amid a moderate degree of stabilization in oil prices and temporary signs of progress in ceasefire negotiations between Russian and Ukrainian officials. The S&P 500's 7.83% rally in the second half of March reduced its double-digit drawdown by nearly two-thirds by the quarter end. The index finished the quarter down 4.60%, breaking a streak of seven consecutive positive quarterly returns dating back to the onset of the pandemic.

The communications sector led the S&P 500 lower with an 11.92% decline, largely due to Meta Platforms (FB) and Netflix (NFLX) both falling over 30% in the quarter. Shares of FB suffered a rapid drop after the company reported fourth quarter earnings and management provided guidance for slower growth, increased investment in the metaverse, and a $10 billion revenue hit from Apple's (AAPL) ad-tracking change for its iOS software. NFLX's shares plunged more than 20% the day after its earnings announcement. The company's underwhelming fourth quarter subscriber additions and disappointing guidance for 2.5 million net new subscribers in the first quarter contributed to concerns about intensifying streaming competition.

The consumer discretionary and technology sectors were among the S&P 500 sectors with the steepest drawdowns in the quarter as growth stocks were impacted by sharply higher market interest rates. Consumer discretionary stocks were also pressured by concerns that stubbornly high inflation could weigh on consumer spending and new COVID-19 lockdowns in China may exacerbate supply chain disruptions. Defensive sectors held up relatively well during the quarter with the consumer staples sector falling only 1.01% and the utilities sector advancing 4.77%.

CHART 2
U.S. ENERGY SECTOR'S RECORD PERFORMANCE



Source: Morningstar. Data as of 3/31/22. Past performance does not guarantee future results.

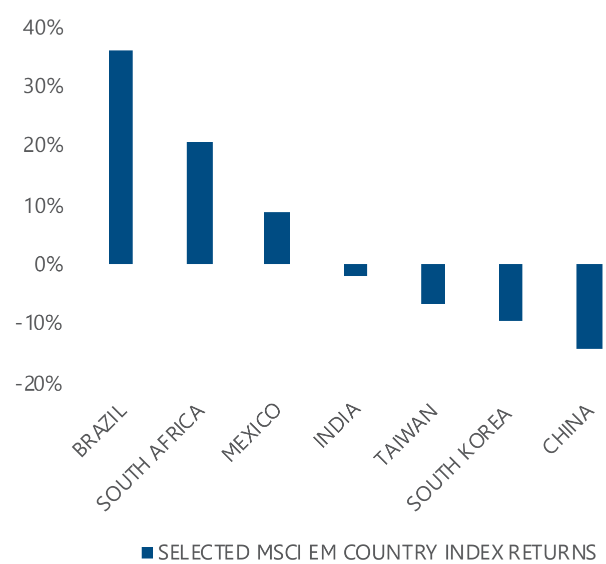
Energy was one of two S&P 500 sectors with positive performance in the quarter. Soaring oil prices drove the energy sector up 39.03% in the quarter, the sector's strongest quarter since its inception in 1989. Russia's invasion of Ukraine created uncertainty surrounding the future of Russian oil exports which caused energy prices to spike. The price of West Texas Intermediate (WTI) rose 33.33% in the quarter to $100.28 per barrel from $75.21 on December 31. WTI briefly reached the highest level since 2008 at around $124 in mid-March before retreating.

Foreign equities trailed their domestic counterparts in the quarter with the MSCI EAFE and MSCI Emerging Market indexes down 5.79% and 6.92%, respectively. The Russia-Ukraine war impacted European stocks more than U.S. stocks given the region's proximity to the conflict, larger exposure to Russian energy imports and greater vulnerability to trade spillovers from recessions in Ukraine and Russia. Bloomberg economists project that continued conflict in Ukraine could reduce euro area economic growth this year by 1.6%, compared to a 0.5% reduction in U.S. economic growth. The European Commission announced its plan to reduce Russian gas imports by two-thirds this year and end European imports of Russian fossil fuels before 2030. The United Kingdom was one of the few foreign developed countries with positive equity performance in the quarter. In addition to the energy sector, the UK's materials sector also posted strong performance above 20% as the Russia-Ukraine war drove up commodity prices including industrial metals. The Bloomberg Industrial Metals index gained 22.73% in the quarter. The metals and mining industry accounts for 9.3% of the MSCI UK index compared to 2.6% of the MSCI Europe index and 0.5% of the S&P 500 index.

Despite several emerging market countries posting positive equity performance in the quarter, the MSCI Emerging Market index was unable to stay in positive territory. The MSCI China index, which declined 14.19% in the period, was a significant drag on the broad index.

Performance of Chinese equities has an outsized impact on the overall emerging market index due to the country accounting for nearly a third of the index's weight. China's strict zero-tolerance virus policy and rising number of COVID-19 cases led Chinese authorities to impose varying degrees of lockdowns in multiple cities. These most notably included Shenzhen, China's electronics manufacturing hub with a population around 12 million, and Shanghai, China's financial capital with a population around 25 million.

CHART 3
MIXED EMERGING MARKET EQUITY RETURNS



Source: Morningstar. Data as of 3/31/22. Past performance does not guarantee future results.

FIXED INCOME

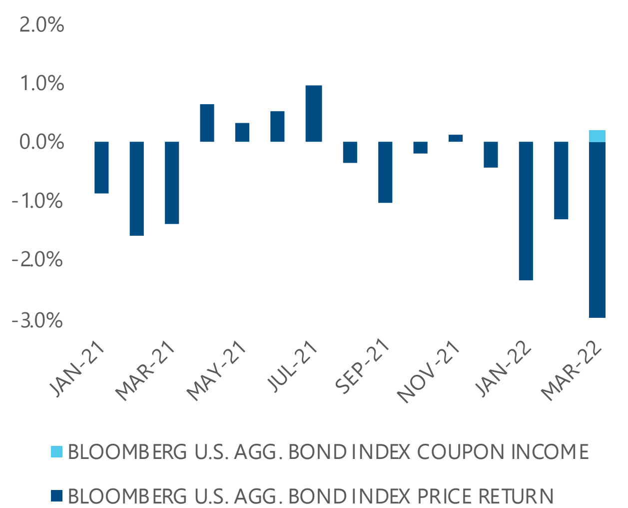
WE HAVE LIFTOFF

The first quarter brought an acceleration of several key trends in fixed income markets that began to gather steam in the second of half of 2021. Led by the Bank of England, Royal Bank of Australia and U.S. Federal Reserve, most developed nation central banks departed from ultra-accommodative policy as broad-based measures of inflation accelerated to levels not seen since the 1980s. Market-based measures of inflation expectations moved higher but remained well below realized inflation. Yields across the U.S. Treasury maturity spectrum rose substantially in the quarter led by yields on 2-year and 5-year notes. The U.S. Treasury yield curve flattened dramatically as market participants ramped up projections for the number of Federal Reserve rate hikes in 2022. Both investment grade and high yield credit spreads widened from ultra-low levels in 2021.

The rapid ascent of yields and a moderate amount of credit spread widening created a challenging return environment for most segments of the U.S. bond market in the quarter. As seen in Chart 4, the Bloomberg U.S. Aggregate Bond Index recorded significant losses in January, February, and March as modest coupon income was dwarfed by substantial price declines. The index posted a quarterly total return of -5.93% comprised of a 6.52% price decline and coupon income of 0.59%. On March 31, the index had an option-adjusted duration of 6.62 and a yield-to-worst of 2.92%. The Bloomberg Corporate High Yield Index generated a -4.83% total return in the period as a 6.21% price decline was partially offset by 1.38% of coupon income. On March 31, the index had an option-adjusted duration of 3.94 and a yield-to-worst of 6.91%. High yield credit spreads widened in the quarter, as the difference between the yield-to-worst of the Bloomberg U.S. Corporate High Yield Index and similar-maturity U.S. Treasury bonds climbed from 2.70% on December 31 to 3.62% on March 31. This yield differential remains relatively low, however, compared to a weekly average of 4.31% from 2011 through 2020.

Throughout the quarter, U.S. Federal Reserve officials increasingly signaled a pressing need to begin hiking rates and shrinking the central bank's balance sheet in the face of domestic labor market tightness (see Economy section) and extremely elevated inflation. The Federal Open Market Committee (FOMC) delivered an initial 0.25% policy rate hike at its March 15-16 meeting. The FOMC's Summary of Economic Projections from the meeting met market expectations for seven quarter-point rate hikes in 2022. The median FOMC participant projected the Fed's policy rate will be 1.9% at the end of 2022 and 2.8% at the end of 2023. In the weeks leading up to the meeting, a growing majority of market participants expected an initial 0.50% rate hike. The outbreak of war in Ukraine in late February is seen as a major reason why the

CHART 4
U.S. BOND MARKET RETURN COMPOSITION



Source: Bloomberg. Data as of 3/31/22. Past performance does not guarantee future resuls

FOMC voted 8-1 for a more modest 0.25% rate hike in March.

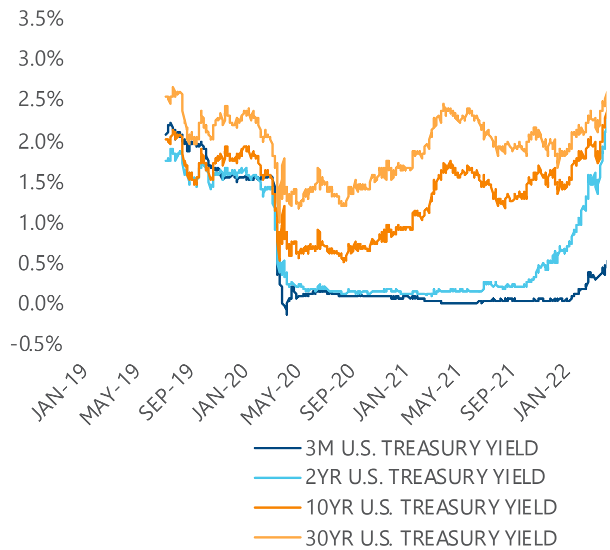
On December 31, fed funds futures markets projected a total of three 0.25% rate hikes in 2022. By the end of the quarter, however, market-based expectations were for a total of eight quarter-point rate hikes (implying a policy rate range of 2.00% to 2.25% by the end of this year). Building expectations for a quicker pace and steeper trajectory of Fed rate hikes caused yields across the U.S. Treasury maturity spectrum to rise sharply in the quarter. The upward shift in yields was not balanced however, as yields of shorter dated maturities rose at a much steeper pace than their longer term counterparts. As seen in Chart 5, yields on the 2-year U.S. Treasury note surged from 0.73% on December 31 to 2.33% on March 31. Although large parts of the U.S. Treasury yield curve either inverted or flirted with inversion territory, the yield differential between the 3-month and 10-year maturities remains significant. Some market commentators and economists have observed in recent months that inversions of the 3-month-to-10-year section of the yield curve are often the best predictor of a domestic recession.

Steep price increases across most of the commodity complex in the wake of Russia's invasion of Ukraine helped push market-based inflation expectations markedly higher in the quarter. The U.S. 5-year breakeven inflation rate climbed from 2.91% on December 31 to 3.43% on March 31. This implies that market participants expect average annualized consumer inflation over the next five years to be 0.52% higher than was expected just three months ago. One year ago, the U.S. 5-year breakeven inflation rate was 2.60%.

Fixed income portfolios should continue to benefit from keeping duration modestly below benchmark in 2022. If market interest rates begin to overshoot realistic expectations for Federal Reserve rate hikes this year, it may make sense to selectively add duration exposure depending upon a portfolio's objective. An allocation to Treasury Inflation-Protected Securities (TIPS) should help fixed income portfolios navigate potential upside inflation surprises. We believe a sizable allocation to corporate credit with a bias toward high quality issuers remains justified given the current economic environment.

CHART 5

SELECTED U.S. TREASURY MATURITY YIELDS



Bloomberg. Data as of 3/31/22. Past performance does not guarantee future resuls

PEAK INFLATION?

Three months ago, we noted supply side-driven inflationary pressures had likely surpassed uncertainty about the COVID-19 pandemic as the primary market risk. This evolution became abundantly clear in the first quarter. Over the 12-month period spanning April 2021 to March 2022, the U.S. Consumer Price Index (CPI) and Producer Price Index (PPI) increased 8.5% and 11.2%, respectively. As seen in chart 6, prices for goods (excluding food and energy) surged in 2021 amid pandemic-related supply chain disruptions. In recent months, rising prices of energy and food have become larger contributors to overall inflation. The outbreak of war in Ukraine has clearly amplified upward pressure on global energy and agricultural prices (see Spotlight section). In early April, Russia began to withdraw most of its conventional military forces from Kyiv and surrounding areas to reorganize ahead of a spring offensive in the eastern regions of Donbas, Luhansk and Kharkiv. This strategic shift, along with increased military assistance from NATO countries to the Ukrainian army, could mark a turning point toward a more protracted conflict than many originally expected. Western sanctions against Moscow seem more likely to be strengthened than rolled back as Russia's eastern campaign ramps up.

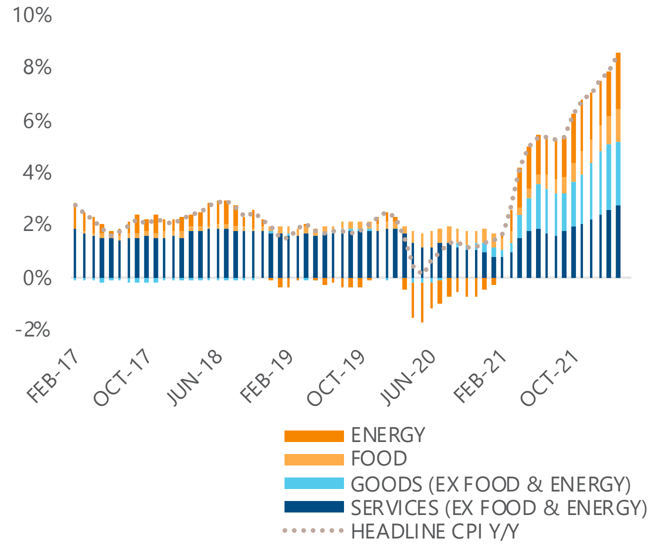
If the war intensifies throughout the spring and summer, further upward price pressure on energy, agricultural and industrial metal commodities could significantly weaken euro area economic growth. This would certainly test the mettle of European Central Bank and Bank of England policymakers to follow through with plans to hike interest rates in a period of slowing growth. On the home front, Fed Chairman Jerome Powell, and his Federal Open Market Committee (FOMC) colleagues have been increasingly emphatic about prioritizing price stability over full employment (see Fixed Income section). Even committed FOMC doves like Mary Daly and Neel Kashkari openly discuss six or seven quarter-percentage-point rate hikes in 2022.

Even though elevated inflation is a growing concern for policymakers, businesses and consumers, predictions of 1970's-style inflation seem misguided. It is worthwhile to remember that consumer prices increased at an average annual rate of 9.4% from 1974 through 1981. During this eight-year span, the unemployment rate in the U.S. averaged 7.0%. To combat excess inflation, the Paul Volcker-led Fed hiked the federal funds rate from 10.25% in August 1979 to a peak of 20.00% in June 1981. While a Volcker-like rate hike campaign seems highly unlikely, signs of an overheated labor market could cause the current Fed to increase rates more aggressively. Over the next 3 to 4 months, the U.S. labor force participation rate and average hourly wage data should give market participants a signal about whether Fed officials perceive the labor market as too hot. If the labor force participation rate stalls out and average wages push considerably higher, the magnitude and pace of rate hikes could surprise to the upside. Our sense is the economy and the equity market can probably handle a Fed policy rate of 2.50% (where the 2015-2018 rate hike cycle ended).

Several factors could help ease the inflation rate in the second half of 2022. First, a durable ceasefire or end to the war in Ukraine

CHART 6

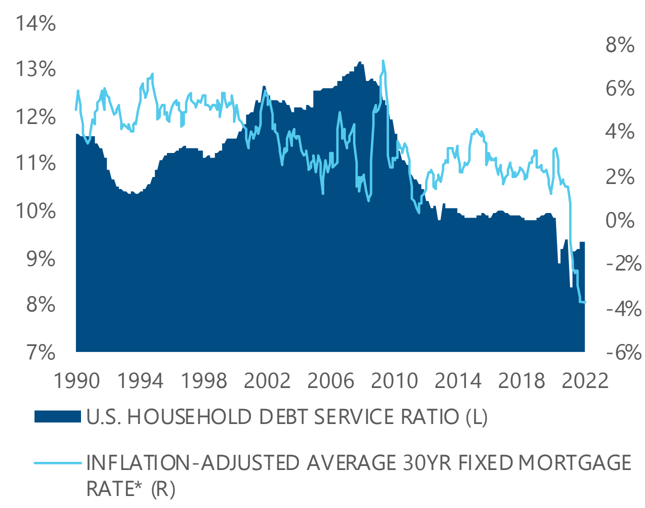
COMPOSITION OF U.S. INFLATION



Source: Bloomberg. Data as of 3/31/22. Past performance does not guarantee future results would likely push energy and agricultural commodity prices lower. Next, further easing in global supply chain disruptions would subdue inflation in durable goods like computer equipment and washing machines. An evolution of the COVID-19 pandemic toward a more endemic state could help create more balance between overheated demand for goods and lackluster demand for services. (Increased demand for haircuts, vacations and expensive restaurant meals generally do not cause backups in global supply chains.) As discussed in the Economy section, the labor force participation rate (the share of the U.S. population aged 15-64 that is working or actively searching for work) remains 1.0% below its February 2020 level of 63.4%. Accounting for U.S. population growth, this translates to about 1.6 million fewer working-age Americans in the labor force than existed immediately prior to the pandemic. If a significant portion of those workers reenter the labor force, it could extend the jobs recovery, ease labor shortages, and support healthy consumer spending over the next several quarters. As seen in chart 7, U.S. consumer balance sheets in aggregate are near their healthiest level in 20 years boosted by a significant amount of excess savings built up over the last 24 months.

Given the above, we recommend client portfolios remain overweight equities and credit relative to U.S. Treasuries and cash over the next 6 to 12 months. Healthy consumer balance sheets and a strong labor market should propel above-trend U.S. economic growth in 2022. We expect consumer inflation to begin decelerating in the summer. This should allow the U.S. Federal Reserve to avoid increasing its policy rate at a faster clip than is currently expected by markets. If inflation does not subside in coming months, we would reconsider our pro-risk positioning. In equity allocations, we expect areas of the market that can best navigate (or even benefit) from excess inflation to perform well relative to broad indexes. These areas are likely to include a strange mix of cyclical sectors (energy, materials, and real estate) and defensive sectors (healthcare and consumer staples). We believe fixed income allocations will be best served by staying underweight duration relative to benchmark and focusing on generating income without taking on excessive credit risk. We expect hedging strategies and commodities (including gold) to help buttress portfolios against a challenging fixed income return environment and elevated equity market volatility in 2022.

CHART 7
CONSUMER BALANCE SHEETS ARE NOT STRETCHED



Bloomberg. Data as of 3/31/22. Past performance does not guarantee future results. *MBA U.S. Fixed-Rate Mortgage 30-year contract rate less U.S. CPI Y/Y

ECONOMIC OUTLOOK AND INVESTMENT POLICY

ECONOMIC FACTORS	CURRENT OUTLOOK
U.S. GDP Growth	The median estimate for 2022 U.S. GDP growth in a Bloomberg survey of 82 forecasters taken in early April declined to 3.2% from 3.9% in late December.
Federal Funds Rate	Fed funds futures markets currently project U.S. central bank officials will raise the policy rate to a range of 2.00% to 2.25% by the end of 2022.
Inflation	Expectations for average annual inflation over the next two years derived from U.S. TIPS breakevens surged to 4.93% in late March before retreating to 4.35% by mid-April.
Employment	According to December NFIB data, a net 28% of U.S. small business owners reported plans to fill open positions in coming months compared to 17% a year ago.
Consumer Confidence	Elevated inflation continues to weigh on U.S. consumer sentiment despite a sharp decline in COVID-19 cases during the first quarter.
Oil	The war in Ukraine combined with OPEC and its allies' preference toward gradual production increases should keep crude oil prices elevated in coming months.
Housing	Sharply higher mortgage rates and surging home prices are likely to at least partially erode an underlying current of strong housing demand in 2022.
International Economies	Euro zone 2022 GDP growth estimates have declined to 2.9% from 4.2% three months ago based on a recent Bloomberg survey of forecasters.

	MINIMUM		NEUTRAL		MAXIMUM
FIXED INCOME		●			
Core Bonds			●		
TIPS				●	
Non-Investment Grade				●	
International	●				

CURRENT OUTLOOK

We recommend client portfolios maintain an underweight to fixed income. Elevated inflation, above-trend economic growth, and a U.S. Federal Reserve focused on removing policy accommodation have created a challenging return environment for U.S. Treasuries and investment grade corporate bonds. On the monetary policy front, U.S. Federal Reserve officials have signaled their intention to increase the central bank's policy rate from the current range of 0.25% - 0.50% to 1.75% - 2.00% by the end of 2022. Although we expect a deceleration of U.S. GDP growth in the first quarter, the Fed's recently launched rate hike campaign, a strong labor market and relatively healthy consumer spending should put upward pressure on bond yields over the next several quarters.

A moderate duration underweight relative to fixed income benchmarks should continue to benefit portfolios. An allocation to Treasury Inflation-Protected Securities (TIPS) should help dampen inflation-driven volatility. Outside of core allocations, we expect high yield bonds and preferred stocks to generate attractive performance relative to similar maturity U.S. Treasuries given higher starting yields, a coupon advantage and a generally benign credit environment.

	MINIMUM		NEUTRAL		MAXIMUM
EQUITIES				●	
Large Cap				●	
Mid Cap				●	
Small Cap				●	
Developed International		●			
Emerging Markets		●			

CURRENT OUTLOOK

We believe the current economic and market environment justifies an overweight to equities despite the likelihood of slowing economic growth in the first half of 2022 amid inflationary pressures amplified by the war in Ukraine. Encouragingly, the labor market continues to exhibit strength, with nonfarm payrolls expanding by 1.68 million in the first quarter. Meanwhile, the aggregate balance sheets of both U.S. consumers and the corporate sector appear healthy. Consensus expectations for 2022 S&P 500 profit growth are roughly 10%. This marks a significant deceleration from 47% profit growth in 2021 but is in line with average annual S&P profit growth over the last 30 years.

In equity allocations, we expect areas of the market that can best navigate (or even benefit) from excess inflation to perform well relative to broad indexes. These areas are likely to include a mix of cyclical sectors (energy, materials, and real estate) and defensive sectors (healthcare and consumer staples). Key risks to our view include an extended acceleration in wage gains that lead to a more aggressive Fed rate hike path or a significant escalation of the war in Ukraine.

	MINIMUM		NEUTRAL		MAXIMUM
ALTERNATIVES*				●	

	CAP PRES	IWSG	BAL	GWSI	GROWTH
Global Real Estate					
Global Infrastructure					
Gold		●	●	●	
Hedged Equity	●	●	●	●	●
Arbitrage	●	●	●		

CURRENT OUTLOOK

An allocation to select hedging strategies and gold should enhance portfolio diversification and risk-adjusted returns in 2022. Historically, both have exhibited low correlation to broad equity and fixed income indexes. The differentiated return streams they can provide should be particularly beneficial to portfolios amid the current backdrop of elevated inflation and market volatility. Gold's tendency to behave as a safe-haven asset in periods of market stress and as a hedge against inflation as expressed through fiat currencies should help most client portfolios better navigate 2022. Our diversified alternatives portfolios, as seen in the table to the left, are designed to decrease the overall risk profile of our five investment objective-based portfolios (CAP PRES, IWSG, BAL, GWSI, and GROWTH).

The above minimum/neutral/maximum recommendations represent MainStreet Advisors' current positions relative to our Strategic Asset Allocation ranges. Views expressed have a 6-12 month horizon and are those of the MSA Investment Committee.

*Cap Pres: Capital Preservation, IWSG: Income with some growth, Bal: Balanced, GWSI: Growth with some income

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NOT A DEPOSIT	NOT FDIC INSURED	MAY LOSE VALUE	NOT BANK GUARANTEED
NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY			