

Capital Market Review

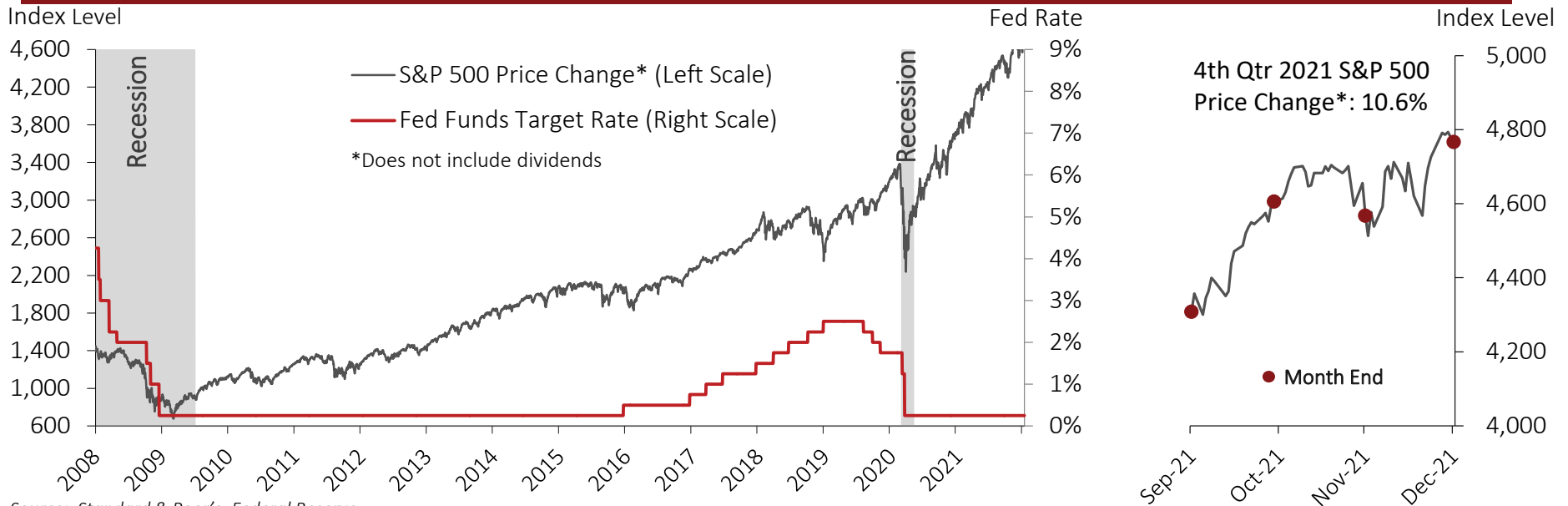
December 31, 2021



De**M**arche

Market / Economic Overview

Corporate Earnings Blowout

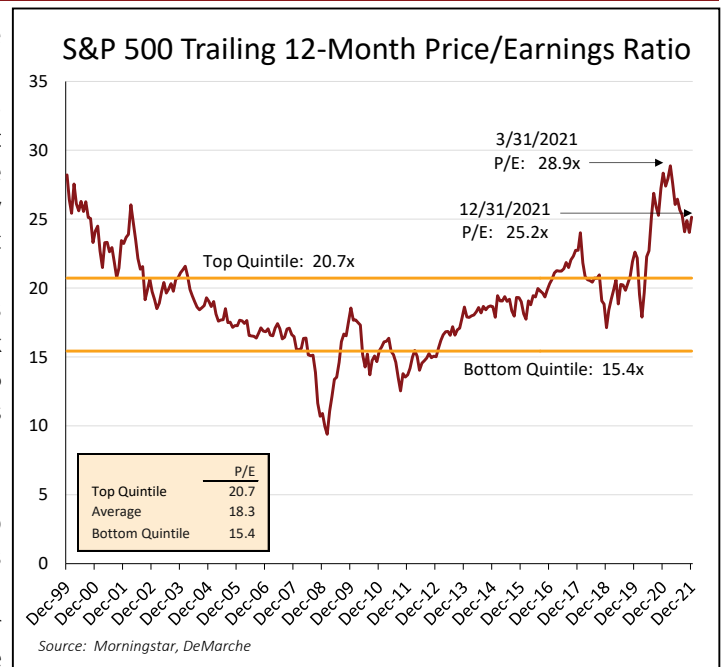


Source: Standard & Poor's, Federal Reserve



2021 was a great year for corporate earnings. According to the chart to the left, S&P 500 earnings growth was up 65%, rebounding from the earnings drought during 2020. Interestingly, stocks are trading at cheaper multiples than they were a year ago. The chart to the right shows that at the end of first quarter 2021, the S&P 500 was trading at 28.9 times trailing earnings. During the year, stock prices climbed 27%, less than the 65% earnings growth rate and therefore stocks are cheaper by this metric.

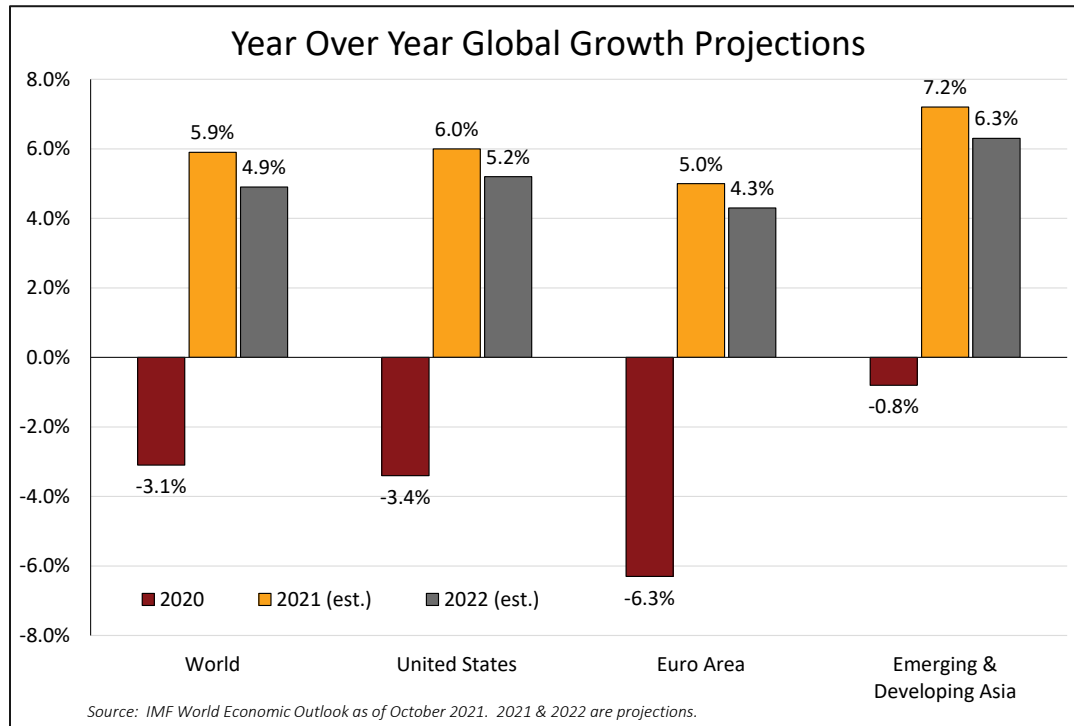
Expectations for 2022 are much changed. Inflation is surging, the Fed is expected to increase interest rates and COVID twists have weighed down earnings expectations. This suggests that stock market returns for the coming year may be modest and more volatile.



INDEX	4 th Qtr	1-YEAR	3-YEAR	5-YEAR	10-YEAR
MSCI World	7.8	21.8	21.7	15.0	12.7
DeMarche 3000	8.5	19.6	17.8	12.9	12.3
Russell 3000	9.3	25.7	25.8	18.0	16.3
S&P 500	11.0	28.7	26.1	18.5	16.6
MSCI EAFE USD	2.7	11.3	13.5	9.5	8.0
Bloomberg Aggregate	0.0	-1.5	4.8	3.6	2.9
FTSE Non-US Gov't Bond	-2.0	-9.7	1.8	2.7	0.3
BlmBarc Global Aggregate	-0.7	-4.7	3.6	3.4	1.8
NCREIF (Private RE)	6.2	17.7	8.4	7.8	9.3
Bloomberg Commodity	-1.6	27.1	9.9	3.7	-2.9

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

U.S. Indicators Yr Ending 12/31	2021	2020	2019	2018	50 Yr Average
GDP Annual Growth Rate	5.5	-2.3	2.6	2.5	2.7
Unemployment	3.9	6.7	3.5	3.9	6.3
Inflation (CPI)	7.0	1.4	2.3	1.9	3.9
10-Year Interest Rates	1.5	0.9	1.9	2.8	6.1



- Domestic stocks advanced in the quarter and once again reported stellar one year returns. Since posting a negative calendar year return in 2018, the Russell 3000 has gone on to generate returns of 20% or better for three straight years – 2019, 2020 and 2021. The last time the Russell 3000 strung together annual returns above 20% was 1995, 1996, 1997, 1998 and 1999.
- International stocks also moved forward and have posted positive returns for a third consecutive year. However, international returns continue to lag domestic equity returns. The last calendar year that the MSCI EAFE outperformed the Russell 3000 was in 2017 – four years ago.
- Commodity prices reversed slightly in the quarter, posting a negative 1.6% return. We have discussed the price of energy throughout 2021 and it continues to be volatile. The price of natural gas fell in the quarter, even though it is still up over 27% for the past 12 months. Oil was up 2% for the quarter and over 65% for the year.
- Bonds, as measured by the Bloomberg Aggregate, posted a 0% return for the quarter. Interest rates increased slightly in the quarter and credit spreads widened slightly, offsetting the income from coupon payments.
- The chart to the left shows the great global growth rebound coming out of the COVID recession in 2020. Market returns have followed the rebound in economic activity, even though not all markets advanced equally. The forecast for 2022 is a modest slowdown in growth, further suggesting that equity returns will moderate from 2021.

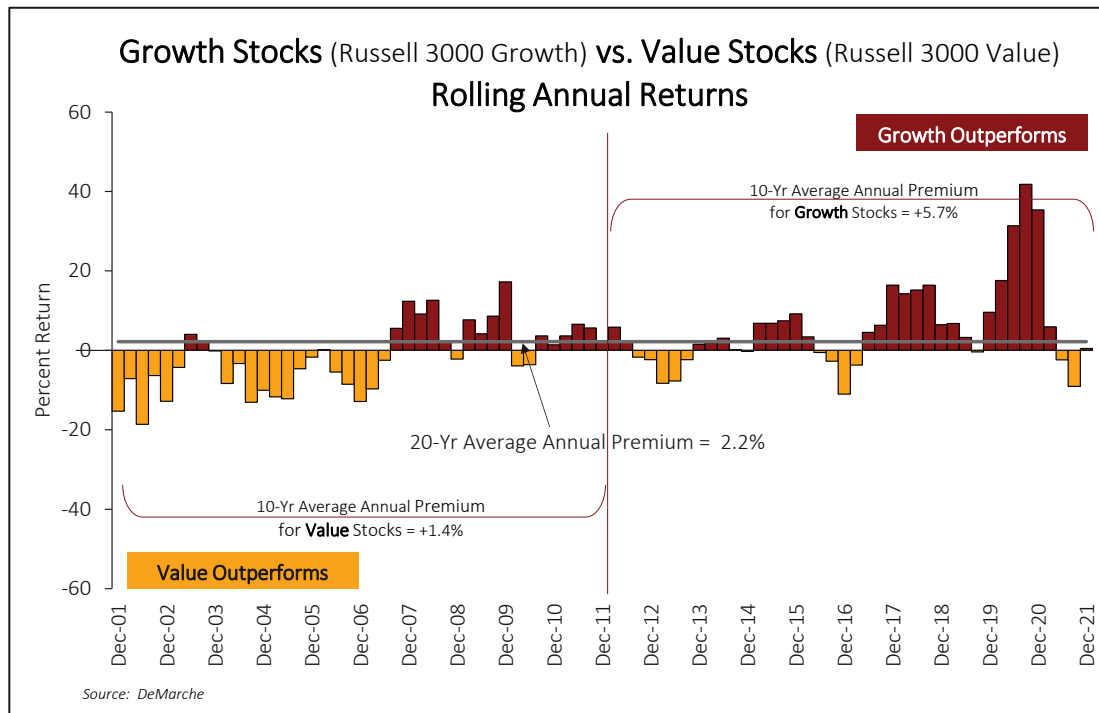
DeFact

Initial public offerings (IPO) activity recorded historic results in 2021, rebounding from a weak 2020. During 2021, 397 deals were priced, raising \$142.4 billion in cash. This marks an 80% increase in IPO activity vs 2020. More deals came to market and more cash was raised in 2021 than in 2019 and 2020 combined.

~ Integrity Research

INDEX	4 th Qtr	1-YEAR	3-YEAR	5-YEAR	10-YEAR
DeMarche Growth	9.7	23.5	27.8	20.5	16.5
DeMarche Value	5.7	23.5	13.3	8.0	9.3
DeMarche Aggressive	-2.0	6.8	27.3	15.8	14.0
DeMarche Defensive	9.3	25.1	22.5	15.8	13.7
S&P 500	11.0	28.7	26.1	18.5	16.6
S&P Mid-Cap 400	8.0	24.8	21.4	13.1	14.2
S&P Small-Cap 600	5.6	26.8	20.1	12.4	14.5
Russell 1000	9.8	26.5	26.2	18.4	16.5
Russell 1000 Growth	11.6	27.6	34.1	25.3	19.8
Russell 1000 Value	7.8	25.2	17.6	11.2	13.0
Russell 2000	2.1	14.8	20.0	12.0	13.2
Russell 2000 Growth	0.0	2.8	21.2	14.5	14.1
Russell 2000 Value	4.4	28.3	18.0	9.1	12.0

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



- Large cap stocks continue to outperform small cap stocks in the quarter and longer periods. The story remains the same as large cap growth stocks pave the way. Interestingly, small cap value has led large cap growth for the past 12 months. Large cap growth leads in all other time frames.
- Small cap stocks returned 2.1% for the quarter led by the aforementioned small cap value stocks. Small cap value stocks lead small cap growth stocks over the past year due to the significant rebound of energy, materials and financials stocks.
- The reason small cap growth stocks lagged other styles by a significant margin over the past 12 months is due to small cap healthcare, the largest weight in the index. The small cap healthcare sector fell over 7% during the year, lagging all other sectors.
- The chart to the left shows that value stocks (Russell 3000 Value) have eked out an annualized premium versus growth stocks in the past two quarters. It has been a rebound year for value stocks and a relatively bad year for small cap growth stocks. Growth still leads in longer time frames due to its massive outperformance through much of the last four years.

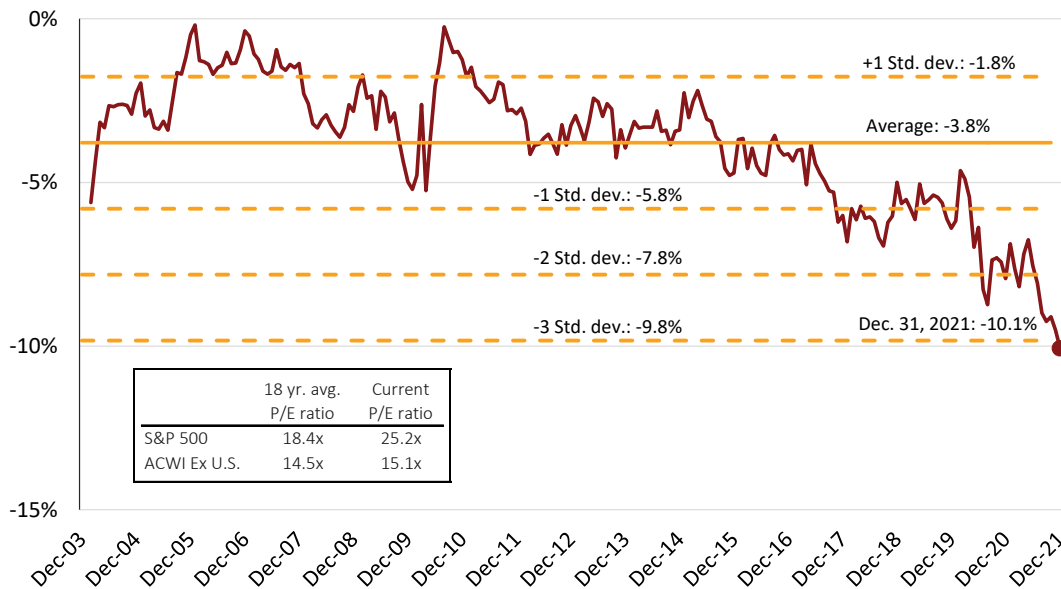
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Tesla delivered a whopping 308,600 vehicles in the fourth quarter, outpacing 3rd quarter deliveries by 50,000 vehicles. Another large cap growth company, Apple, closed 2021 with a market cap of nearly \$3 trillion. In 2018, Apple broke \$1 trillion; it broke \$2 trillion 2 years later in 2020. Last but not least, Microsoft and Apple, a combined weight of 20.5% in the index, accounted for 31% of the Russell 1000 Growth's return for 2021. ~WSJ

INDEX	4 th Qtr	1-YEAR	3-YEAR	5-YEAR	10-YEAR
MSCI EAFE Local	3.9	18.7	13.4	8.4	10.1
MSCI EAFE USD	2.7	11.3	13.5	9.5	8.0
Growth	4.1	11.3	19.0	13.6	10.1
Value	1.2	10.9	7.8	5.3	5.8
MSCI Japan	-4.0	1.7	11.7	8.5	8.3
MSCI AC Asia-ex Japan	-1.2	-4.7	12.1	11.3	8.0
MSCI China	-6.1	-21.7	7.8	9.4	7.2
MSCI Germany	0.8	5.3	12.4	7.1	8.2
MSCI France	7.1	19.5	16.1	11.9	9.8
MSCI UK	5.6	18.5	8.7	6.2	5.1
MSCI EAFE Small Cap	0.1	10.1	15.6	11.0	10.8
MSCI EM	-1.3	-2.5	10.9	9.9	5.5
MSCI All Country-ex US	1.8	7.8	13.2	9.6	7.3

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

ACWI xUS vs. S&P 500 - Trailing 12-Month P/E



Source: Morningstar, DeMarche

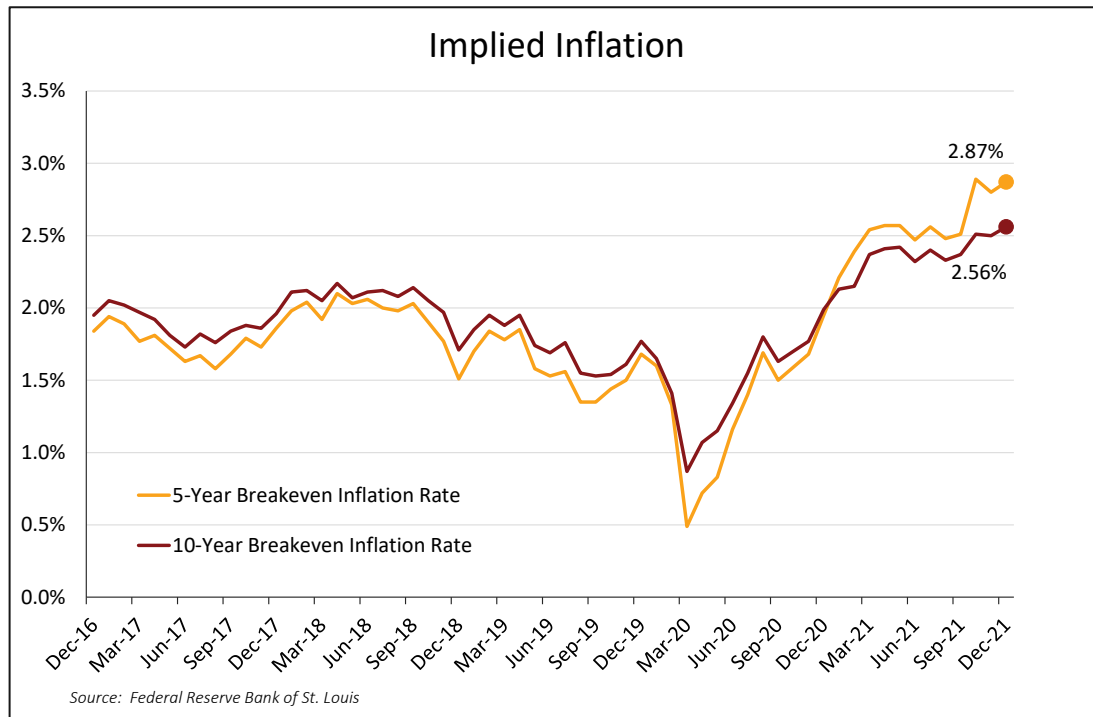
- The dollar strengthened during 2021, creating a headwind for international returns. EAFE returns translated to dollars from local currency shows a 7.4% deficit for the past 12 months. Typically, dollar movement reflects growth differentials among the U.S. and the rest of the world. The U.S. economy has shown stronger growth in 2021 than many other global economies.
- Emerging market stocks fell during the quarter and were heavily influenced by China. The China A share market has grown to a 5% weight in the index, and when combined with other Chinese markets, China now accounts for 35% of the index. Chinese stocks performed significantly worse than other emerging markets due to government policy changes, debt market challenges and slowing economic growth.
- Like in the US, international small cap stocks eked out a positive return for the quarter but underperformed large cap. The underperformance caused the index to give up ground to its large cap cousins for the past year. Over the longer term, small cap stocks have held onto a lead over the MSCI EAFE index.
- The chart to the left shows the extent that U.S. large cap stocks have ruled the roost for the past decade. Coming out of the recession of 2008-2009, international stocks, as measured by the All Country World x U.S. index, have gotten cheaper and cheaper in comparison to the almighty S&P 500.

DeFact

In more supply chain disruption news, in 2021 Toyota outsold GM in the U.S. for the first time in part thanks to stockpiling computer chips. Toyota bet earlier than most rivals on a recovering U.S. car market and cut parts and production orders less than rival car makers. Toyota sold 2.3 million vehicles (up 10%), while GM sold 2.2 million vehicles, down 13% from 2020. Toyota shares were up almost 20% during 2021, outpacing the MSCI Japan index by a significant margin. ~WSJ

INDEX	4 th Qtr	1-YEAR	3-YEAR	5-YEAR	10-YEAR
Bloomberg 1-3 Gov Credit	-0.6	-0.5	2.3	1.9	1.4
Bloomberg Aggregate	0.0	-1.5	4.8	3.6	2.9
Bloomberg Gov Credit Long	2.2	-2.5	10.6	7.4	5.7
Bloomberg US TIPS	2.4	6.0	8.4	5.3	3.1
ICE BofA Merrill Lynch High Yield	0.7	5.3	8.6	6.1	6.7
CSFB Leveraged Loan (bank loans)	0.7	5.4	5.4	4.3	4.8
Bloomberg Global Aggregate	-0.7	-4.7	3.6	3.4	1.8
JPM EmgMkt Bd Gbl Dvrsfd	-0.4	-1.8	5.9	4.7	5.3

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



- Interest rates for the quarter were fairly stable with the Treasury curve flattening slightly. The short end of the curve out to 10 years increased while longer maturities decreased slightly. This change is reflected in bond returns. Long bonds posted over 2.2% gain for the quarter while short term bonds declined 0.6%. Over the longer term, bond returns across all sectors still reflect low interest rates.
- High yield bonds posted positive returns in the quarter reflecting tight credit spreads to Treasuries. While credit spreads have widened slightly in the past few months, spreads are narrower by about 150 basis points than long term averages. Defaults on high yield bonds have decreased as the economy came out of the 2020 recession.
- The negative return on global and emerging market bonds reflect the strengthening dollar during 2021. Additionally, many of the emerging markets increased interest rates to preemptively combat inflation, negatively impacted bond returns across the globe.
- The chart to the left shows breakeven inflation rates as calculated by comparing the yields on 5 and 10 Treasury Inflation Protected Securities versus traditional Treasuries. The market expects that inflation will be more of an issue in the near term (the next 5 years) than in the longer term (the next 10 years). However, the expected levels of inflation are noticeably higher now than before the pandemic.

DeFact

The minutes of the Federal Reserve December policy meeting, indicated that Fed officials may raise short term interest rates as early as March 2022. In late December 2021, the Fed Funds futures market tells us to expect three interest rate hikes in 2022 and three in 2023.

~Bloomberg, FOMC

Less Liquid Strategies

December 31, 2021

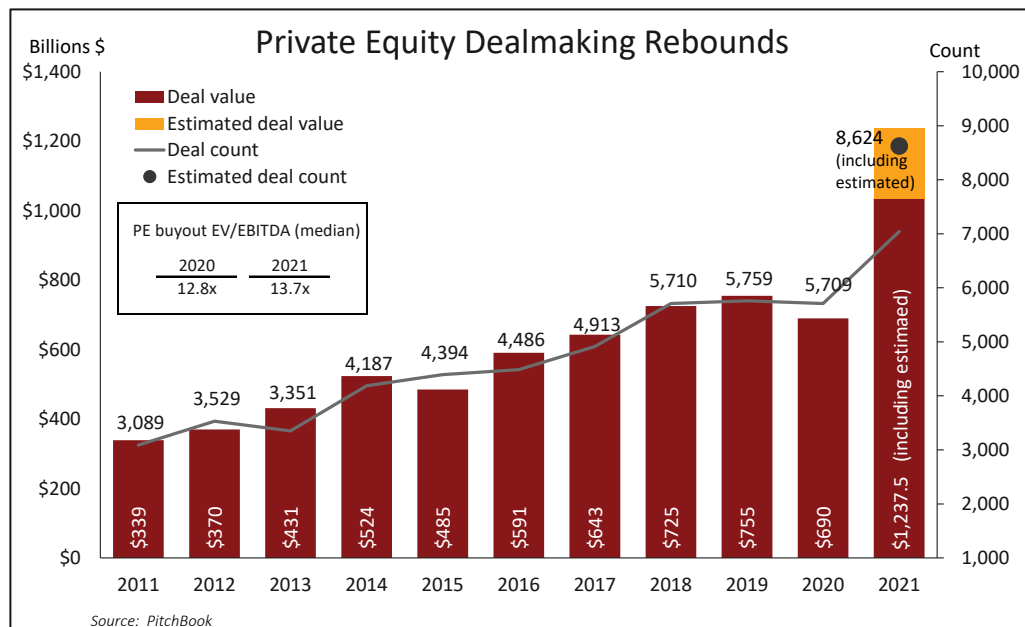
INDEX	4 th Qtr	1-YEAR	3-YEAR	5-YEAR	10-YEAR
NCREIF Property (Private RE)	6.2	17.7	8.4	7.8	9.3
Apartment	6.8	19.9	8.8	7.7	9.0
Industrial	13.3	43.3	22.0	18.6	15.6
Office	1.7	6.1	4.7	5.4	7.6
Retail	2.2	4.2	-0.6	1.2	6.6
NCREIF Timberland	4.6	9.2	3.7	3.6	5.3
NCREIF Farmland	3.8	7.8	5.2	5.7	9.7
NAREIT (Public RE)*	15.2	39.9	19.0	12.1	12.0
Bloomberg Commodity	-1.6	27.1	9.9	3.7	-2.9
HFR FOF Composite	0.3	6.0	8.4	5.7	4.5
Conservative	0.5	7.4	6.7	4.6	4.0
Diversified	0.2	5.8	8.2	5.5	4.5
Strategic	0.1	5.8	10.3	6.8	5.2

Private Market Indexes as of 6/30/2021

	2 nd Qtr	1-YEAR	3-YEAR	5-YEAR	10-YEAR
Preqin Private Equity	13.0	54.7	23.1	20.7	15.8
Preqin Private Debt	4.7	21.0	8.0	8.4	8.4
Preqin Infrastructure	4.0	16.3	9.9	9.8	10.0

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.

- REITs had a great quarter and year. REITs provide inflation protection and offer yield, which some investors find attractive in a volatile stock market. REITs were also supported by low interest rates, as access to inexpensive financing helps their balance sheets.
- Real Estate posted another stellar quarter and finished the year with a 17.7% return. The industrial sector continues to lead the way. The retail sector staged a little turnaround in the quarter and finished the year in positive territory. Retail and office sectors have been especially hit hard by the pandemic.
- Commodity prices were influenced by more than just energy prices. Precious metals, such as gold, advanced in the quarter but declined over the calendar year after generating positive returns in 2020. Industrial metals, such as tin, nickel, aluminum and copper advanced in 2021, reflecting the strong economic rebound and tight supplies.
- U.S. private equity deals surged after declining in 2020 and blew away all previous years with a 50% increase over the all-time high and reflect an aggregate value in excess of \$1 trillion for 2021. One factor for the increased deal flow was that some deals that were delayed from 2020 were being completed in 2021. Interestingly, even with billions of dollars chasing deals, valuations increased by less than 1 times EV/EBITDA. On a multiples basis, private deals still look cheap in comparison public market equities.



DeFact

2021 was a banner year for luxury real estate. At least 40 properties in the U.S. sold for \$50 million or more last year, a 35% increase from 2020. At least 8 sold for more than \$100 million, including Montana ranches and Los Angeles estates. While luxury home sales usually do not coincide with broader real estate activity that was not the case in 2021. As of November 2021, existing home sales were on track for their strongest year since 2006, spurred on by low mortgage rates and a robust job market. ~WSJ

Community Engagement

DeMarche has helped people reach secure retirements and financial outcomes through our advisory and discretionary services for more than forty years. We are likewise dedicated to improving our community through sustained and meaningful civic engagement.

Charities Committee

In 2021, the committee selected and volunteers worked at the **Kansas City Rotary Club 13's Youth Camp** in Lee's Summit, Missouri helping with maintenance, repairs, and cleanup throughout the camp grounds. For nearly 100 years, the camp has striven to be the nation's finest youth camping facility, serving disabled and disadvantaged children and young adults and empowering as many Kansas City-area youth as possible.

2021



Board Memberships



Timothy Marchesi, CFA, President and CEO of DeMarche serves on the executive committee of Kansas City Repertory Theatre. The KC Rep serves over 13,000 area students, providing them with the opportunity to write, perform, and work with professional artists. The Rep's education programs build community by connecting people through productions and programs that educate, entertain, challenge, and inspire.



Tom Woolwine, Vice Chairman, is a board member of the Kansas City Rotary Club Foundation and Chair of the Investment Committee. The Rotary Club brings together people from all walks of life who want to use their expertise for good. Together, they empower youth, improve health, promote peace, and advance our communities in all corners of the globe.



Peg VanWagoner, Senior Consultant, is a board member of the Kansas City Friends of Alvin Ailey. KCFAA serves as an educator, presenter, and unifier, facilitating dialogue about race, place, and diversity; presenting of New York's Alvin Ailey American Dance Theater and Ailey II; and educating the neediest children in the Kansas City area about critical life skills through dance.



2020



Installed rough-in blocking for closets and kitchens and painted house exteriors.



2019



Helped build 16 tiny houses. Donated \$1,000 from our Blue Jeans Friday Fund and new household items.

