Capital Market Review

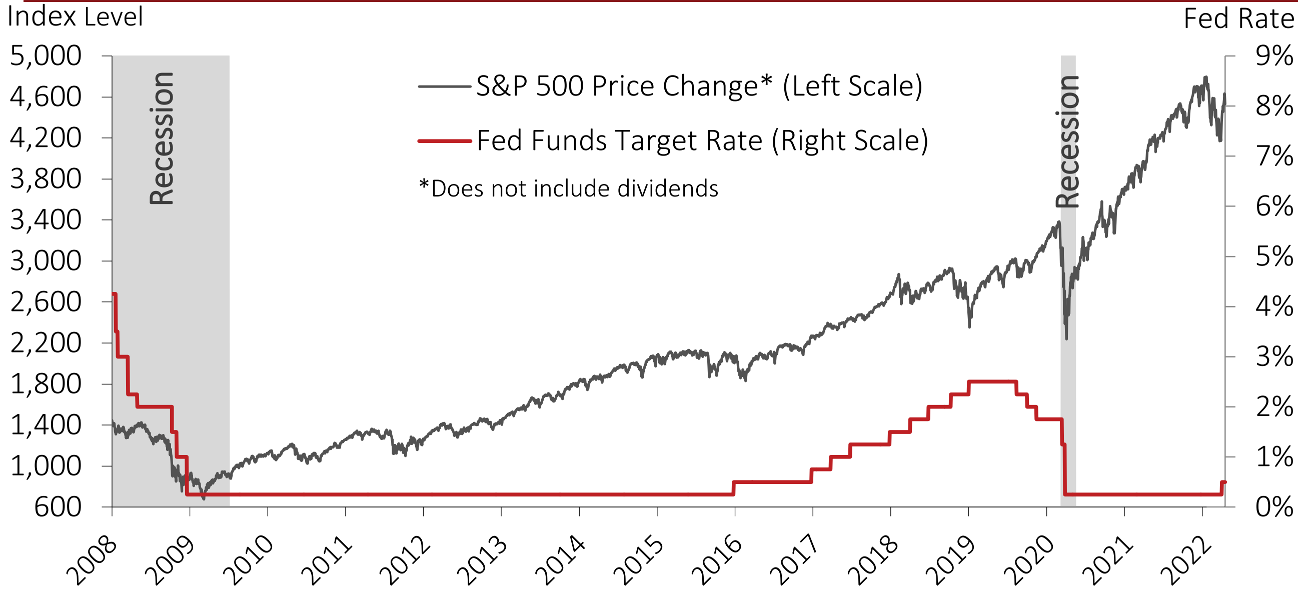
March 31, 2022

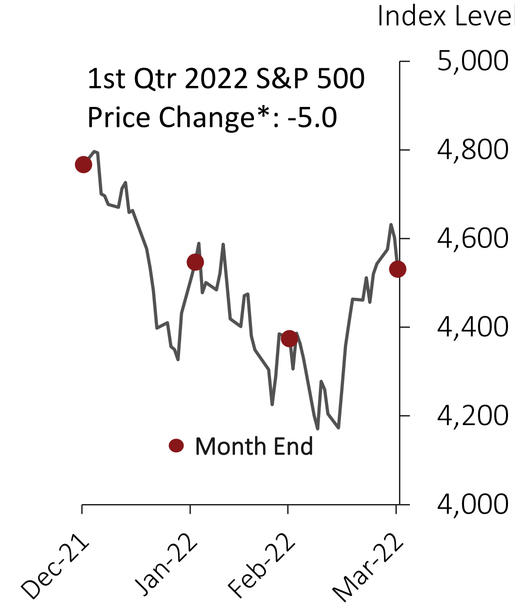



DeMarche

Market / Economic Overview

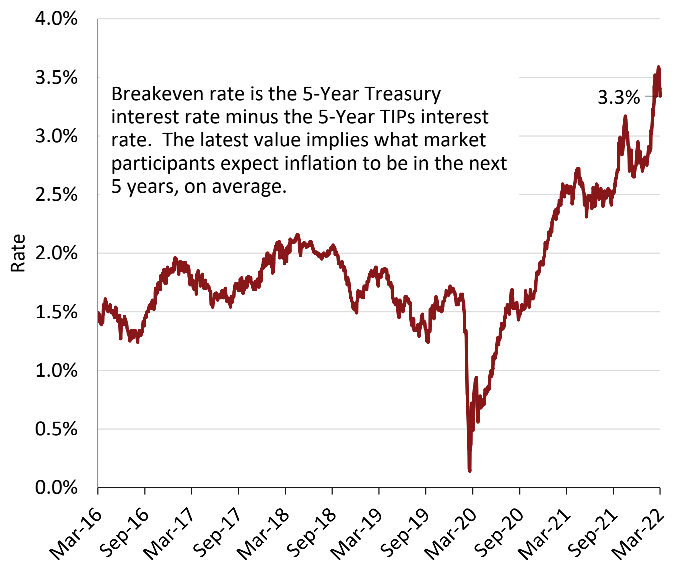
Inflation Infection





Source: Standard & Poor's, Federal Reserve

5-Year Breakeven Inflation Rate

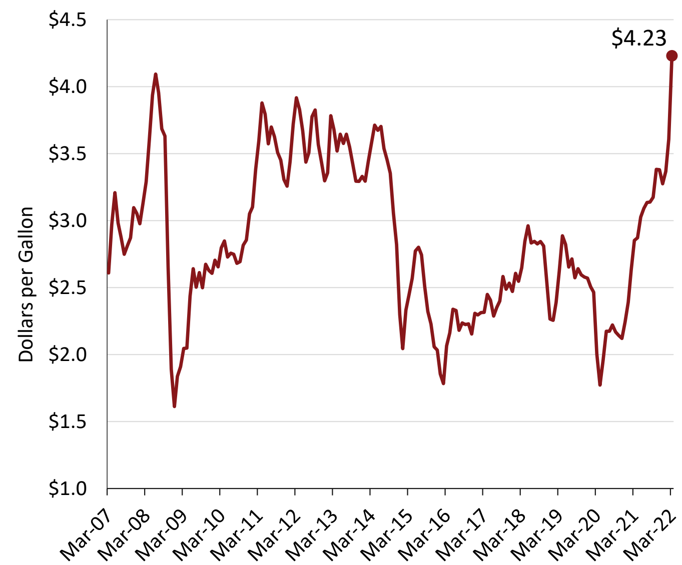


Source: Federal Reserve of St. Louis

The first quarter of 2022 brought us a reassessment of risk and the worst quarterly return in 2 years. Markets around the globe fell, first due to a transitory inflation that became more and more persistent leading the Federal Reserve and global central banks to raise interest rates. Higher interest rates hinder stock prices as future earnings are discounted to present value at a higher rate.

Then came war in Eastern Europe, bringing more uncertainty and fear of escalation beyond the borders of Russia and Ukraine. From a market perspective, the war fueled a more rapid rise in energy and commodity prices exacerbating inflation concerns. The price of a gallon of gas, already increasing since March 2020, accelerated its increase to reach14 year highs, passing July 2008.

Price of Regular Gas in the U.S.



Source: St. Louis Federal Reserve

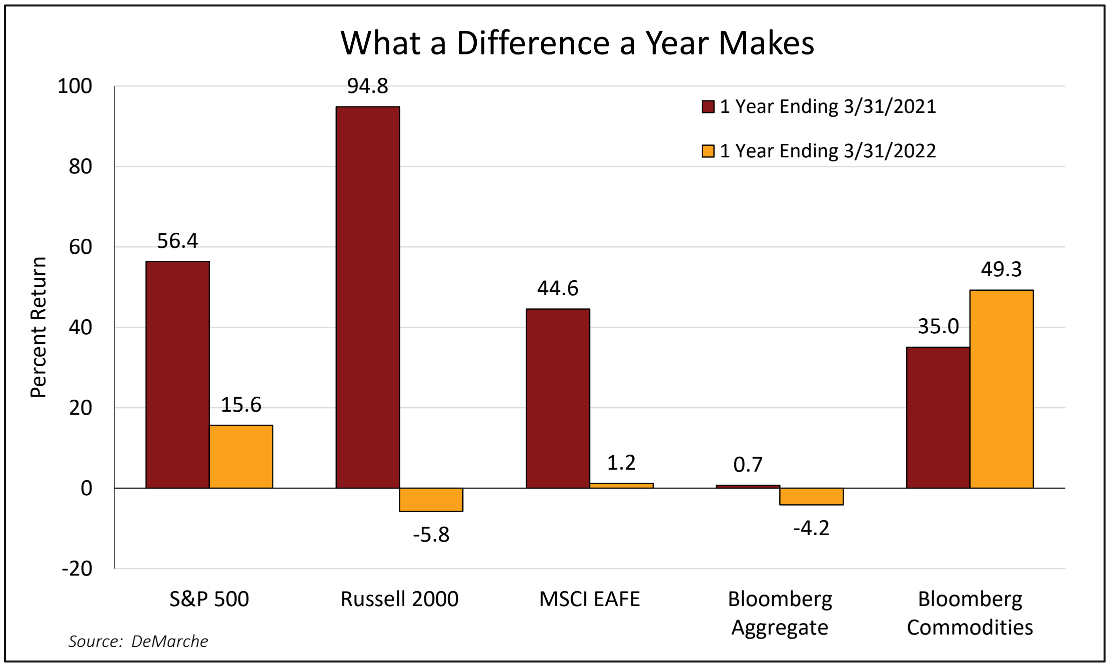
Broad Market Overview

March 31, 2022

INDEX	1st Qtr	1-YEAR	3-YEAR	5-YEAR	10-YEAR
MSCI World	-5.2	10.1	15.0	12.4	10.9
DeMarche 3000	-3.9	11.7	11.5	10.7	10.7
Russell 3000	-5.3	11.9	18.2	15.4	14.3
S&P 500	-4.6	15.6	18.9	16.0	14.6
MSCI EAFE USD	-5.9	1.2	7.8	6.7	6.3
Bloomberg Aggregate	-5.9	-4.2	1.7	2.1	2.2
FTSE Non-US Gov't Bond	-7.1	-10.4	-1.2	0.8	-0.4
Bloomberg Global Aggregate	-6.2	-6.4	0.7	1.7	1.0
NCREIF (Private RE)	5.3	21.9	9.6	8.5	9.6
Bloomberg Commodity	25.5	49.3	16.1	9.0	-0.7

Notes: Data are presented as percent returns. All 3-, 5-, and 10-year returns are annualized.

U.S. Indicators Yr Ending 3/31	2022	2021	2020	2019	50 Yr Average
GDP Annual Growth Rate	3.6	0.5	0.6	2.2	2.7
Unemployment	3.6	6.0	4.4	3.8	6.2
Inflation (CPI)	8.5	2.6	1.5	1.9	4.0
10-Year Interest Rates	2.3	1.7	0.7	2.4	6.1



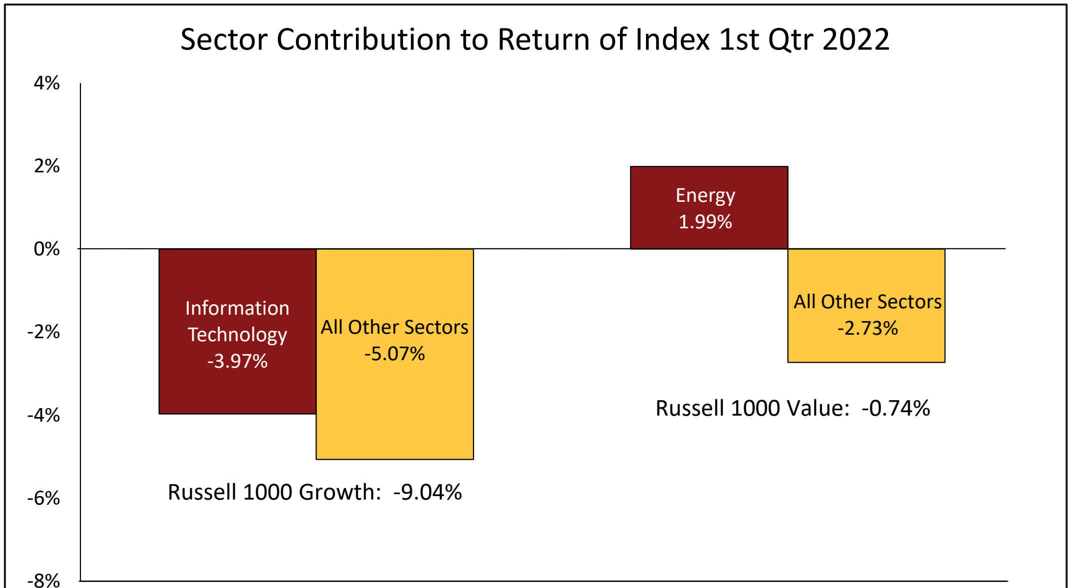
- Markets around the world struggled during the quarter in light of persistent inflation numbers and then the significant uncertainty of war in Eastern Europe. Commodity prices increased rapidly in the quarter, adding to the already high price levels from 2021. This is worrisome as inflation eats into consumer disposable income and consumption.
- Bond prices fell in the quarter as interest rates increased. Persistent inflation is prompting the Federal Reserve to begin increases in interest rates. The market priced-in rate increases during the quarter. The 10 year Treasury closed the quarter at 2.33%, up from a 4th quarter close of 1.51%.
- Energy prices increased about 50% in the quarter and about 90% for the year. Prices have been on a steady climb for the past 18 months due to supply chain issues, and increased consumer demand for such things as durable goods and housing.
- The chart to the left provides context to the outsized returns coming out of the pandemic in April 2020 to March 2021 compared to the past twelve months. The difference between returns on small cap stocks is very stark at over 100 percentage points. The reflation of commodity prices shows the impact of inflation becoming more ingrained in the economy which is why the Federal Reserve is tightening interest rates.

DeFact

The Federal Reserve instituted a broadly expected rate hike in March 2022. The FOMC stated that it "seeks to achieve maximum employment and inflation at the rate of 2% over the longer run"…[therefore it]…"decided to raise the target range for the federal fund to 0.25% to 0.50%." The futures markets now expects a 50 basis point hike in May and a federal funds rate of 3.0% within a year.

INDEX	1st Qtr	1-YEAR	3-YEAR	5-YEAR	10-YEAR
DeMarche Growth	-7.4	9.8	19.2	16.9	14.5
DeMarche Value	5.3	16.6	11.0	8.3	8.6
DeMarche Aggressive	-4.0	-5.8	19.1	14.1	11.4
DeMarche Defensive	-3.8	13.3	16.1	13.6	12.1
S&P 500	-4.6	15.6	18.9	16.0	14.6
S&P Mid-Cap 400	-4.9	4.6	14.1	11.1	12.2
S&P Small-Cap 600	-5.6	1.2	13.6	10.9	12.6
Russell 1000	-5.1	13.3	18.7	15.8	14.5
Russell 1000 Growth	-9.0	15.0	23.6	20.9	17.0
Russell 1000 Value	-0.7	11.7	13.0	10.3	11.7
Russell 2000	-7.5	-5.8	11.7	9.7	11.0
Russell 2000 Growth	-12.6	-14.3	9.9	10.3	11.2
Russell 2000 Value	-2.4	3.3	12.7	8.6	10.5

Notes: Data are presented as percent returns. All 3-, 5-, and 10-year returns are annualized.



Source: Columbia Threadneedle - Market Mosaic

- Large cap stocks performed better than small cap stocks in the quarter as inflation concerns weighed on the more economically vulnerable small cap sector. Small cap growth suffered the most, falling over 12% in the quarter. Small cap growth has now underperformed small cap value over the three-year time frame.
- Value stocks have finally taken a quarter from growth stocks. Large cap growth, with higher multiples, repriced downward as markets are expecting growth to slow in the face of higher interest rates. Yet, large cap growth still leads the pack over longer time frames.
- The drivers of returns this quarter for small cap versus large cap centered in different sectors. Small cap's worst performing sector was healthcare for the quarter and the year. Small cap health care is the largest weight in the growth index. In the large cap universe, tech was the worst performer for the quarter while industrials were the worst performer for the year.
- We have commented often on the technology sector's leadership in the large cap growth space. However, this quarter, technology led the index downward, and accounted for almost half of the growth index's decline. On the other hand, the long unloved energy sector powered forward to contribute an overwhelming positive attribution to the large cap value index in the quarter.

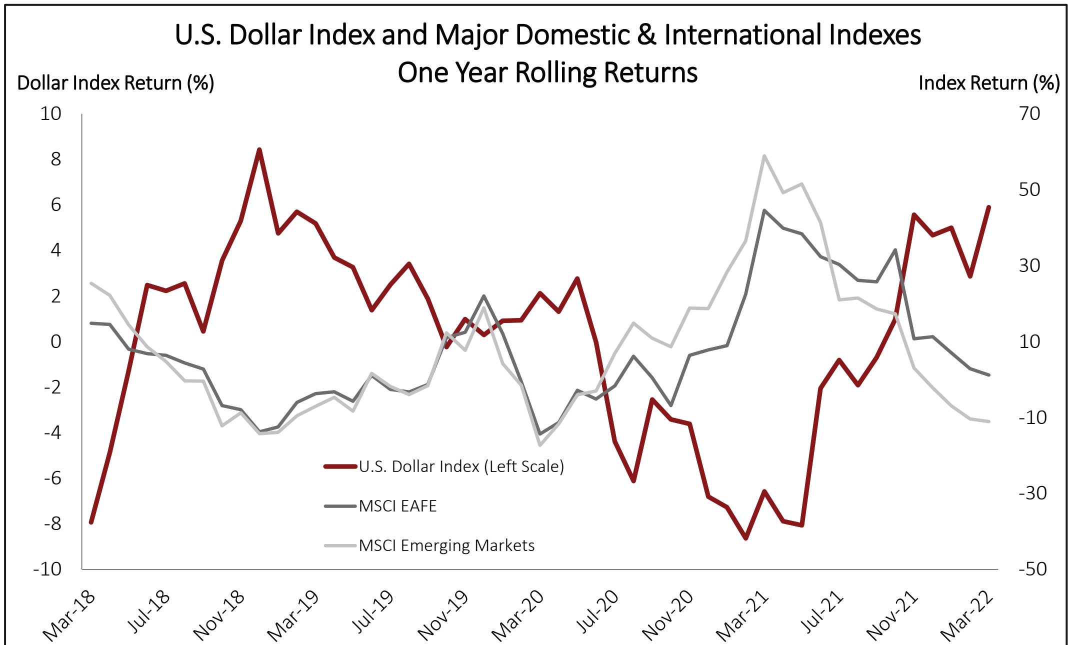
DeFact

Energy is one of two S&P 500 sectors showing a gain in the first quarter of 2022, up 39%—the benchmark as a whole is down 4.6%. The sector's largest stock, Exxon, is up 35%, while the S&P 500's tech sector is down 10.6%. Investors have sold shares of tech and other pricey growth companies, due to concerns about how they will fare in a rising-rate environment.

International Equities

INDEX	1st Qtr	1-YEAR	3-YEAR	5-YEAR	10-YEAR
MSCI EAFE Local	-3.7	6.2	8.2	6.6	8.6
MSCI EAFE USD	-5.9	1.2	7.8	6.7	6.3
Growth	-11.9	-1.5	9.8	8.9	7.5
Value	0.3	3.6	5.2	4.2	4.9
MSCI Japan	-6.6	-6.5	6.8	6.1	6.5
MSCI AC Asia-ex Japan	-8.0	-14.6	5.1	6.7	5.8
MSCI China	-14.2	-32.5	-3.0	3.5	4.5
MSCI Germany	-12.9	-12.0	5.0	2.5	4.7
MSCI France	-8.7	4.5	8.9	8.4	7.5
MSCI UK	1.8	13.6	5.3	5.5	4.5
MSCI EAFE Small Cap	-8.5	-3.6	8.5	7.4	8.3
MSCI EM	-7.0	-11.4	4.9	6.0	3.4
MSCI All Country-ex US	-5.4	-1.5	7.5	6.8	5.6

Notes: Data are presented as percent returns. All 3-, 5-, and 10-year returns are annualized.



Source: Federal Reserve, S&P, MSCI

- International stocks were negatively impacted by global events in the quarter. European stocks, such as German equities, are geographically closer and more directly impacted by Russian aggression, fell by a larger amount than less impacted economies such at the UK and Japan.

- Chinese stocks continue to struggle in light of Chinese regulatory interference, COVID, global inflation and prospects of slowing growth. China is the largest weight in the MSCI Emerging Market index and drove the EM index to a negative return for the past twelve months.

- Other countries in the emerging market index such as Korea, Taiwan and India (combined weight is slightly larger than China within the index) performed relatively better than China during the quarter and year. Brazil, and its more commodity driven economy, performed the best over the quarter and year.

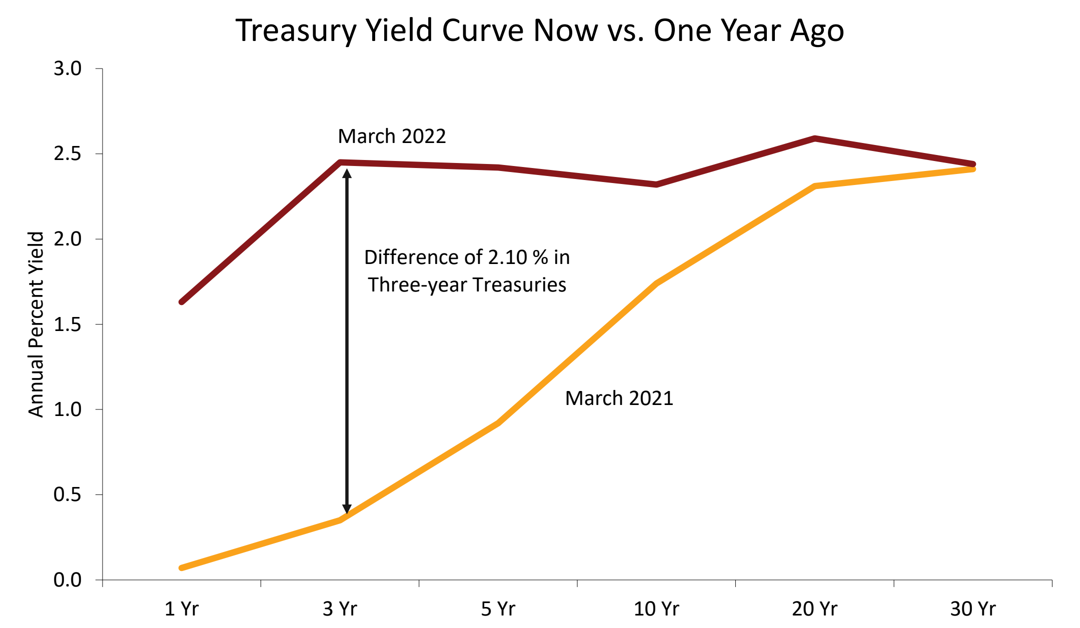
- The chart to the left shows the dollar strengthened in the quarter, continuing its trend of the past nine months. Tightening central bank policy and increasing interest rates bolster the dollar versus other currencies. Local returns, translated into dollars, face a headwind when the dollar strengthens.

DeFact

Tencent and Alibaba will conduct large-scale layoffs this year as they deal with an economic slowdown and regulatory pressure. Tencent plans to cut thousands of employees at some of its biggest business units this year, including around a fifth of the staff in its cloud unit, while Alibaba's layoffs could hit thousands throughout the year. Shares of the two companies have plummeted over the past year. Alibaba boosted its share buyback program to $25 billion from $15 billion, in a bid to reassure investors about the company's prospects. ~WSJ

INDEX	1st Qtr	1-YEAR	3-YEAR	5-YEAR	10-YEAR
Bloomberg 1-3 Gov Credit	-2.5	-2.9	1.0	1.3	1.1
Bloomberg Aggregate	-5.9	-4.2	1.7	2.1	2.2
Bloomberg Gov Credit Long	-11.0	-3.1	4.2	4.6	4.7
Bloomberg US TIPS	-3.0	4.3	6.2	4.4	2.7
ICE BofA Merrill Lynch High Yield	-4.5	-0.3	4.4	4.6	5.7
CSFB Leveraged Loan (bank loans)	-0.1	3.2	4.1	4.1	4.5
Bloomberg Global Aggregate	-6.2	-6.4	0.7	1.7	1.0
JPM EmgMkt Bd Glbl Dvrsfd	-10.0	-7.4	0.0	1.7	3.7

Notes: Data are presented as percent returns. All 3, 5-, and 10-year returns are annualized.



Source: St. Louis Federal Reserve

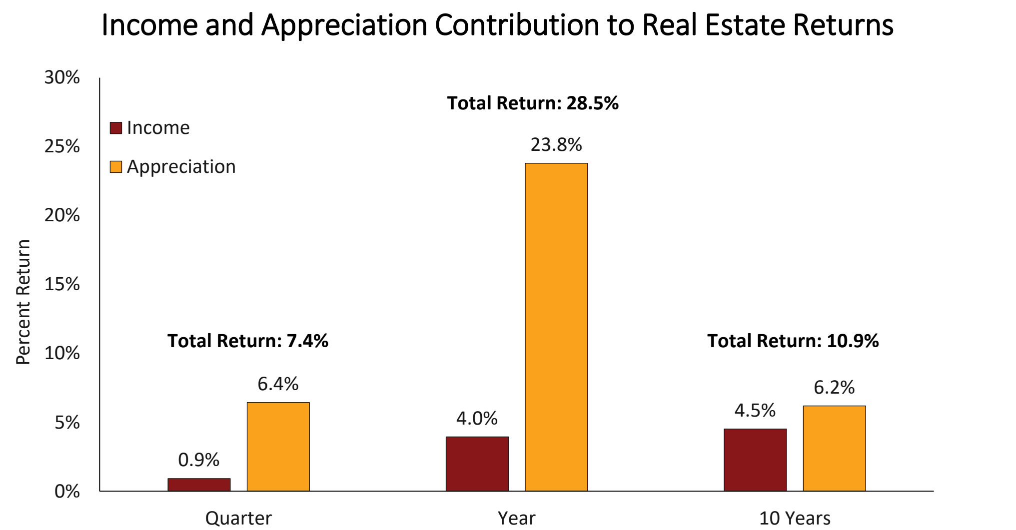
- Interest rates increased in the quarter, impacting longer duration assets the most. The Aggregate Index fell 5.9% in the quarter resulting in a dismal 2.2% return over the 10-year horizon. Interest rates have increased and the yield curve has flattened signaling that the market expects rate increases will slow down growth in the future.
- High yield bonds typically have a shorter duration than the Bloomberg Aggregate, therefore are less negatively impacted by interest rate increases. Bank loans, which are floating rate, only fell 10 basis points in the quarter. Interestingly, this lower quality debt did not feel the effects of spread widening usually seen when economic growth is expected to slow.
- Emerging market debt was negatively impacted by global inflation. Countries have had to increase interest rates to combat stronger than expected inflation. Increases in interest rates provide a headwind to emerging market debt returns.
- The chart to the left shows how dramatically the market has already priced in expected Federal Reserve rate hikes. As we mentioned, the Fed increased rates in March by 25 basis points. However, the market has pushed Treasury rates up above 2% along the curve. This tells us that the market expects the fed funds rate to be hiked fairly rapidly.

DeFact

The average rate for a 30 year fixed rate mortgage jumped to 4.67%, the highest since December 2018. The rise, while widely expected, has been faster than the market foresaw. Increases in interest rates reduce affordability, but the number of mortgage applicants has risen in three of the past four weeks of March. Consumers are still out buying homes. WSJ

INDEX	1st Qtr	1-YEAR	3-YEAR	5-YEAR	10-YEAR
NCREIF Property (Private RE)	5.3	21.9	9.6	8.5	9.6
Apartment	5.3	24.1	10.2	8.6	9.2
Industrial	11.0	51.9	25.1	20.4	16.5
Office	1.6	6.8	4.7	5.5	7.5
Retail	2.3	7.1	-0.4	1.3	6.6
NCREIF Timberland	3.2	11.8	4.7	4.1	5.6
NCREIF Farmland	2.6	9.7	5.9	6.2	9.6
NAREIT (Public RE)*	-5.3	22.1	11.0	10.2	10.3
Bloomberg Commodity	25.5	49.3	16.1	9.0	-0.7
HFR FOF Composite	-2.6	1.3	5.9	4.6	3.9
Conservative	0.4	4.3	5.8	4.5	3.8
Diversified	-1.8	2.1	6.0	4.8	4.0
Strategic	-5.5	-1.2	6.2	4.9	4.2
Private Market Indexes as of 9/30/2021	**3rd Qtr**	1-YEAR	3-YEAR	5-YEAR	10-YEAR
Preqin Private Equity	5.7	47.5	23.9	21.0	16.9
Preqin Private Debt	4.8	22.3	9.4	8.8	9.5
Preqin Infrastructure	3.0	16.4	10.1	9.8	10.1

Notes: Data are presented as percent returns. All 3-, 5-, and 10-year returns are annualized.
**Public RE is not a less liquid strategy. It is listed for comparative purposes.*

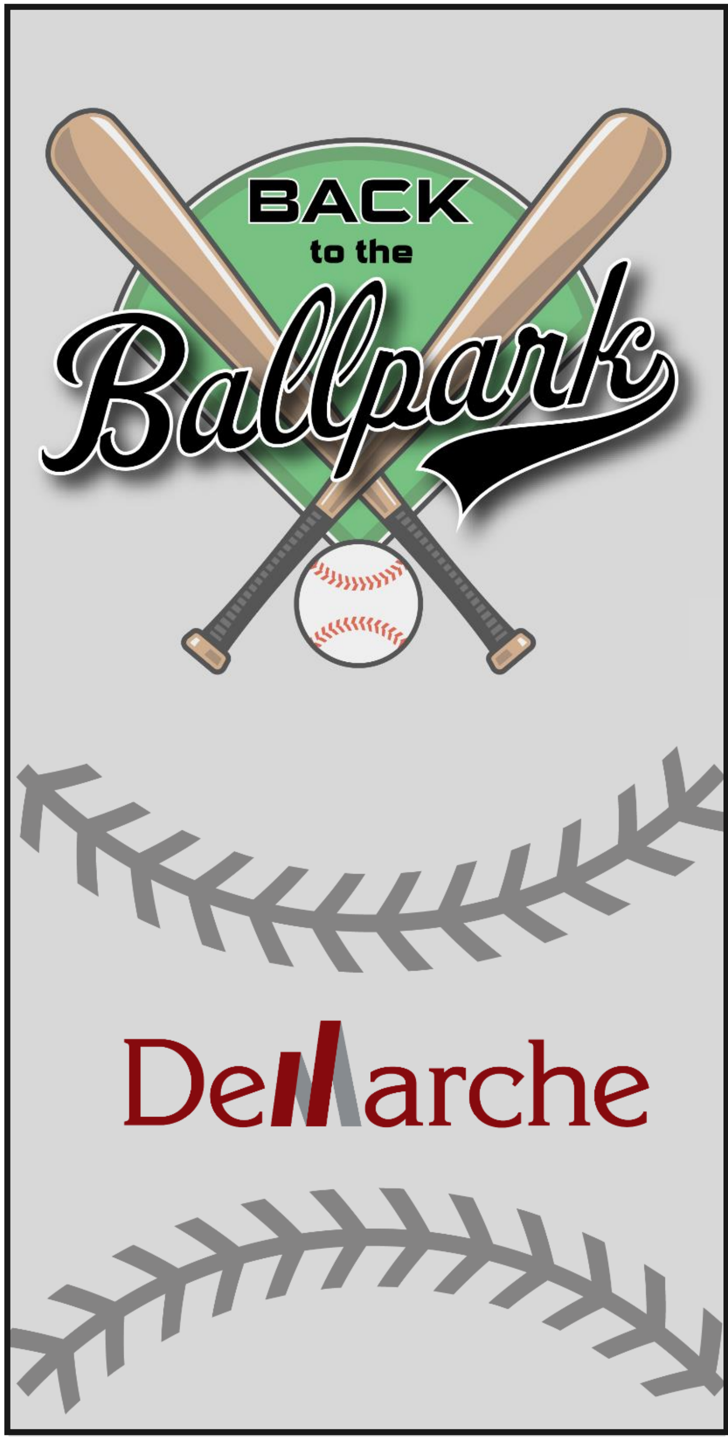


Source: NCREIF NFI-ODCE Preliminary Snapshot Report 3/31/22
The sum of income and appreciation returns may not equal total return due to rounding and/or the compounding of individual component returns to each other.

- REITs broadly fell in the quarter. Retail properties continued to struggle, but other sectors are also beginning to feel the negative impact of the changing economic landscape. Strong 2021 sectors such as residential performed poorly in the quarter. The best performer for the quarter was lodging and resorts.
- Hedge funds experienced a volatile quarter which benefitted some strategies and harmed others. Equity hedges and other equity focused strategies posted negative returns while a mix of volatile geopolitical events and increasing interest rates provided opportunities for macro hedge funds to take advantage of the dislocations in the markets.
- Private real estate outperformed its public market counterpart. Public REITS bear daily market volatility while private market returns tend to be less volatile due to lagged quarterly pricing. Looking more closely, the industrial sector continues to put up great numbers compared to other private real estate sectors.
- The chart to the left further breaks down the income and price appreciation components of private real estate fund returns. Income, over both the short and longer time frames has contributed about 4% to the total return. In the past year, price appreciation has contributed a significant amount to total return, nearly four times its 10-year rate of 6.2%.

DeFact

Private infrastructure fund raising remains robust, setting its most active fundraising quarter ever with a record $70bn in the first quarter of 2022. Infrastructure's inflation hedging, diversification and income generation attributes are attracting substantial institutional capital. ~Preqin



Have you spent enough time meeting over Zoom and Teams?

Let's get back to the ballpark together and "Root! Root! Root! for the home team!"

DeMarche welcomes you to join us to kick off the summer season and enjoy one of America's favorite past-times in fresh air. Leave your keyboard at home, bring your plus one, meet new people, and enjoy some baseball.

Games

Wed, June 8	Kauffman Stadium, Kansas City	Royals vs Blue Jays
Tues, June 28	Coors Field, Denver	Rockies vs. Dodgers
Wed, July 13	Target Field, Minneapolis	Twins vs. Brewers
Wed, August 17	Busch Stadium, St. Louis	Cardinals vs. Rockies

Check your email for your invitation or contact Emily Szkrybalo at eszkrybalo@demarche.com or (913) 384-4994 to attend a game.