OFFICE TALKS: NEW VIEWS ON OLD INVESTING FOES

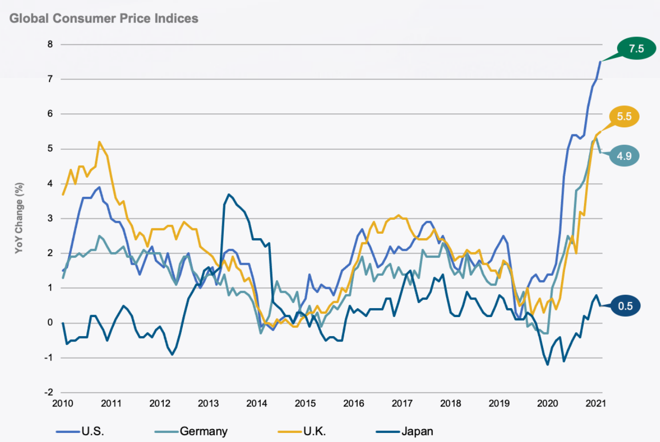
March 24, 2022

Today, investors face some familiar investing challenges—inflation, rising interest rates and volatility have all come to the forefront—at the same time. We haven't experienced these factors long-term for a while now. Our **Office Talks** event shares our investment teams' perspectives, how they manage the current environment and some considerations for investors.

WHERE WE ARE TODAY

Inflation is Rising Globally

In February, the **Consumer Price Index** (CPI: the primary measure of inflation) rose by 7.9% over the prior year, the fastest since 1982. These biggest price jumps in four decades are happening all over the world.



Why is this a concern? Inflation diminishes buying power, especially for investors holding cash or long-duration treasuries. The rate earned on those investments is lower than what markets expect for the next ten years.

How the Federal Reserve (the Fed) and other policymakers deal with inflation will affect market prices and consumer sentiment for some time. Recently the Fed decided to raise interest rates, a sign they believe it is time to act.

Data from 12/31/2010 to 1/31/2022. Source: Bloomberg

Measures of Inflation

Core CPI: Core Services vs. Core Goods

There are two components to core **CPI**—goods and services. Goods inflation is running at nearly 12% and it's what has been dominating the headlines lately.

The second part is service inflation which is just over 5%. It could continue to move up because of shelter costs.

Data from 2/29/2008 to 2/28/2022.
Source: FactSet, Bureau of Labor Statistics. Data is seasonally adjusted.

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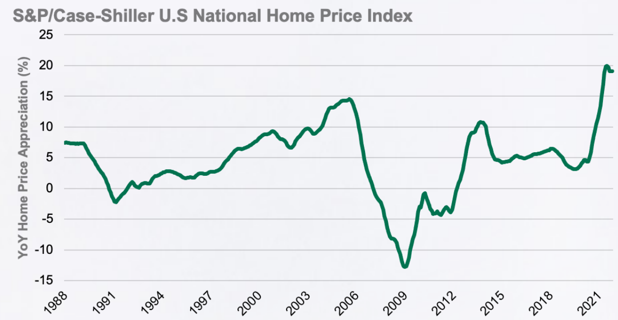
Services: Rising Shelter a Key Driver of Future Inflation

Housing prices are about 20% higher than in 2021 and Rents prices are beginning to gain speed at 12% above last year. Shelter represents 33% of CPI and can significantly impact overall inflation.

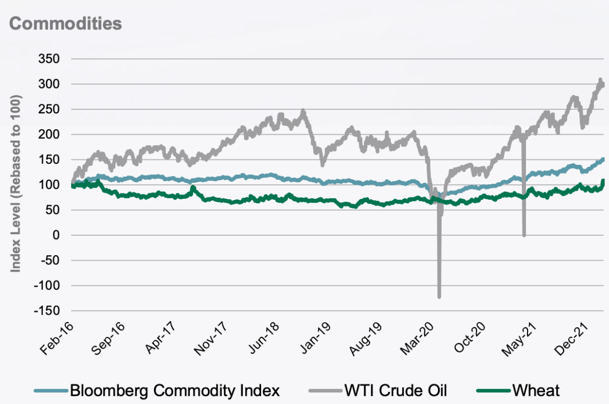
Data from 12/31/2014 to 2/28/2022
Source: Bloomberg



Data from 2/29/1988 to 12/31/2021
Source: Bloomberg

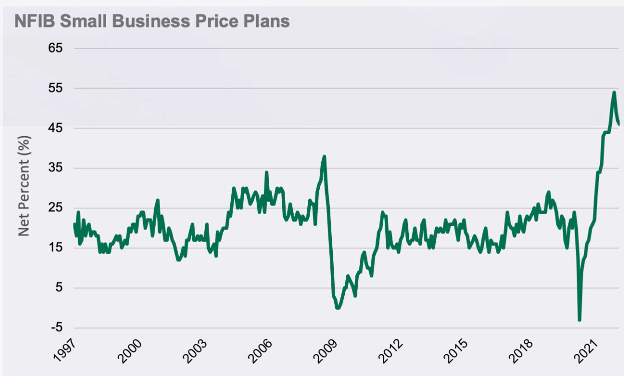
Goods: Ukraine Adds Uncertainty

Consumers and companies are paying significantly higher prices for goods. Businesses will likely pass those higher costs on to consumers. Geopolitics adds more uncertainty.



Data from 2/2016 to 2/2022
Source: Bloomberg

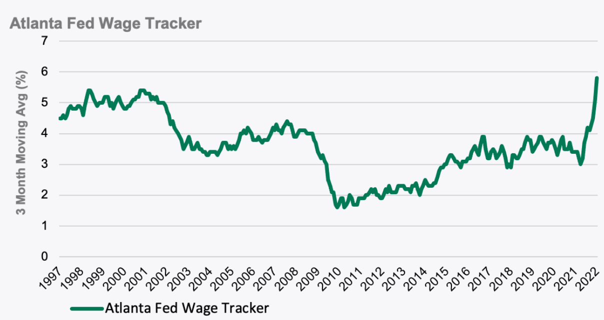
Crude oil prices are represented by the West Texas Intermediate (WTI) index. Wheat prices are represented by the Bloomberg Commodity Index Wheat (BCOMWH). Small business price changes are represented by the National Federation of Independent Business (NFIB) Small Business Price Plans survey.



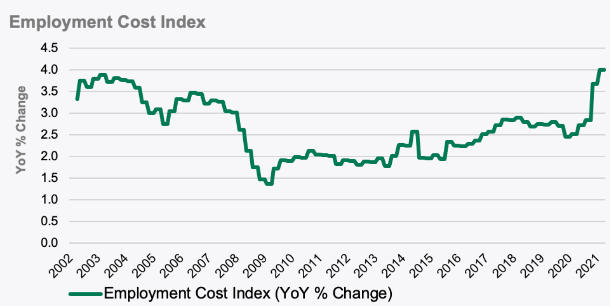
Data from 1/31/1997 to 2/28/2022
Source: Bloomberg

Wage Inflation

We expect goods and services to stay elevated. Add the wage component and the math says inflation may stick around.



Data from 1/31/1997 to 2/28/2022
Source: FactSet



Data from 12/31/2001 to 12/31/2021
Source: FactSet

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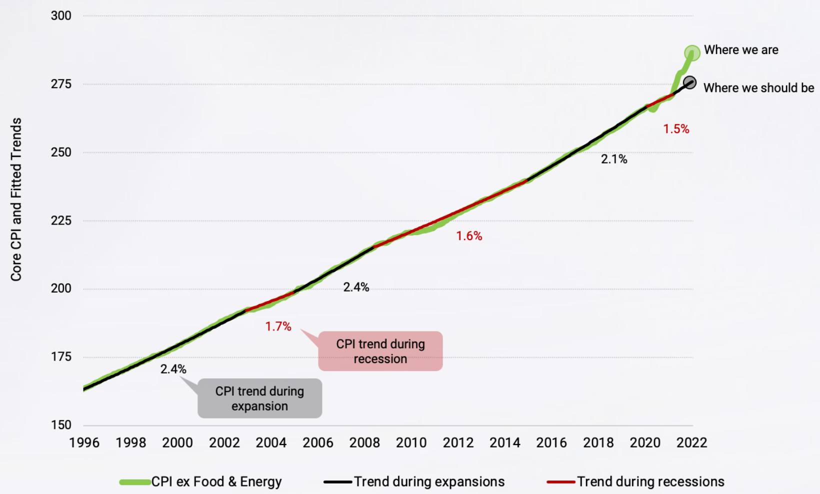
The Pandemic Shattered Historical Inflation Trends

Using history as a guide, we would have expected inflation to increase to just over 2%. Instead, we saw a significant break from the historical trend beginning in April 2021.



Data from 1/31/2022
Source: Federal Reserve Economic Data

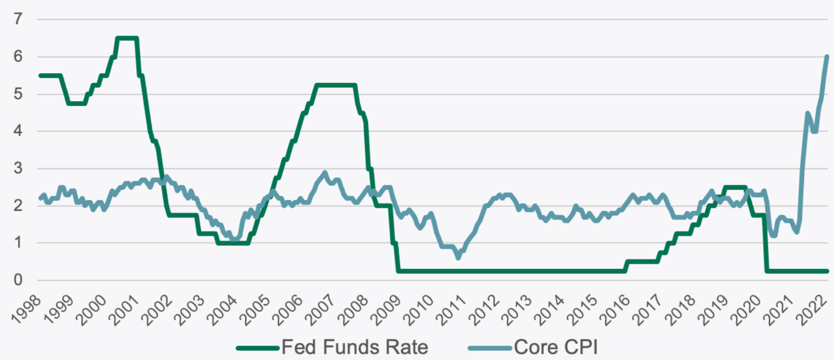
The CPI change has been much more significant than predicted by history—breaking a pattern established over the past 26 years.

This perspective helps explain the urgency of the Federal Reserve's more hawkish stance on raising interest rates.

WHAT WE'RE WATCHING

What Impact Will Inflation Have on Interest Rates?

The Fed's best tool for managing inflation is the power to increase or decrease interest rates. It needs to increase interest rates to bring inflation down, making it more expensive to borrow money. That slows down the economy as people save more and spend less.



Data from 12/31/1997 to 2/28/2022
Source: Bloomberg

The Fed recently raised rates by 0.25%. While some called for a more aggressive hike, Russia created a new complication. Even though the Fed wants to tamp down inflation, they have to balance it with geopolitical uncertainty and economic slowdown.

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What Impact Will Higher Interest Rates Have on Equity Markets?

You likely know about the inverse relationship between rising rates and bonds. But what do rate hikes mean for stocks? A year after interest rate increases of about 0.5%, the range of U.S. stock market returns have historically been anywhere from -5% to +40%.

That wide spread doesn't tell us much about what could happen. Also, remember that markets are forward-looking. Often, rate increases are likely already priced in before they happen.

The Takeaway

Avoid knee jerk reactions when reading headlines. Rates are just one of many factors. Geopolitical risk, economic slowdowns or a pandemic can all impact uncertainty. And markets don't like uncertainty.

Markets Tend to Overreact to Geopolitical Events

Stocks across the world tumbled on the news of Russia's invasion of Ukraine, with major benchmarks in both Europe and the U.S. going firmly in correction territory (a drop of at least 10%).

Geopolitical Events and S&P 500 Returns

Event Date	Market Shock Event	1 Month Return	3 Month Return	6 Month Return	12 Month Return
12/07/41	Pearl Harbor Attack	-3%	-12%	-10%	0%
06/25/50	North Korea Invades South Korea	-10%	1%	5%	11%
10/23/56	Hungarian Uprising	-2%	-3%	-1%	-12%
10/30/56	Suez Canal Crisis	-3%	-3%	-1%	-12%
10/16/62	Cuban Missile Crisis	5%	13%	21%	28%
03/02/65	Vietnam War	-1%	0%	0%	2%
10/17/73	Arab Oil Embargo	-6%	-12%	-14%	-35%
11/03/79	Iranian Hostage Crisis	3%	12%	3%	26%
12/24/79	Soviet Union conflict in Afghanistan	8%	-2%	11%	32%
03/30/81	Reagan Shooting	2%	2%	-9%	-9%
08/02/90	Iraq invades Kwait	-13%	-8%	5%	14%
08/17/91	Gorbachev Coup	1%	-2%	8%	10%
02/26/93	World Trade Center bombing	4%	4%	8%	9%
09/11/01	9/11 Attack	-6%	2%	2%	-25%
03/20/03	Iraq War	9%	17%	20%	33%
02/24/22	Russian Invasion*	-3%			
	AVERAGE	-1%	0%	3%	4%
	% Positive	44%	44%	63%	56%

*Partial period. Data as of 3/15/2022

Source: FactSet.

Past performance is no guarantee of future results

Choppy markets can lead to anxiety and discomfort, but it's helpful to put current events in context.

Though markets may overreact to geopolitical risk, they also tend to rebound.

The bottom line? Downturns and volatility are part of investing.

Investors can't control markets, but they can control how they set up their portfolios.

Our Outlook

- **The Foes**
  Our outlook is for modestly higher interest rates, decelerating economic growth, elevated inflation and rising volatility
- **Economy**
  We believe corporate earnings will remain healthy and strong credit fundamentals will be key, but risks may mount from inflationary pressure
- **Fed Actions**
  We think the Fed and other major central banks will lean more hawkish and likely accelerate rate hikes and aggressively reduce their balance sheets
- **Key Risk**
  In our view, persistently higher inflation may prompt the Fed to act more aggressively than currently priced in the markets. This could cause corrections across risk markets and potential economic contraction

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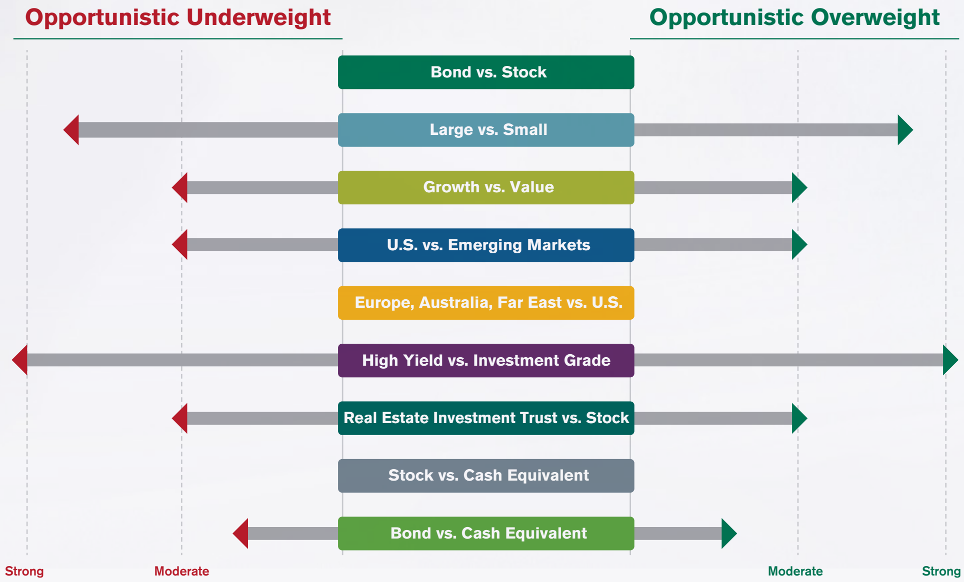
Asset Allocation Positioning

Within our portfolios, there are a number of areas where we are making more tactical movements as you can see on this chart.



Our Response:

- Overweighting Small Cap U.S. equities vis-à-vis Large Cap
- Overweighting Value-oriented sectors relative to Growth-oriented issues
- Overweighting Emerging Market equities
- Underweighting Real Estate Investment Trusts (REITs)

But these can and will change as markets evolve. And that's one of the benefits of being an active manager right now.

- Passive investing typically means investors are buying exposure to an index, in an effort to gain exposure to the whole market with little buying or selling. The strategy requires a buy-and-hold mentality and can work well when stocks overall are going up and there is relatively low volatility.
- When volatility rises, we believe it's beneficial to employ a more active approach where managers are evaluating individual securities and judging their near- and long-term prospects as conditions evolve so investors stay nimble and can be ready for course correction if necessary.

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WHERE TO FOCUS THIS QUARTER

For the growth-minded investor focused on wealth accumulation…

I want to grow my assets.

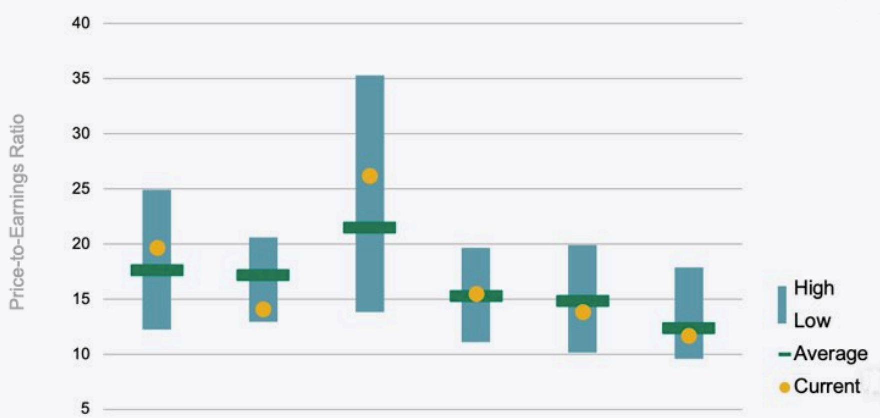
Know What You Own

Diversifying among and within asset classes is important. We're focusing on the following:

For Equities	For Bonds
Allocations among regions, sectors, investment styles (value, blend, growth) and size (small, mid, large-cap)	Allocations among credit qualities, maturities, and issuers
Quality companies, which have historically fared well during times of inflation and rising rates	Quality in high-yield investments for potentially less event-driven risk
The impacts of inflation and supply chain disruptions, which can vary from company to company	Opportunities in floating-rate securities as a potential hedge against rising rates
Long term secular trends, such as the shift in spending toward services and experiences	Emerging Markets high yield, which may perform well due to cheap valuations and high commodity prices

Valuations By Region

Current Price-to-Earnings Ratio vs 10-Year High, Low and Average



	S&P 500	Russell 2000	Russell 1000 Growth	Russell 1000 Value	MSCI EAFE	MSCI EM
High	24.9	20.6	35.3	19.6	19.9	17.9
Low	12.2	12.9	13.8	11.1	10.1	9.6
Average	17.7	17.2	21.5	15.3	14.9	12.4
Current	19.7	14.1	26.2	15.5	13.9	11.7

Next 12-Month data as of 2/28/2022. Source: FactSet.

Right now, asset values haven't really moved much compared to last year, and we are still above the historical average. If you look at Russell 2000, representing small caps, that yellow dot is below historical average and might present an opportunity.

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Strategies to Consider: Dollar Cost Averaging

Let Market Swings Work for You

Investing a set amount every week or month helps you avoid buying shares at the wrong time. Instead, you buy more shares when prices are low and fewer shares when prices are high.

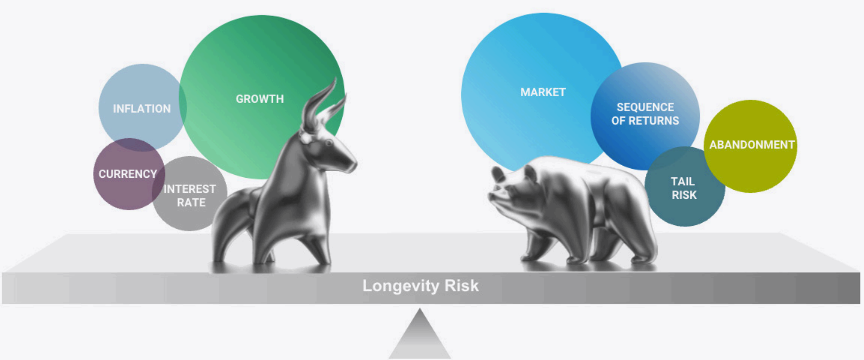
$600 Lump Sum		$100 Per Month for 6 Months	
When the share price was...	...you purchased	When the share price was...	...you purchased
$25.00	24 shares	$25.00	4 shares
		$20.00	5 shares
		$12.50	8 shares
		$14.29	7 shares
		$16.67	6 shares
		$25.00	4 shares
Cost per share: **$25.00**	Total shares: **24**	Average cost per share: **$17.65**	Total shares: **34**

This information is for illustrative purposes only and is not intended to represent any particular investment product. Dollar-cost averaging does not ensure a profit or protect against a loss in declining markets. This investment strategy involves continuous investment in securities, regardless of fluctuating price levels. An investor should consider their financial ability to continue purchases in periods of low or fluctuating price levels.

For the investor with a lower risk tolerance...

Find the Right Balance of Risk

Avoiding risk doesn't just mean staying out of the market. It could mean not having enough growth potential. Most investors need some combination of stocks and bonds in their portfolios. One key may be to weigh one risk against another.



Some key things to think about:

- Your time horizon - how long you have to invest can determine how aggressive you should be.
- Maintaining a balanced approach to multiple risks may provide a greater certainty of outcomes.

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How Are Investors Managing Inflation?

Strategies to Consider

Treasury Inflation-Protected Securities (TIPS)
- The principal of TIPS increases with inflation
- Be careful of duration
- Active managers can adjust the portfolio when rates change

Short Duration Fixed Income Strategies
- Shorter maturities mean bonds can be rolled over at higher rates
- Beware of strategies with too much credit risk/derivatives exposure
- Active managers can target where to be on the curve

Equities
- In a strong economy – equities look attractive on a total return basis
- Active managers seek to select winning stocks from the pack

Diversifying Strategies
- Commodities, REITs, Infrastructure can all provide inflation protection
- Diversification is critical to reducing concentration risk

Professionally managed portfolios may already be adjusting for inflation.

Talk to a financial consultant to review your portfolio and determine which actions may benefit you.

Strategies to Consider: Time Segmentation/Bucket

Divide your portfolio for specific time periods

1-5 Yrs. **6-15 Yrs.** **16-30 Yrs.**

Portfolio Goals:
- Each bucket has its own liquidity and risk
- Income from short-term, less risky buckets
- Long-term buckets replenish short-term

Benefits:
- Match income timing to risk
- Maintain stock exposure
- Easy to measure and adjust

Cautions:
- Complex to manage
- May incur taxes

The bucket approach may be a consideration for retirees who are anxious about risk, have precise goals, and/or have constrained funding.

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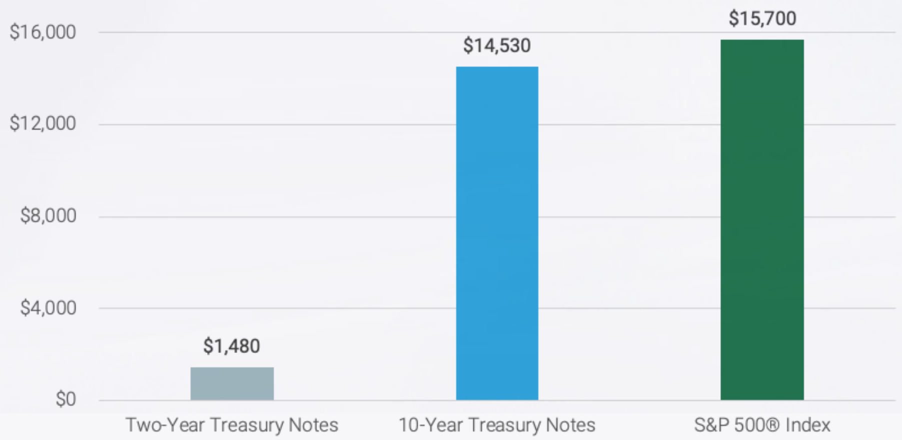
For the investor who needs income with balanced risk…

Look at Investments Holistically: Bonds Are Not the Only Source of Income

Traditionally, we've thought of bonds as sources of income. In the 80s, the yield on 10-year treasuries was close to 16%, right now we're just below 2.5%. Other sources of income may be necessary.

What Income Would $1 Million Have Yielded Over a Year?



These hypothetical situations contain assumptions that are intended for illustrative purposes only.

There is no assurance similar results can be achieved, and this information should not be relied upon as a specific recommendation to buy or sell securities. It assumes a $1 million investment over 12-months.

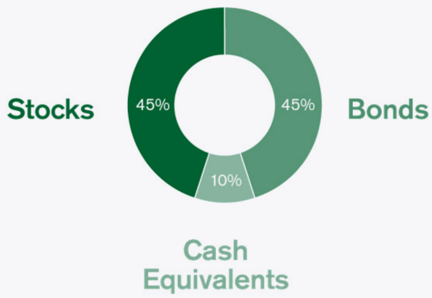
Data as of 6/8/2021. Source: Bloomberg. **Past performance is no guarantee of future results.**

Strategies to Consider: A Total Return Approach

Investors who may be concerned about taxes could consider a total-return approach because part of the returns are generated from capital gains, which are taxed at a lower rate than traditional income. However, you should also consider other things, such as the holding periods of investments.

Total Return Portfolios:

- Based on your risk tolerance
- Diversified across asset classes
- Consists of interest, dividends and capital gains
- Focuses on capital growth over time
- Requires a prudent spending plan



We highly suggest speaking with a financial consultant who can help determine which approach is right for you.

For Everyone, Diversification Matters

We encourage every investor to think about diversification—meaning you are not overly exposed to any one sector in case one market zigs. Another will zag. The goal for having a combination of multiple asset classes is strong return potential with lower risk.

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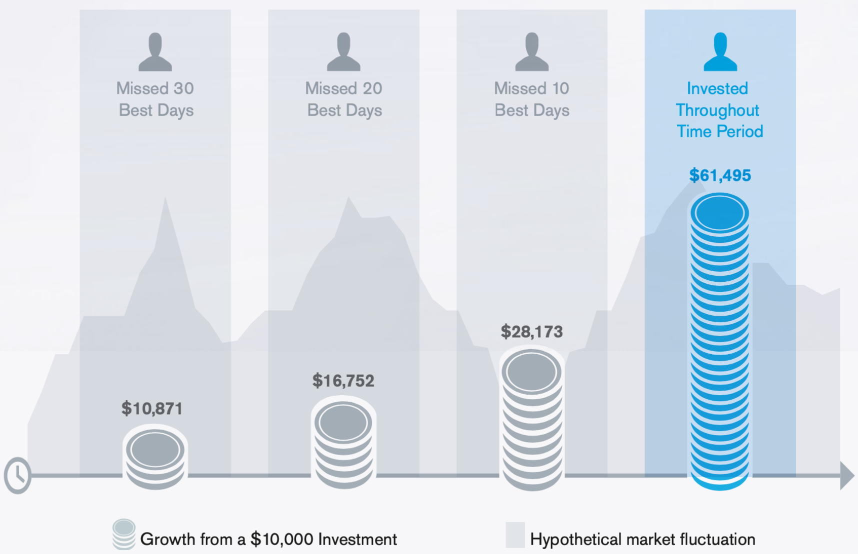
Avoid Locking in Losses

Jumping in and out of the markets may cost your portfolio
One of the most important actions an investor can take is to stay invested. It's tempting to sell when markets turn volatile but sticking with your long-term investment mix can be beneficial. A key may be to have the amount of stocks you can live with through different market conditions. Not staying in the markets could cause you to miss out on some of their best days.

Results of missing the market's best days over the past 20 years.



Consider taking some profits when valuations are high.

Having cash to invest ("dry powder") allows you to take advantage of market pullbacks.

Source: FactSet. Growth of $10,000 in the S&P 500, 20-year data as of September 30, 2021.

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What Can You Do Right Now?

1. Work with Your Advisor to:
   - Explore and consider inflation-fighting investments
   - Understand strategies for rising interest rates
   - Manage volatility in your portfolio

2. Take time for a portfolio review with a financial consultant – Talk about why diversification matters and if you have the right mix in your portfolio.

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MORE RESOURCES
FOR YOU

Inflation
[Is Your Portfolio Prepared for Inflation?]
Stay Ahead of Inflation
Invasion Stokes Inflation, Clouding Fed Outlook
Russia-Ukraine Conflict: Implications for Developed Markets

Investment
Investment Outlook: Navigating Obstacles on the Road to Recovery

Supply Chain and Market Swings
Market Minute: Weathering Supply Chain Shortages
Weathering Market Swings

Interest Rates
Understanding Interest Rate Risk and How You Can Manage It

Fed Policy
Fed Policy Fuels Volatility, but Other Forces Are Along for the Ride
The Fed Speaks: Should You Listen?

Are You Ready for
Today's Real Challenges?
Let Us Help.

REQUEST A CALL

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Investment return and principal value of security investments will fluctuate. The value at the time of redemption may be more or less than the original cost. Past performance is no guarantee of future results.

Diversification does not assure a profit, nor does it protect against loss of principal.

Generally, as interest rates rise, the value of the securities held in the fund will decline. The opposite is true when interest rates decline.

Rebalancing allows you to keep your asset allocation in line with your goals. It does not guarantee investment returns and does not eliminate risk.

International investing involves special risks, such as political instability and currency fluctuations. Investing in emerging markets may accentuate these risks.

Historically, small cap stocks [and mid cap] have been more volatile than the stock of larger, more-established companies. Smaller companies may have limited resources, product lines and markets, and their securities may trade less frequently and in more limited volumes than the securities of larger companies.

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DEFINITIONS

Asset Classes

Sovereign debt is debt issued by a country that can be sold to investors in other countries.

Securitized bonds pool assets together. You can earn interest on the "pool" rather than a single security.

Treasury Inflation Protection Securities (TIPS) are a special type of U.S. Treasury security designed to address a fundamental, long-standing fixed-income market issue: that the fixed interest payments and principal values at maturity of most fixed-income securities don't adjust for inflation. TIPS interest payments and principal values do. The adjustments include upward or downward changes to both principal and coupon interest based on inflation. TIPS are inflation-indexed; that is, tied to the U.S. government's Consumer Price Index (CPI). At maturity, TIPS are guaranteed by the U.S. government to return at least their initial $1,000 principal value, or that principal value adjusted for inflation, whichever amount is greater. In addition, as their principal values are adjusted for inflation, their interest payments also adjust.

Individual Commodities

Bloomberg Commodity Index Wheat (BCOMWH) is a commodity subindex of the Bloomberg Commodity Index of futures contracts on Wheat. It reflects returns of underlying commodity futures price movements.

West Texas Intermediate (WTI) crude is a specific grade of crude oil and one of the main three benchmarks in oil pricing.

Risks

Inflation Risk is the possibility of investments not keeping pace with inflation. It may impact reaching your goals—even when the rate is relatively low.

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Interest Rate Risk occurs when changes in interest rates affect fixed income investments. Higher interest rates usually mean lower bond prices, and vice versa.

Sequence of Return Risk is the risk of market conditions impacting the overall returns of an investment portfolio during the period when a retiree is first starting to withdrawal money from investments as income. For example, if a retiree has to withdrawal income from his or her portfolio when market prices are depressed, the portfolio may lose out on the potential returns that income could have made once market prices recovered.

Currency Risk affects global investing. Also known as exchange-rate risk, it is the possibility of losing money when exchange rates between currencies change.

Market Risk is when economic events cause the value of investments to drop.

Abandonment Risk is the risk an investor will cash out and abandon their investment strategy, typically during periods of volatility.

Tail Risk is the chance of losing money during a rare, unpredicted event. It is defined by an investment that moves more than three standard deviations from the expected normal distribution or returns.

Private Equity consists of investments made directly into private companies that are not quoted on a public exchange. Most private equity consists of institutional investors and accredited investors who can commit large sums of money for long periods of time. Private equity investments often demand long holding periods to allow for a turnaround of a distressed company or a liquidity event such as an initial public offering or sale to a public company.

Real estate investment trusts (REITs) are securities that trade like stocks and invest in real estate through properties or mortgages.

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Indices

Bloomberg Barclays U.S. Aggregate Bond Index covers the USD-denominated, investment-grade, fixed-rate, taxable bond market. The index includes government and corporate securities, mortgage-backed securities, and asset-backed securities, with maturities of at least one year.

Bloomberg Barclays U.S. Treasury Inflation Protected Notes (TIPS) consists of Treasury inflation-protected securities issued by the U.S. Treasury with a remaining maturity of one year or more.

Bloomberg Commodity Index is part of Bloomberg's financial benchmarks designed to provide liquid and diversified exposure to physical commodities via futures contracts. It is calculated on an excess return basis and reflects commodity futures price movements.

CRSP U.S. Total Market Index represents nearly 100% of the U.S. investable equity market and includes nearly 4,000 companies across mega, large, small and micro capitalizations

Dollar Index measures the value of the dollar against six world currencies—Euro, Swiss Franc, Japanese Yen, Canadian dollar, British pound, and Swedish Krona.

MSCI EAFE (Europe Australasia, Far East) Index measures developed market equity performance, excluding the U.S. and Canada.

MSCI Europe Value Index measures large- and mid-cap securities exhibiting overall value style characteristics across the 15 Developed Markets (D.M.)in Europe.

MSCI Emerging Markets Net Return measures the performance of stocks in global emerging market countries.

MSCI U.S. Real Estate Net Return broadly and fairly represents the equity Real Estate Investment Trust (REIT) opportunity set with proper screens to ensure that the index is investable and replicable. The index represents approximately 85% of the U.S. REIT universe.

MSCI World ex-USA Small Cap Index captures small cap representation across developed markets countries (excluding the United States), covering approximately 14% of the free float-adjusted market capitalization in each country.

MSCI Europe ex-UK Small Cap Index captures small cap representation across 14 Developed Markets (D.M.) countries in Europe, excluding the United Kingdom.

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MSCI UK Small Cap Index measures the performance of the small cap segment of the equity market in the United Kingdom.

MSCI Emerging Markets Small Cap includes small cap representation across 25 Emerging Markets' countries.

MSCI Japan Small Cap Index measures the performance of the small cap segment of the Japanese market.

MSCI Pacific ex.-Japan Small Cap Index captures small cap representation across four of five developed markets (D.M.) countries in the Pacific region--excluding Japan.

Purchasing Managers Index (PMI) measures dominant economic trends in manufacturing. It is based on a monthly survey of supply chain managers across 19 industries, covering both upstream and downstream activity.

Russell 1000® Total Return is a market-capitalization weighted, large-cap index created by Frank Russell Company to measure the performance of the 1,000 largest publicly traded U.S. companies, based on total market capitalization.

Russell 1000® Growth Index measures the performance of those Russell 1000 Index companies (the 1,000 largest publicly traded U.S. companies, based on total market capitalization) with higher price-to-book ratios and higher forecasted growth values.

Russell 1000® Value Index measures the performance of those Russell 1000 Index companies (the 1,000 largest publicly traded U.S. companies, based on total market capitalization) with lower price-to-book ratios and lower forecasted growth values.

Russell 2000® Total Return measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000 Index is a subset of the Russell 3000 Index, representing approximately 10% of the total market capitalization of that index. It includes approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership.

Russell Midcap® Total Return measures the performance of the 800 smallest of the 1,000 largest publicly traded U.S. companies, based on total market capitalization

Other

Atlanta Fed's Wage Growth Tracker is a measure of the nominal wage growth of individuals.

Consumer Price Index (CPI) is the most commonly used statistic to measure inflation in the U.S. economy. Sometimes referred to as headline CPI, it reflects price changes from the consumer's perspective. It's a U.S. government (Bureau of Labor Statistics) index derived from detailed consumer spending information. Changes in CPI measure price changes in a market basket of consumer goods and services such as gas, food, clothing, and cars. Core CPI excludes food and energy prices, which tend to be volatile.

Duration is an important indicator of potential price volatility and interest rate risk in fixed income investments. It measures the price sensitivity of a fixed income investment to changes in interest rates. The longer the duration, the more a fixed income investment's price will change when interest rates change. Duration also reflects the effect caused by receiving fixed income cash flows sooner instead of later. Fixed income investments structured to potentially pay more to investors earlier (such as high-yield, mortgage, and callable securities) typically have shorter durations than those that return most of their capital at maturity (such as zero-coupon or low-yielding noncallable Treasury securities), assuming that they have similar maturities.

Employment Cost Index is a Bureau of Labor Statistics survey of employer payrolls that measures quarterly changes in employee total compensation.

ISM Manufacturing Prices Paid Index represents business sentiment about future inflation. High readings are considered positive for the U.S. dollar, while low readings are considered negative.

National Federation of Independent Business (NFIB) Small Business Price Plans (adv. 12 months) provides price changes and planned changes by small businesses.

Price to earnings ratio (P/E) the price of a stock divided by its annual earnings per share. These earnings can be historical (the most recent 12 months) or forward-looking (an estimate of the next 12 months). A P/E ratio allows analysts to compare stocks on the basis of how much an investor is paying (in terms of price) for a dollar of recent or expected earnings. Higher P/E ratios imply that a stock's earnings are valued more highly, usually on the basis of higher expected earnings growth in the future or higher quality of earnings.

Revisions Earnings occur when analysts adjust a company's consensus earnings estimates (a combined estimate by all analysts covering the stock). They can be upgraded or downgraded.

Standard Deviation is a statistical measurement of variations from the average. In financial literature, it's often used to measure risk, when risk is measured or defined in terms of volatility. In general, more risk means more volatility, and more volatility means a higher standard deviation—there's more variation from the average of the data being measured. In this context, reducing risk means seeking lower standard deviation.

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