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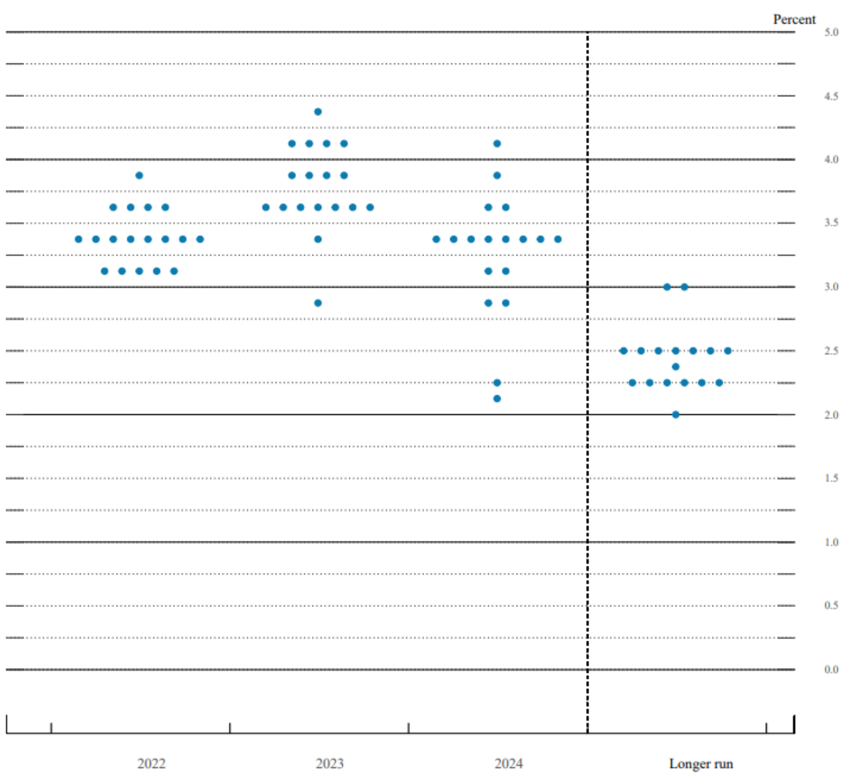
Third Quarter Market Commentary

The economic headwinds of the Coronavirus pandemic are seemingly some of the strongest macroeconomic impacts to ever sweep through the world economy. The unfolding situation's intricacies continue to bewilder the FED and other government organizations to a surprising degree. The FOMC raised rates by 75 basis points, which clearly signals that inflation is being taken more seriously, but is it too little too late? In reality, only time will tell if the FED is acting quick enough to stave off prolonged economic hardship. The current economic landscape is very reminiscent of the Paul Volker Era, hopefully, the great moderations effects on monetary and fiscal policy will yield more favorable results than last time.

For release at 2:00 p.m., EDT, June 15, 2022

Figure 2. FOMC participants' assessments of appropriate monetary policy: Midpoint of target range or target level for the federal funds rate



As the figure below implies, consensus among FOMC participants is that rates should fall somewhere between 3-4% which is not much higher than where we currently stand. This suggests that the Fed is closer to the end of their rate hike campaign than the beginning. In either case, the FED's actions have been certainly felt through the economy, with new housing starts plummeting from the most recent data, as well as a revision of Q1 2022 GDP coming in at 1.1% from 1.5%. In other words, the US economy is slowing, and the FED seems to be putting more strong downward pressure on equity markets. This is all to say that in the short to medium term, the equity markets will be hit with a large amount of uncertainty. A silver lining is that perhaps the flight to safety of the market as a whole might counter the balance sheet unwinding of the Federal Reserve.

Strategy Positioning

Our fixed income allocation is underweight duration compared to the bogey. Our blended duration of approximately 4 years reflects the view that rates will rise but not to a level that will cause significant disruption to asset valuations. We interpret the rate hike campaign as more of a normalization and less as a structural change in the rate environment.

While equity valuations certainly are no bargain, they do offer investors value in select names and asset classes. It is important to realize that valuations matter because they determine future return. We are actively searching for companies with solid franchises or platforms and selling at reasonable valuations compared to peers. Such investments might take time to work out and can perform poorly in the interim, but our goal is to maintain a posture that is both patient and opportunistic. In more informationally efficient areas of the market we will index our exposure to create efficiency and add scale to our investment program. We believe an active-passive portfolio construction process is best suited to the needs of our advisors as it lends itself to a compelling narrative and attractive risk adjusted results. The direction of rates will influence how active our portfolio management process becomes because any dislocation of valuations creates an opportunity to acquire a solid business at an attractive price.