Economic Summary

The first half of the year has been plagued by a tight labor market, supply chain disruptions and record-setting inflation readings not seen in 40 years. High inflation has forced the Federal Reserve (THE FED) to be restrictive with monetary policy, as it became clear that inflation was not 'transitory.' This year, the Fed raised the Federal Funds rate three times, with increases of 0.25% in March, 0.50% in May and 0.75% in June. Currently, the Fed Funds target rate range sits at 1.50% to 1.75% and is forecasted to end the year in the 3.25% to 3.50% range.

Additionally, in June, the Fed started to reduce the size of its nearly $9 trillion balance sheet through Quantitative Tightening (QT). The Fed will let $47.5 billion worth of Treasury notes and mortgage-backed securities mature each month until September, when the program will be ramped up to $95 billion per month.

There are signs the Fed's measures are starting to take hold as commodity and agricultural prices have come down recently (CHARTS 1 AND 2). Home prices have also decreased as demand has slowed due to higher mortgage rates (CHART 3). The quicker inflation abates, the less tightening the Fed will have to do, which decreases the probability of a recession.

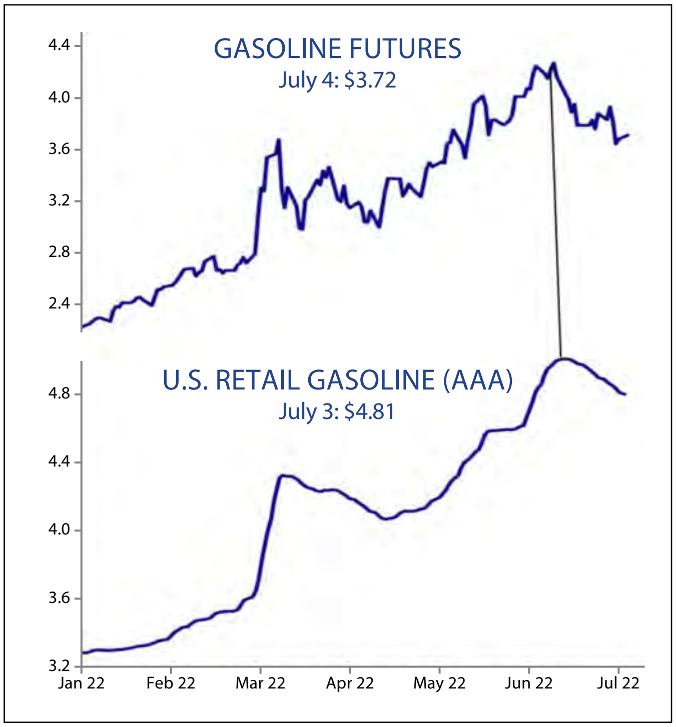

Chart 1

SOURCE: EVERCORE ISI
"WEEKLY ECONOMIC REPORT" — JULY 4, 2022

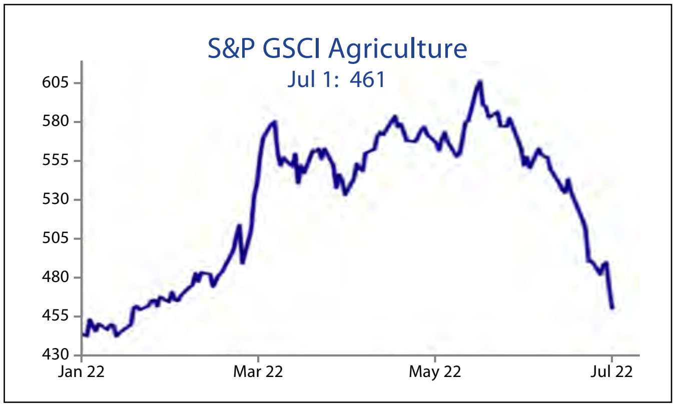

Chart 2

SOURCE: EVERCORE ISI
"WEEKLY ECONOMIC REPORT" — JULY 4, 2022

Past performance does not guarantee future results.

Consumers and businesses remain wary as high inflation and rising interest rates have taken hold. Consumer confidence metrics reflect this reality, with the University of Michigan Consumer Sentiment Index registering pessimism not seen since the depths of the 2008 financial crisis. Businesses are projecting less profitability in the quarters ahead, as indicated by S&P 500® forward EPS growth estimates decreasing (CHART 4). Not all is bleak though. The labor market has remained strong, with the unemployment rate at 3.6%, a level typically seen in a healthy economy. Should the Fed get a handle on inflation sooner than anticipated, the back half of the year could shape up to be much better than the first half.

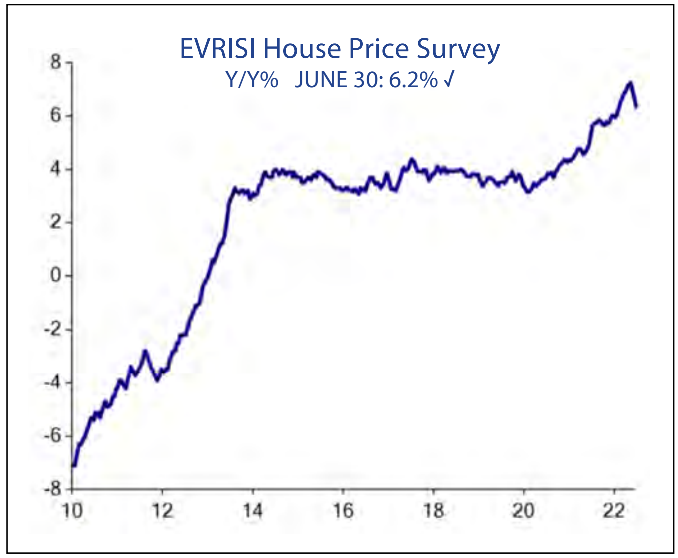

Chart 3

SOURCE: EVERCORE ISI
"WEEKLY ECONOMIC REPORT" – JULY 4, 2022

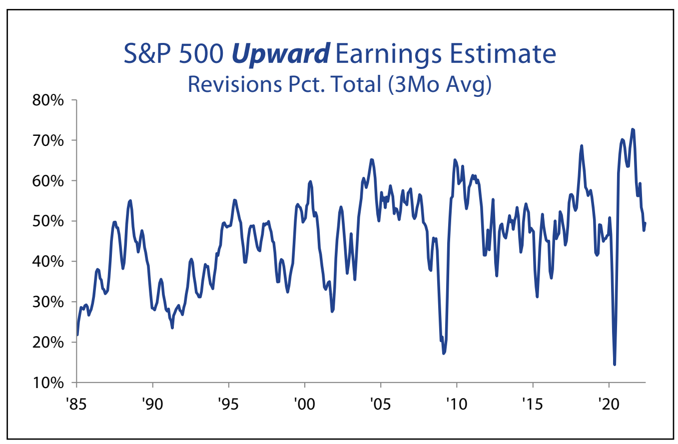

Chart 4

SOURCE: STRATEGAS RESEARCH PARTNERS
"QUARTERLY REVIEW IN CHARTS" – JULY 5, 2022

Past performance does not guarantee future results.

The Stock Market

The second quarter saw continued volatility and a drop in equity prices. Looking at performance by market cap, the large cap S&P 500® finished the quarter down -16% and is -20% year-to-date. For small caps, the Russell 2000® finished the quarter down -17%, and is down -23% year-to-date (CHART 5).

By style, value stocks continued to outperform growth stocks. The Russell 1000® Value Index has a year-to-date total return of -12.9% vs the Russell 1000® Growth Index's -28.1% (CHART 6). The Russell 1000® Value Index benefited this year from more exposure to Energy, up a staggering 31%, and Utilities that were down slightly at -1%. The Russell 1000® Growth Index was dragged down by its large exposure to the Communication Services sector, which was down an astonishing -38%. Consumer Discretionary and Information Technology were down -35% and -29%, respectively.

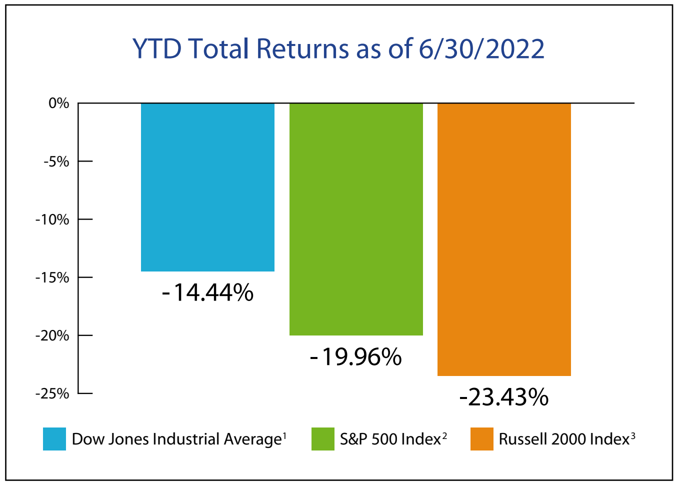

Chart 5

SOURCE: MORNINGSTAR DIRECT

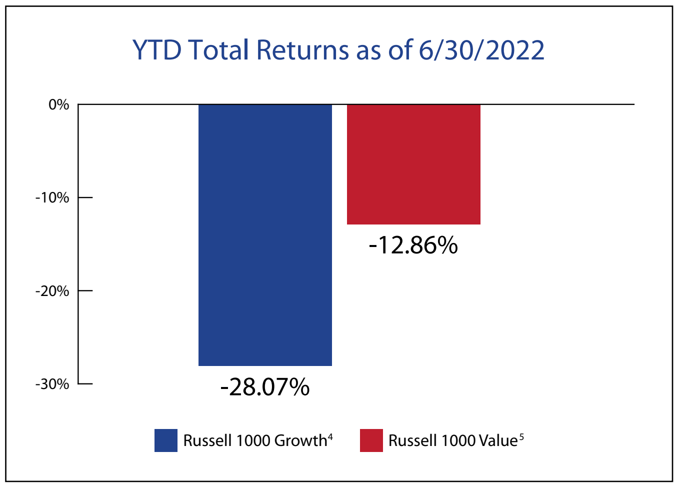

Chart 6

SOURCE: MORNINGSTAR DIRECT

Past performance does not guarantee future results. You cannot invest directly in an index.

[1] The Dow Jones Industrial Average is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the NASDAQ.

[2] The S&P 500® Index is a capitalization weighted unmanaged index of 500 widely traded stocks, created by Standard & Poor's. The index is considered to represent the performance of the stock market in general.

[3] The Russell 2000® Index is an unmanaged index of the smallest 2,000 stocks in the Russell 3000® Index.

[4] The Russell 1000® Growth Index measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000® companies with higher price-to-book ratios and higher forecasted growth values.

[5] The Russell 1000® Value Index Measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 companies with lower price-to-book ratios and lower expected growth values.

The Bond Market

U.S. Government bond yields increased across the yield-curve, with the 2-year and 10-year Treasury Note rates each increasing half a percent to 3% since the start of the quarter. The yield curve remains inverted on the 2-year and 10-year Treasury Notes. Historically, an inverted yield curve has been a harbinger of an impending recession.

Corporate credit spreads have widened further, indicating investors increased requirement for lending risk. Corporate credit spreads on bonds rated Baa by Moody's have increased to 240 basis points (2.4%) above the 10-year Treasury Note yield, an increase from 190 basis points from the end of the first quarter.