EYE OF THE TIGER

We started 2022 with hopeful and patriotic hearts as many turned their eyes and television sets towards the Beijing Winter Olympics to watch their favorite snow sport. These particular Games seemed aptly timed to coincide with the Chinese Zodiac, which entered the Year of the Tiger. Just like the catchy song goes, the tiger symbolizes bravery, competitiveness and confidence; something every athlete aims to be. While the games played out, there was the usual bit of drama; emotional breakdowns on the ski slopes and drug doping issues on the ice rink. However, the real drama was unfolding on the periphery--the boarder of Ukraine. While competitors strapped on skis and skates and curlers grabbed their brooms, Russia was putting someone else on ice.

Instead of a Bengal tiger, this year came in the form of a cat with different stripes--a Siberian tiger waging war from the North. While tigers have many attractive traits, they are also known to be unpredictable, impetuous, and irritable. They have stubborn personalities, tough judgment, express themselves boldly, and act in a high-handed manner. They are authoritative and never go back on what they have said. Is this sounding like someone we know?

While this war is different, it is still a Cold one! On top of COVID disruptions, we now see how fragile our supply chain issues really are, with Europe experiencing the brunt due to their dependency on Russian energy (Europe gets more than 40% of its natural gas and nearly 30% of its crude oil from Russia). This is leading to a de-globalization of the global economy as countries realize they cannot depend on former trading routes and partners and must secure new solutions. It is also exacerbating what were already high food and energy costs. With Ukraine being a major wheat producer, the Christian prayer asking to "give us our daily bread", is becoming all too real.

Back on Terra Firma (U.S. soil), the Fed has officially removed the word "transitory" from its language and raised rates (Fed Funds) by 25 basis points to begin combatting inflation. Inflation hit a 40-year high in February, rising 7.9% year-over-year (less food and energy: +6.4%). Energy rose nearly 26% YOY, food prices were up 8%, and gains were also seen in new and used vehicles, shelter, and restaurants/hotels. Meanwhile, the labor market remains strong, with unemployment falling to 3.6%, which is only feeding the beast as higher wages become more sticky.

While we are all experiencing "pain at the pump", (the average U.S. regular retail gasoline price for the first three weeks of March 2022 was $4.22/gal.) the U.S. is in a much different place than it was back in the 70's and even as recently as 2008. Thanks to the explosion of shale oil production, the U.S. is no longer a net importer of oil. While higher oil prices make the consumer feel poorer in the short run, the domestic energy producer is richer, and that money keeps circulating in the economy helping to offset some of the gasoline grief. The consumer is also in a much better economic situation now due to the reopening of various parts of the service sector, higher savings relative to history, lower debt levels, and higher accumulated net worth from stock market and housing gains (Case-Shiller Home Index rose 19.2% YOY in January), giving them confidence that they should be able to weather the storm.

Uncertainty creates volatility, and markets have reacted, with some indices entering correction territory. A rebalance between high flying growth stocks and stalwart blue chips has been in motion and continues to play out as interest rates rise, sending bond prices in the opposite direction. While a combination of monetary and fiscal tightening could eventually lead us into a recession, we do not foresee a dead-cat bounce. We do believe exposure to hard assets and non-traditional income generating investments will serve as good diversifiers in this environment.

Closing Thoughts

Although the start to this year has been less than ideal, the silver lining is that the Tiger is also known to be "exorcising", with the ability to drive out evil from a person or place. While Ukraine's coat of arms hosts a lion instead of a tiger, let's hope this cat has what it takes to reclaim the jungle. Another bright spot resulting from this conflict is that just as the globe seemed to be pulling apart, a uniting front is pulling us back together as countries around the world collectively impose sanctions on Russia and denounce its actions. The bad news is that even if the war ends tomorrow, sanctions will stay in place for some time, potentially extending supply chain issues, further aggravating inflation and slowing growth. At least there is some comfort in knowing that we are all in this together! It is in times like these that we emphasize that slow and steady (and honorable) wins the race, and sticking to a disciplined investment process and well-defined long-term asset allocation policy is key to navigating volatile markets and personalities.

Regards,

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President

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Equity Markets

The S&P 500 Index fell 4.6% in 1Q, but was down more than 12% early in March before staging a rally into quarter-end. Value stocks sharply outpaced growth across capitalizations, with the spread exceeding 10% in both mid and small caps and just over 8% in large caps. Not surprisingly, Energy (+39%) was the best-performing sector given a 33% spike in WTI crude oil prices. The Utilities sector (+5%), which typically does well in a rising rate environment, also posted a positive result. Communication Services (-12%), Consumer Discretionary (-9%), and Information Technology (-8%) were the worst-performing sectors.

Global ex-U.S. equity (MSCI ACWI ex US: -5.4%) saw mixed performance from its constituents around the globe. Canada (+5%), Australia (+7%), and Norway (+10%) were helped by soaring commodity prices while Japan (-7%) and Europe ex-U.K. (-10%) posted declines. As in the U.S., value outperformed growth by a wide margin (EAFE Value: +0.3%; EAFE Growth: -11.9%). Emerging markets (MSCI EM: -7.0%) also posted mixed results, with Latin America (+27%) faring well on the back of rising oil prices and Emerging Europe (-71%) plunging, reflecting Russia's -100% return before it was removed from the Index. As elsewhere, value outperformed growth (EM Value: -3.4%; EM Growth: -10.3%).

Fixed Income

The Bloomberg US Aggregate Bond Index sank 5.9% in 1Q, the third-worst quarter since the index's inception in 1976 (the other two being in 1980). Rates rose sharply on worries over inflation and expectations for Fed rate hikes. The 10-year U.S. Treasury closed the quarter at 2.32%, up from 1.52% at year-end, and reached 2.48% just a week before the quarter closed. Notably, the yield flattened meaningfully and as of quarter-end the relationship between the 5-year yield (2.42%) and the 10-year yield (2.32%) was inverted. Yield curve inversions have historically been a reasonably good predictor of a coming recession, and this recent inversion has thus garnered much attention. Spread sectors broadly underperformed U.S. Treasuries, but the bulk of the negative return was attributable to rising rates. Ten-year breakeven spreads, a measure of expected inflation, widened to 2.84% as of quarter-end, up from 2.56% as of year-end. High yield corporates (Bloomberg High Yield: -4.8%) fared a bit better given less sensitivity to interest rates and a relatively high energy sector weighting. Rates were also up overseas while the dollar strengthened vs. most developed market currencies; the Bloomberg Global Aggregate ex-US Bond Index fell 6.1% unhedged and 4.1% hedged. Emerging market debt was not immune to rising rates in the U.S.; the JPM EMBI Global Diversified Index fell 10.0% over the quarter. Local debt indices performed better but with a high degree of dispersion across constituents (JPM GBI-EM Global Diversified: -6.5%). Russia was removed from all emerging market debt indices at a price of $0 (-100% return).

Real Assets

Commodities were a rare bright spot given their inflation-protection properties as well as war-induced supply concerns. The Bloomberg Commodity TR Index soared 25.5% and the energy-heavy S&P GSCI climbed 33.1%. Gold (S&P Gold Spot Price Index: +6.9%) and listed infrastructure (DJB Global Infrastructure: +3.2%) outperformed global stocks and bonds. TIPS (Bloomberg TIPS: -3.0%) fell but outpaced nominal U.S. Treasuries.

Returns for Various Periods - March 31, 2022

	Last Quarter	Year to Date	Last Year	**Last 3 Years**	Last 5 Years	Last 10 Years	**Last 15 Years**
MSCI:ACWI	(5.36)	(5.36)	7.28	**13.75**	11.64	10.00	**6.49**
Russell:3000 Index	(5.28)	(5.28)	11.92	**18.24**	15.40	14.28	**10.10**
Russell:3000 Growth Index	(9.25)	(9.25)	12.86	**22.68**	20.16	16.64	**12.63**
Russell:3000 Value Index	(0.85)	(0.85)	11.10	**12.99**	10.16	11.61	**7.33**
~~MegaCap~~							
Russell:Top 50	(4.87)	(4.87)	19.67	**22.49**	18.45	15.44	**10.79**
Russell:Top 200	(4.94)	(4.94)	15.66	**20.14**	17.04	15.16	**10.56**
Russell:Top 200 Growth	(8.29)	(8.29)	18.83	**25.76**	22.34	18.04	**13.70**
Russell:Top 200 Value	(0.14)	(0.14)	11.77	**12.63**	10.40	11.55	**6.97**
~~Large Cap~~							
S&P:500	(4.60)	(4.60)	15.65	**18.92**	15.99	14.64	**10.26**
Russell:1000 Index	(5.13)	(5.13)	13.27	**18.71**	15.82	14.53	**10.26**
Russell:1000 Growth	(9.04)	(9.04)	14.98	**23.60**	20.88	17.04	**12.92**
Russell:1000 Value	(0.74)	(0.74)	11.67	**13.02**	10.29	11.70	**7.36**
~~MidCap~~							
S&P:400 Mid Cap	(4.88)	(4.88)	4.59	**14.14**	11.10	12.20	**9.67**
Russell:Midcap Index	(5.68)	(5.68)	6.92	**14.89**	12.62	12.85	**9.48**
Russell:Midcap Growth	(12.58)	(12.58)	(0.89)	**14.81**	15.10	13.52	**10.41**
Russell:Midcap Value	(1.82)	(1.82)	11.45	**13.69**	9.99	12.01	**8.31**
~~Small Cap~~							
S&P:600 Small Cap	(5.62)	(5.62)	1.23	**13.58**	10.89	12.56	**9.50**
Russell:2000 Index	(7.53)	(7.53)	(5.79)	**11.74**	9.74	11.04	**7.99**
Russell:2000 Growth	(12.63)	(12.63)	(14.33)	**9.88**	10.33	11.21	**8.81**
Russell:2000 Value	(2.40)	(2.40)	3.32	**12.73**	8.57	10.54	**6.91**
Russell:Microcap	(7.60)	(7.60)	(10.99)	**13.03**	9.86	11.14	**6.88**
~~Non-US Equity~~							
MSCI:ACWI ex US	(5.44)	(5.44)	(1.48)	**7.51**	6.76	5.55	**3.13**
MSCI:EAFE	(5.91)	(5.91)	1.16	**7.78**	6.72	6.27	**2.91**
MSCI:EAFE Growth	(11.94)	(11.94)	(1.48)	**9.78**	8.94	7.46	**4.25**
MSCI:EAFE Value	0.33	0.33	3.55	**5.24**	4.18	4.87	**1.41**
MSCI:EAFE Small Cap	(8.53)	(8.53)	(3.63)	**8.51**	7.42	8.30	**4.47**
MSCI:EM	(6.97)	(6.97)	(11.37)	**4.94**	5.98	3.36	**3.79**
~~Fixed Income~~							
Blmbg:Aggregate	(5.93)	(5.93)	(4.15)	**1.69**	2.14	2.24	**3.56**
Blmbg:TIPS	(3.02)	(3.02)	4.29	**6.22**	4.43	2.69	**4.30**
Blmbg:Long Gov/Credit	(10.95)	(10.95)	(3.11)	**4.23**	4.60	4.72	**6.14**
Blmbg:Long Credit A	(11.09)	(11.09)	(4.43)	**3.96**	4.31	4.88	**5.73**
Blmbg:HY Corp Cash Pay	(4.84)	(4.84)	(0.63)	**4.60**	4.70	5.75	**6.54**
Blmbg:Muni 1-10 Yr	(4.76)	(4.76)	(4.00)	**1.03**	1.77	2.00	**3.09**
Blmbg:Glb Agg xUSD	(6.15)	(6.15)	(7.89)	**(0.19)**	1.27	0.06	**2.14**
Blmbg:Glb Agg xUSD Hdg	(4.05)	(4.05)	(3.56)	**0.91**	2.25	3.20	**3.63**
JPM:EMBI Plus	(16.20)	(16.20)	(13.76)	**(3.15)**	(0.96)	2.00	**4.11**
~~Other Assets~~							
Blmbg:Commodity TR Idx	25.55	25.55	49.25	**16.12**	9.00	(0.70)	**(1.40)**
S&P GSCI	33.13	33.13	64.55	**13.40**	9.98	(3.31)	**(3.10)**
S&P:Gold Spot Price Ix	6.86	6.86	13.90	**14.59**	9.33	1.57	**7.41**
FTSE:NAREIT Equity Index	(3.86)	(3.86)	26.49	**11.12**	9.63	9.81	**6.42**
Alerian:MLP Index	18.81	18.81	36.56	**2.70**	(0.07)	1.28	**4.69**