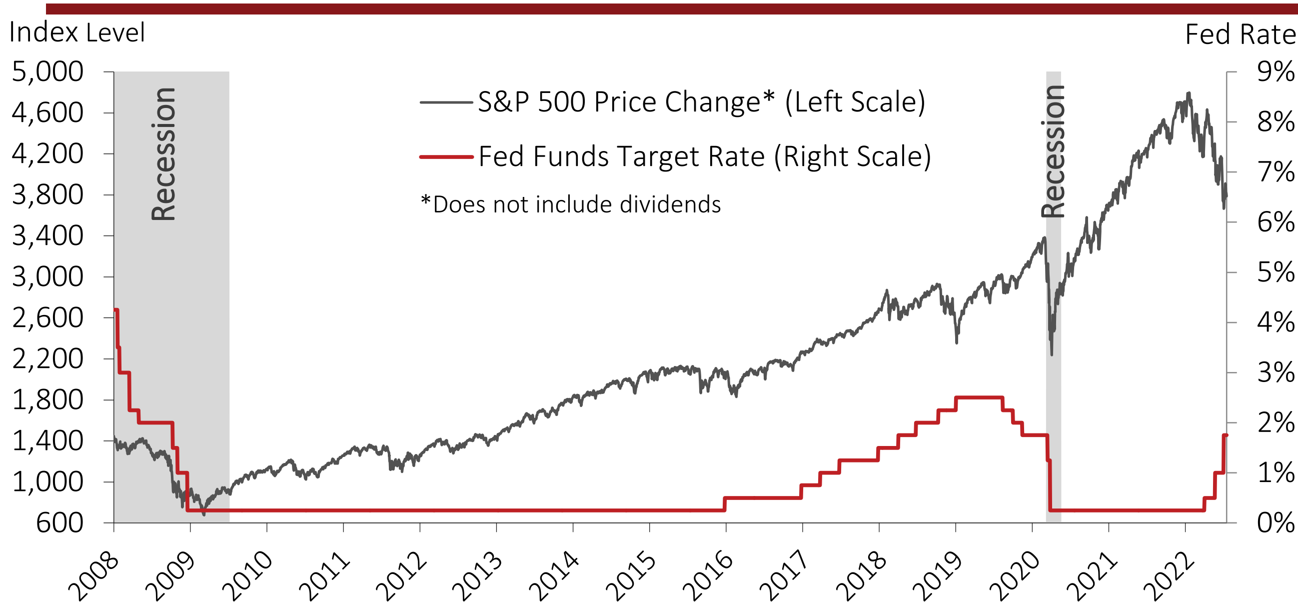
Capital Market Review

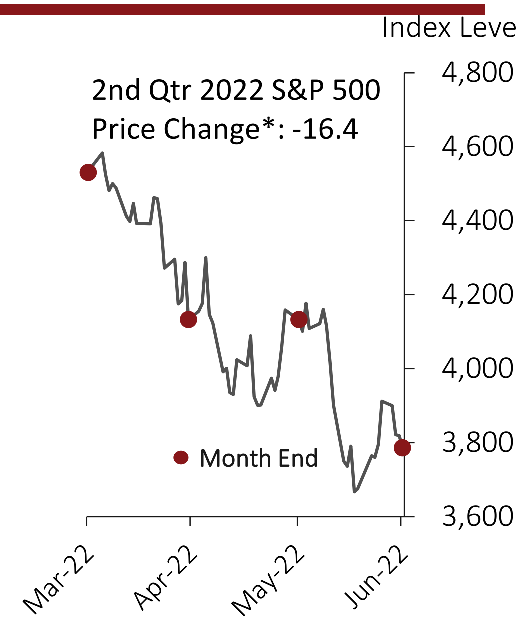
June 30, 2022

DeMarche

Turbulent Markets: Hard or Soft Landing?



Source: Standard & Poor's, Federal Reserve



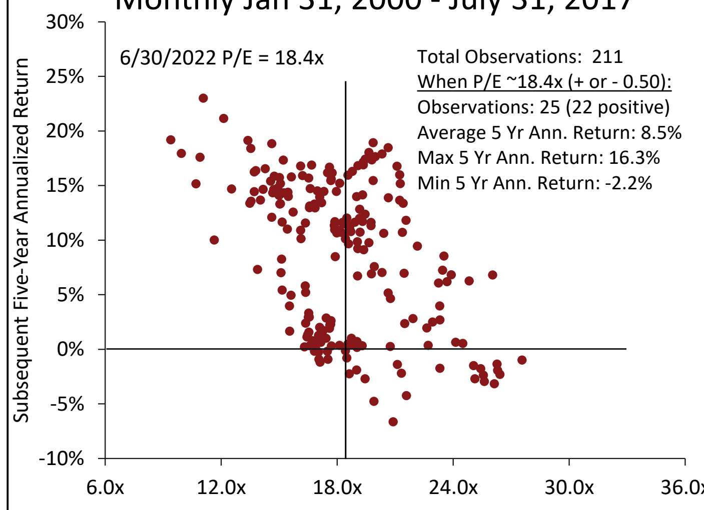
S&P 500 Bear Markets
(~20% Drop - Price Change only)

	Months in Decline	Drawdown	Months Back to Previous High	1 Yr Return from Bottom
Nov '80 - Aug '82	20.7	-27.1%	2.7	58.3%
Aug '87 - Oct '87	1.8	-33.2%	21.5	25.8%
July '90 - Oct '90	2.9	-19.9%	4.1	29.1%
Sep '00 - Oct '02	25.6	-48.9%	56.0	33.6%
Oct '07 - Mar '09	17.2	-56.8%	49.3	69.3%
Sep '18 - Dec '18	3.2	-19.8%	4.0	24.8%
Feb '20 - Mar '20	1.1	-33.9%	4.9	73.8%
Jan '22 - ?	6.0	-21.0%	?	?
Average 1980 - 2021	10.4	-34.2%	20.4	45.0%

Source: DeMarche

There is no denying that 2022 has been a tough year for markets. In fact, the first six months of the year have delivered a decline of 20%, the worst start of a calendar year in over 50 years (since 1970). Even though drawdowns are painful, markets rebound eventually. The chart to the left shows that when a bear market occurs, the rebound may only be months away. In addition, as drawdowns occur, obviously stocks become cheaper. This factor bodes well for future returns in the equity markets. The chart to the right shows the subsequent five-year returns at different P/E ratios. In assessing today's trailing P/E of 18.4x, we found that the 25 historical observations at the same multiple level (+/- 0.5x), averaged a five-year annualized return of 8.5%.

S&P 500 Trailing P/E and Subsequent Five-Year Annualized Returns Monthly Jan 31, 2000 - July 31, 2017

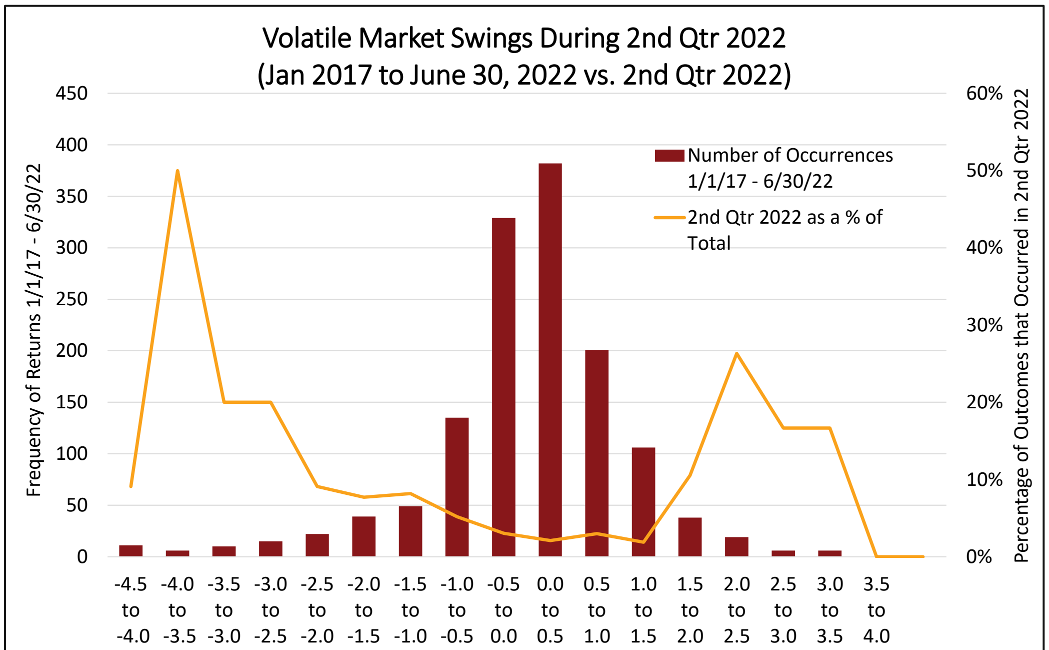


Source: Morningstar

INDEX	2nd Qtr	YTD	1-YEAR	3-YEAR	5-YEAR	10-YEAR
MSCI World	-16.2	-20.5	-14.3	7.0	7.7	9.5
Russell 3000	-16.7	-21.1	-13.9	9.8	10.6	12.6
S&P 500	-16.1	-20.0	-10.6	10.6	11.3	13.0
MSCI EAFE USD	-14.5	-19.6	-17.8	1.1	2.2	5.4
Bloomberg Aggregate	-4.7	-10.3	-10.3	-0.9	0.9	1.5
FTSE Non-US Gov't Bond	-12.5	-18.7	-21.9	-6.7	-2.6	-1.7
Bloomberg Global Aggregate	-8.3	-13.9	-15.2	-3.2	-0.6	0.1
NCREIF (Private RE)	3.2	8.7	21.5	10.2	8.9	9.7
Bloomberg Commodity	-5.7	18.4	24.3	14.3	8.4	-0.8

*Notes: Data are presented as percent returns. All 3-, 5-, and 10-year returns are annualized. *Does not include Canada or Brazil.*

Indicator Year Ending 6/30	2022	2021	2020	2019	50-YEAR Average
GDP Annual Growth Rate	1.6	12.2	-9.1	2.1	2.7
Unemployment	3.6	5.9	11.1	3.7	6.2
Inflation (CPI)	9.1	5.4	0.6	1.7	4.0
10-Year Interest Rates	3.0	1.5	0.7	2.0	6.1



Based on daily price returns of the S&P 500 from Jan 1, 2017 through June 30, 2022 versus April1, 2022 through June 30, 2022.

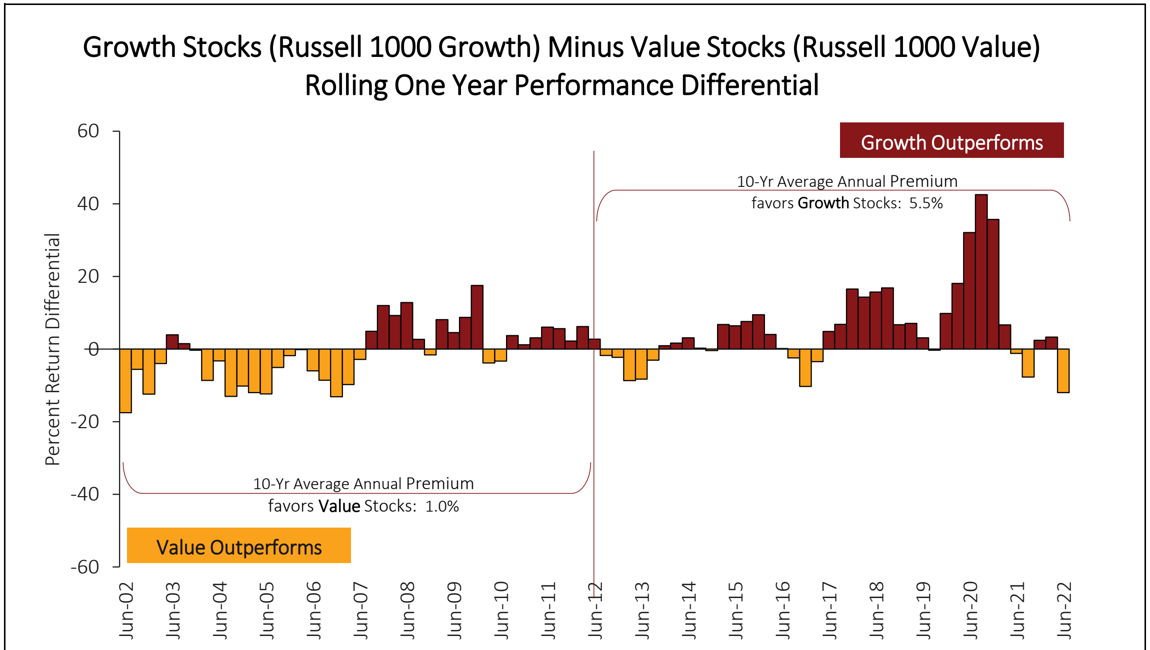
- The market's anticipation that the Fed would increase rates to combat inflation, which it did at the end of June, pushed yields up along the Treasury maturity curve. Increasing rates is a negative to bond returns. Bonds, as measured by the Bloomberg Aggregate fell 4.7% in the quarter and over 10% for the trailing twelve months. While typically viewed as a safe haven during times of market turmoil, bonds have failed to deliver so far in 2022.
- In addition to the U.S. market, stocks and bonds around the globe have also suffered so far this year as expectations of global slowdown and high inflation have infected the markets. A strengthening dollar also was an added headwind to international returns for U.S. investors.
- The run up in commodity prices took a breather in the quarter, falling 5.7%. While oil prices increased modestly in the quarter, other commodity prices fell, most notably industrial metals and some agricultural commodities. This is a positive for the expectation that inflation could moderate later in the year.
- We hear a lot in the media about how volatile this quarter was for daily price movements. And the data bear that out. The chart to the left shows daily price movements over the past five years. A large amount of the daily price movements are between plus and minus 50 basis points. However, wild swings can happen. Of all the daily movements of between negative 3.5% to negative 4.0%, almost half of them occurred in this quarter.

DeFact

There are 1,342 actively managed U.S. stock funds tracked by the WSJ. Only 32 managed to end the last twelve months in positive territory at the end of the second quarter. The common thread between the 32 funds is that they were value oriented with a focus on high dividend yield. ~WSJ

INDEX	2nd Qtr	YTD	1-YEAR	3-YEAR	5-YEAR	10-YEAR
S&P 500	-16.1	-20.0	-10.6	10.6	11.3	13.0
S&P Mid-Cap 400	-15.4	-19.5	-14.6	6.9	7.0	10.9
S&P Small-Cap 600	-14.1	-18.9	-16.8	7.3	7.2	11.3
Russell 1000	-16.7	-20.9	-13.0	10.2	11.0	12.8
Russell 1000 Growth	-20.9	-28.1	-18.8	12.6	14.3	14.8
Russell 1000 Value	-12.2	-12.9	-6.8	6.9	7.2	10.5
Russell 2000	-17.2	-23.4	-25.2	4.2	5.2	9.4
Russell 2000 Growth	-19.3	-29.5	-33.4	1.4	4.8	9.3
Russell 2000 Value	-15.3	-17.3	-16.3	6.2	4.9	9.1

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



Source: DeMarche

- Large cap stocks, as measured by the S&P 500, fell 16.1% for the quarter and 20% for the first six months of the year. Traditionally, a 20% decline is the marker for a "bear" market. The last time the S&P 500 fell by more than 20% in the first six months of the year was 1970 when it fell almost 22%. Rising interest rates to fight high inflation batter market expectations of continued economic growth in the quarters ahead.
- Small cap stocks have underperformed large cap in the past year by 12.2 percentage points, falling over 25% in the past twelve months. Small cap value outperformed small cap growth by over 17 percentage points. Healthcare is the largest weight in the small cap growth index and has underperformed all other sectors over the past twelve months.
- Large cap value stocks have outperformed large cap growth stocks in the quarter and past twelve months. Energy stocks have done well in comparison to other sectors and exist in the value index. Technology and consumer discretionary stocks did poorly in the quarter and make up the largest weights in the growth index.
- The chart to the left shows the history of large cap growth and value stocks in relation to each other. Obviously growth stock have dominated in the past decade. Low interest rates and a growing economy provide a tailwind to such stocks. However, in times of volatility and rising interest rates, value stocks have taken the lead as they did in the first decade of the century. This reminds us that rebalancing amid volatility bears fruit in the long run.

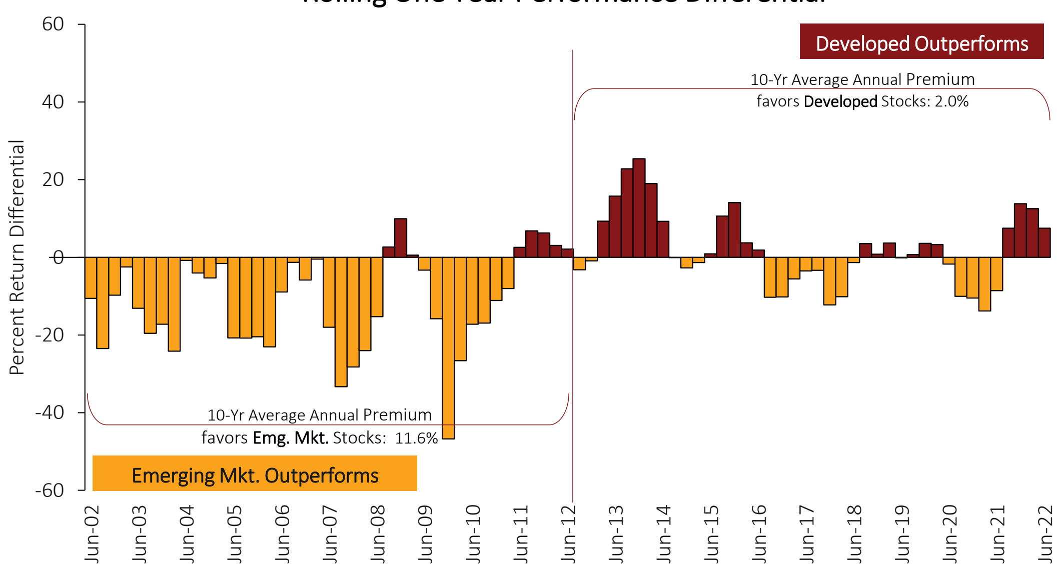
DeFact

The Russell indexes are reconstituting in June and July. Depending on where a company sits on the investment style spectrum, a single company can partially exist in both the growth and value indexes at the same time. Some notable changes include Proctor and Gamble, which shifted from 100% value to 57% value and 43% growth. Meta (Facebook) shifted from 100% growth to 79% value and 21% growth. Costco and Union Pacific now reside as 100% weight in the growth index. ~Russell, DeMarche

INDEX	2nd Qtr	YTD	1-YEAR	3-YEAR	5-YEAR	10-YEAR
MSCI EAFE Local	-7.8	-11.3	-6.6	4.4	4.3	8.3
MSCI EAFE USD	-14.5	-19.6	-17.8	1.1	2.2	5.4
Growth	-16.9	-26.8	-23.8	1.3	3.5	6.3
Value	-12.4	-12.1	-11.9	0.2	0.5	4.2
MSCI Japan	-14.6	-20.3	-19.9	1.0	1.8	5.6
MSCI AC Asia-ex Japan	-9.0	-16.3	-25.0	2.1	3.1	5.5
MSCI China	3.4	-11.3	-31.8	-0.6	2.1	5.5
MSCI Germany	-18.1	-28.7	-31.2	-4.0	-2.7	4.0
MSCI France	-14.8	-22.2	-18.3	1.1	3.2	6.8
MSCI UK	-10.5	-8.8	-4.0	1.2	2.2	3.7
MSCI EAFE Small Cap	-17.7	-24.7	-24.0	1.1	1.7	7.2
MSCI EM	-11.4	-17.6	-25.3	0.6	2.2	3.1
MSCI All Country-ex US	-13.7	-18.4	-19.4	1.4	2.5	4.8

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

Developed Int'l (MSCI EAFE) Minus Emg Mkt Stocks (MSCI EM)
Rolling One Year Performance Differential



Source: DeMarche

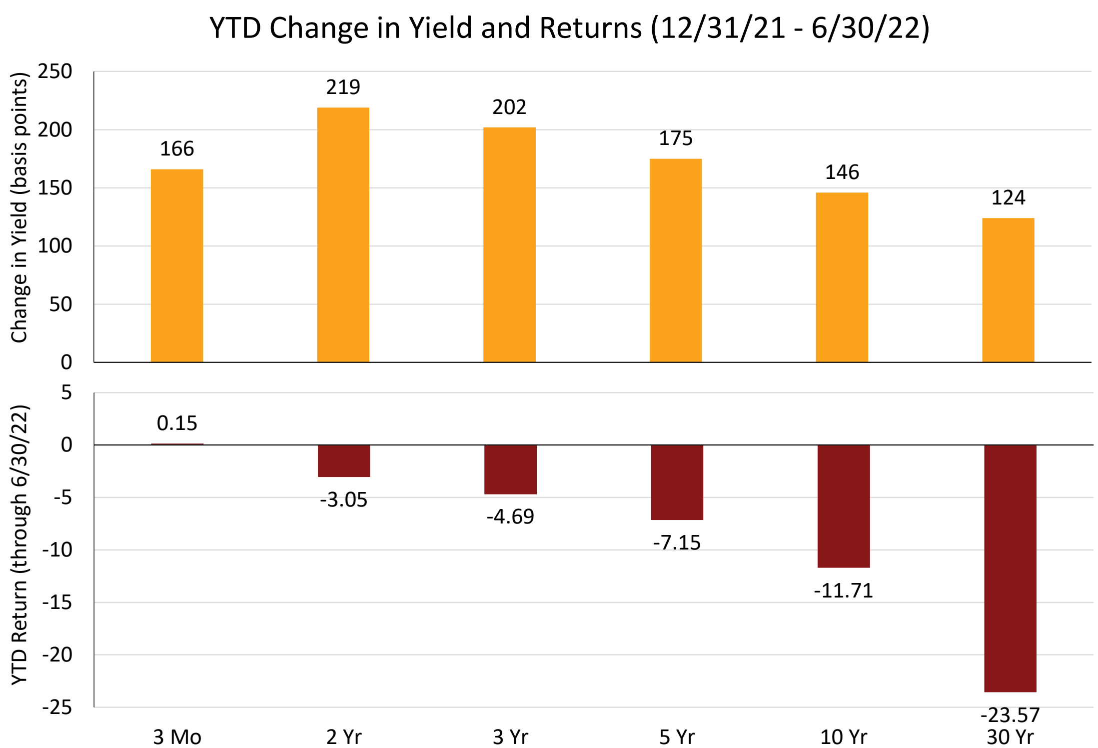
- The dollar continues to strengthen against the broad basket of currencies. The dollar had been in a trading range since 2015, but has broken above that range in recent months. Dollar strength is a headwind to international returns as local returns are converted to stronger dollars.
- Emerging market stocks have underperformed international developed over the past twelve months, primarily due to China, which has fallen almost 32% over that time frame. However, in the second quarter Chinese stocks have outperformed all other major markets, driving the emerging markets index to outperform developed international by almost three percentage points.
- Mirroring the U.S., international small cap stocks bore the brunt of the market's fear of an economic slowdown compared to large cap stocks. Industrials make up the largest weight in the index and are negatively impacted by an expected slowdown in economic growth.
- To the left is a chart we have used in the past to show how international developed equities have outperformed in the last decade. In the first decade of the century, emerging market stocks dramatically outperformed. Now with COVID in the rear view mirror and lockdowns easing, perhaps China shares can reemerge as market leaders and emerging market stocks can regain a lead.

DeFact

The reshaping of the Hong Kong (Hang Seng Index) since 1997 (Chinese handover date) has been dramatic as techonology emerged from a zero weight in the index to almost 25%. Since that time, the Hang Seng has underperformed the mainland China market (Shanghai) by 230% to 320%, cumulatively. The relative underperformance has been most acute since late 2020, when the Communist party began a crack down on the tech sector. ~Bloomberg

INDEX	2nd Qtr	YTD	1-YEAR	3-YEAR	5-YEAR	10-YEAR
Bloomberg 1-3 Gov Credit	-0.6	-3.1	-3.6	0.3	1.1	1.0
Bloomberg Aggregate	-4.7	-10.3	-10.3	-0.9	0.9	1.5
Bloomberg Gov Credit Long	-12.3	-21.9	-20.1	-2.3	1.0	2.6
Bloomberg US TIPS	-6.1	-8.9	-5.1	3.0	3.2	1.7
ICE BofA Merrill Lynch High Yield	-9.9	-14.0	-12.6	0.0	2.0	4.4
CSFB Leveraged Loan (bank loans)	-4.4	-4.4	-2.7	2.0	3.0	3.9
Bloomberg Global Aggregate	-8.3	-13.9	-15.2	-3.2	-0.6	0.1
JPM EmgMkt Bd Glbl Dvrsfd (hard)	-11.4	-20.3	-21.2	-5.2	-1.2	2.2

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



Sources: St. Louis Federal Reserve- Constant Maturity Treasury Yields, Morningstar- Bloomberg U.S. Treasury Bellwethers Returns

- Interest rates increased along the maturity curve, causing bond prices to fall. The Bloomberg Aggregate, which has a duration of almost seven years, fell over 10% for the trailing twelve months. There were few places to hide in fixed income.
- The high yield bond sector was negatively impacted by widening credit spreads in the second quarter. Credit spreads widen when the market expects growth to slow, thereby impacting the ability of corporations to manage debt.
- Bank loans have held up relatively well in the past twelve months compared to other bond sectors. However, the widening of credit spreads in the quarter caught up to the bank loan sector and the index fell by over 4%.
- The chart to the left shows the increase in yield in basis points for Treasuries along the maturity curve. For example, the yellow bars show over 200 basis points increase in yield for the two- to three-year Treasury maturities. This part of the curve is pricing in Fed rate hikes. The red bars show the negative price movement of those Treasuries. Unsurprisingly, longer duration bonds bore the most significant drawdown during the first six months of the year as their longer maturities magnify the impact of interest rate moves in their prices.

DeFact

The global debt load of corporations is declining for the first time in eight years as the cost of financing soars and firms limit issuance amid recession fears. A corporate debt index by Janus Henderson showed an almost 2% drop in net debt, marking the first year-over–year decline in indebtedness since 2014. Net debt fell to $8.15 trillion from $8.31 trillion. ~Janus Henderson

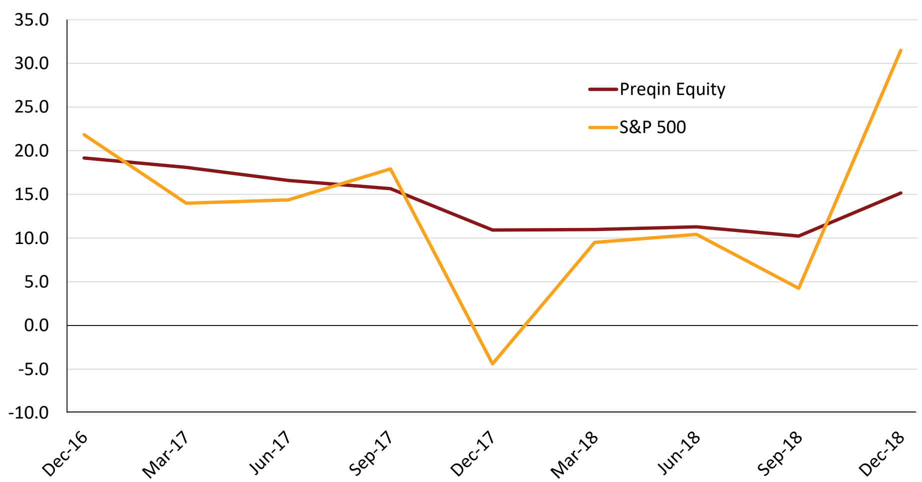
Less Liquid Strategies

June 30, 2022

INDEX	2nd Qtr	YTD	1-YEAR	3-YEAR	5-YEAR	10-YEAR
NCREIF Property (Private RE)	3.2	8.7	21.5	10.2	8.9	9.7
Apartment	3.9	9.3	24.4	11.1	9.1	9.4
Industrial	5.9	17.5	47.7	26.0	21.1	16.9
Office	0.6	2.2	5.8	4.4	5.3	7.4
Retail	1.7	4.0	7.9	0.2	1.4	6.4
NCREIF Timberland	1.9	5.1	12.0	5.0	4.3	5.7
NCREIF Farmland	1.5	4.1	9.7	6.1	6.1	9.5
NAREIT (Public RE)*	-14.9	-19.3	-6.9	4.6	6.2	8.1
Bloomberg Commodity	-5.7	18.4	24.3	14.3	8.4	-0.8
HFR FOF Composite	-4.1	-6.7	-5.7	3.9	3.6	3.7
Conservative	-1.7	-1.5	0.1	4.7	4.0	3.8
Diversified	-3.2	-4.7	-3.4	4.4	4.1	3.9
Strategic	-7.3	-12.9	-12.4	2.9	2.9	3.7
Private Market Indexes as of 12/31/2021	Qtr	YTD	1-YEAR	3-YEAR	5-YEAR	10-YEAR
Preqin Private Equity	5.7	25.9	39.0	26.2	21.6	17.3
Preqin Private Debt	4.8	15.7	22.0	11.6	9.9	9.8
Preqin Infrastructure	3.0	9.8	15.3	10.1	10.1	10.2

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.*

Private & Public Equity in Rising Interest Rate Environment (Dec 2016 - Dec 2018)
Subsequent One-Year Rolling Returns



Source: Preqin, DeMarche

- REITs have been the best performing domestic equity sector in the past twelve months. Even though the index fell 14.9% in the quarter, REITs still finished ahead of small and large cap domestic equities. Over longer time frames, industrial REITs have performed the best of the REIT sectors, similar to private real estate.

- While oil prices are still up over the quarter, they have fallen from their second quarter peak of $122.11 to end June at $108.43. Other commodities such as industrial metals and grains, which have soared earlier in the year, retraced in June by 12% to 16%. This bodes well for inflation numbers later in the year.

- Private real estate continues to provide diversification to public stocks and bonds. Real estate, as measured by the NCREIF, posted positive returns for the quarter and past twelve months. However, it's worth noting that valuations that make up the NCREIF are lagged at least one quarter.

- For years we have discussed the diversification effects of adding private assets to portfolios. The chart to the left shows that in times of volatility, private assets returns tend to be smoother over time. In this case, we looked at the last period of rising interest rates from 2016 to 2018 and compared private equity returns to the S&P 500. The volatility of returns of public markets is quite apparent. This effect is why DeMarche advocates for the adoption of private asset classes to client (portfolio) asset allocations.

DeFact

Volatility of the public markets included newly public companies. Of the 53 tech-related companies that went public in 2021 through an IPO or direct listing, 50 now are trading below their opening price. More than half have tumbled by at least 50 percent, including high profile names like Coinbase and Robinhood. ~WSJ

39th Annual DeMarche Client and Investor Conference

The Roaring 20's?

September 21, 2022 – September 23, 2022

Hotel Kansas City
1228 Baltimore Avenue
Kansas City, MO 64105

Join us for the ***39th Annual DeMarche Client and Investor Conference*** in Kansas City on September 21 -23, 2022.

We have some important work to do at this year's conference. Investors had high hopes for 2022: the pandemic would end, supply chains improve, earnings recover nicely, and staffing shortages ease. However, the first half of the year brought accelerating inflation, war in Europe, and more Fed uncertainty - driving markets universally lower.

Those are the challenges we'll address at the conference. Our theme this year is "The Roaring 20's?" The question mark is key. The 1920's were a time of boom and bust. Is the roar of our present decade the bellow of the bull or the growl of the bear? "The Roaring 20's?" is the theme that will guide our discussions of investment strategies that can produce better results in spite of current headwinds and policy adjustments that respond well to emerging trends.

Highlights for the conference will include:

- *Explore which public and private market assets are well positioned to thrive from technology, energy, health sciences, including investors who finance these innovations in the 2020's.*
- *Gain new understanding of inflation and the Fed's response. Hear fresh perspectives on gaps in valuations between all types of equity styles and regional markets.*
- *Share your experiences with other investors and market experts, while furthering your professional network.*

We're hosting this year's conference at the Hotel Kansas City. Built in the boom year of 1922 as the home of one of Kansas City's premiere social clubs, the hotel is one of the architectural gems of the Midwest. Newly restored and outfitted with modern amenities, the hotel opened its doors in 2020 and will provide a luxurious and memorable setting for our conference.

Registration Link: https://cvent.me/gn8aQZ?RefId=FL