We stand firm that the main drivers of US Stocks are generally supportive of continued price appreciation. In aggregate, we believe corporate earnings will be relatively strong throughout 2022. While corporate forward guidance will soften and has already caused some surprises to the downside, we think strong earners will work to propel upward price pressure and offset geopolitical stresses. We also feel the Fed's deliberate and measured plan to combat inflation will continue to push short and intermediate interest rates higher, but at a pace that should not shock equity markets. In fixed income we are looking to take advantage of rate movements and widening spreads (higher yields). We believe the economic environment will continue to support historically low default rates, leading to our comfort in buying higher yielding bonds. Should Russia/Ukraine roil markets to a significant degree or another unforeseen disruption, we think the Fed would likely either slow, stop, or even reverse course on their current plan.

Portfolio Modifications

- Trimmed developed international equity positions.
- Added additional broad commodity exposure (adding to the positions established in beginning of January).
- Continued reallocation of high-grade corporate bonds and municipal bonds into more attractive High Yield Corporates and Floating Rate Securities as rates continue to move and spreads continue to widen.

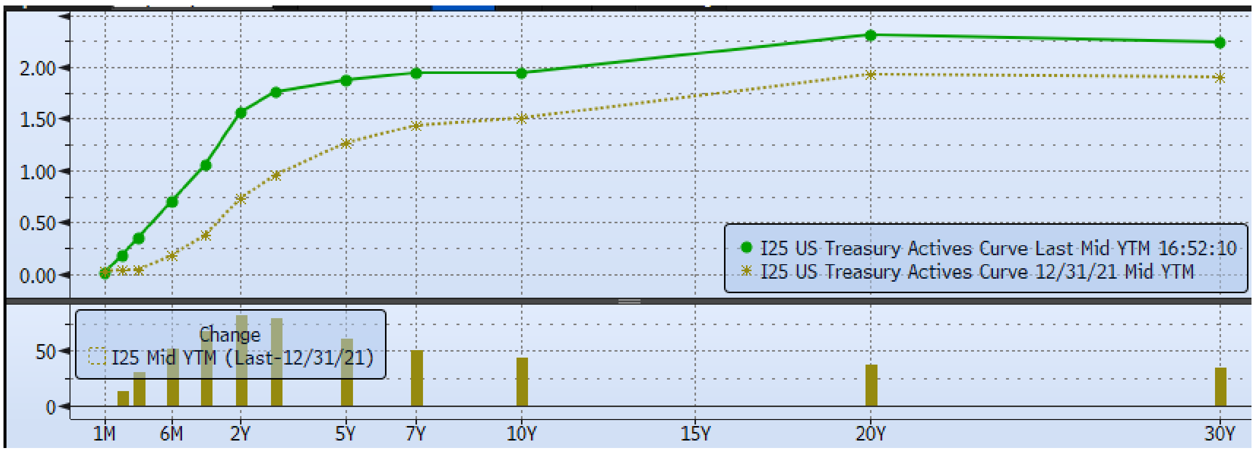
Chart 1: YTD High Yield Corporate Bond Spreads:

- This is a measure of return above the risk-free rate (treasuries). To start the year HY spreads were at 2.83 and now sit at 3.59, which is almost a 30% move. This coupled with the increase in base interest rates has created a measurably better opportunity in High Yield Corporates and Floating Rate Preferreds.

Source: Bloomberg LP

Chart 2: Change in the interest rate yield curve YTD:

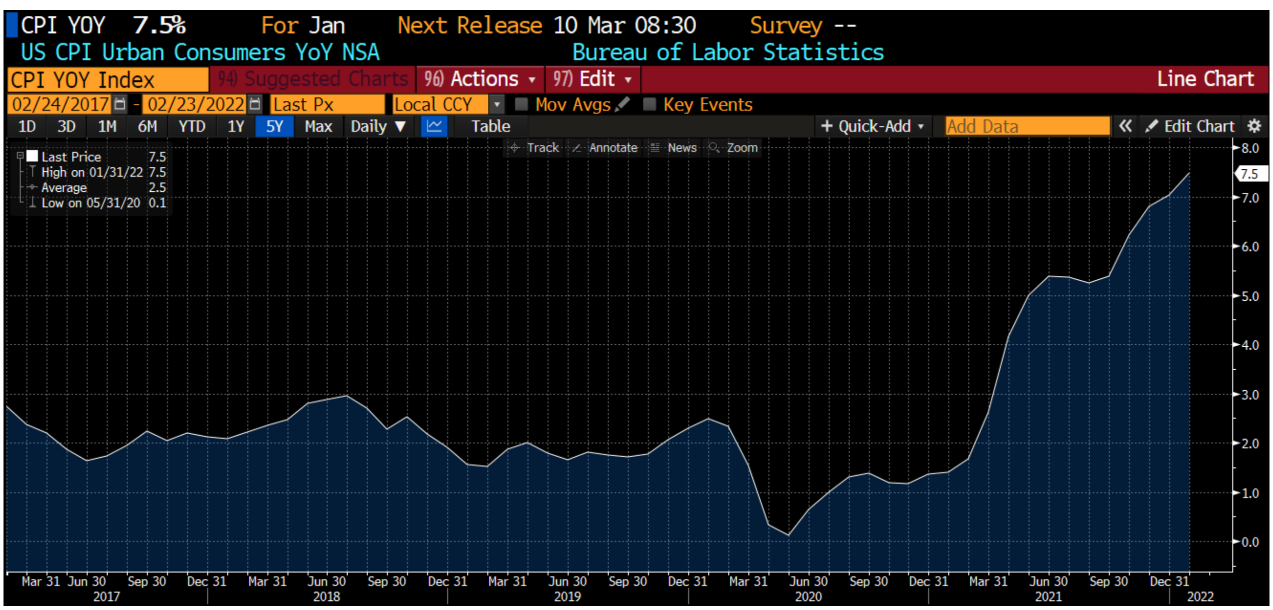
- The 12/31/2021 treasury curve (spotted orange) current treasury yield curve (solid green). Interest rates in the shorter maturity part of the curve moved higher relative to longer-maturity yields. This move represents the market pricing in a 50bps-75bps increase in interest rates by the Federal Reserve in the coming months.



Source: Bloomberg LP

Chart 3: Change in CPI YoY since 2017:

- YoY CPI remained stagnant for most of the last 5 years. Within the past year, we have seen a dramatic rise in YoY inflation. This quick rise in inflation has caused the Federal Reserve to change its stance on "transitory inflation" and act to prevent inflation from getting out of hand.



Source: Bloomberg LP

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