Market Summary

U.S. Equity Markets	YTD'22	1 Year	3 Years	5 Years	10 Years
S&P 500	-11.2%	10.4%	16.8%	14.4%	14.2%
Russell 1000 Growth	-16.8%	4.8%	21.1%	19.1%	16.4%
Russell 1000 Value	-5.8%	10.3%	11.2%	8.9%	11.4%
Russell 2000	-13.3%	-12.0%	8.3%	8.2%	10.4%
Russell 2000 Growth	-18.4%	-23.7%	6.8%	9.1%	10.5%
Russell 2000 Value	-8.2%	1.1%	8.8%	6.9%	9.9%

Top/Bottom Sectors	YTD'22	1 Year
Energy	22.0%	47.2%
Financials	-1.8%	18.8%
Cons. Staples	-2.8%	19.9%
Info. Technology	-15.5%	11.9%
Comm. Svcs.	-16.6%	-5.2%
Cons. Discretionary	-17.6%	1.1%

Price Comparison (in USD)	Feb. 24, 2022	Feb. 24, 2021
Oil (WTI spot)	$93.31	$63.22
Natural Gas	$4.59	$2.85
Gold	$1,920	$1,796
Fed Funds Rate	0.25%	0.25%
10-Yr Treasury	1.97%	1.37%
VIX	30.32	21.34

Non-US Equity Markets (in USD)	YTD'22	1 Year	3 Years	5 Years	10 Years
MSCI AC World Ex U.S.	-4.4%	-2.4%	8.1%	7.3%	5.6%
MSCI EAFE (Developed)	-5.7%	0.7%	8.2%	7.2%	6.3%
MSCI Emerging Markets	-1.9%	-11.9%	6.8%	7.3%	3.8%

Non-US Regions (in USD)	YTD'22	1 Year
Developed Americas	-2.5%	15.6%
Developed Asia	-4.3%	-7.7%
Developed Europe	-6.4%	6.5%

Non-US Regions (in USD)	YTD'22	1 Year
Emerging Americas	12.1%	8.7%
Emerging Asia	-3.6%	-16.6%
Emerging EMEA	0.6%	12.9%

Source: MSCI, S&P Global, FTSE Russell; St. Louis Federal Reserve Bank

Market Review:

With Russia's invasion of Ukraine on Thursday, Feb. 24, we want to provide our clients and prospects our current thoughts and insights. First our hearts go out to the brave citizenry of Ukraine, and we hope as few lives as possible will be lost in this wholly unnecessary conflict. It would be incredibly naïve of us to believe we know more about the mind of Vladimir Putin than other market participants. What we do know is that on Monday, Feb. 21, Putin signed a decree that officially recognized, as independent states, two breakaway territories in the Donbas region of eastern Ukraine. The decree further guaranteed the security of the regions with Russian troops. On Thursday, Feb. 24, Putin took the next step toward escalation by launching an all-out air and land assault on Ukraine by shelling more than a dozen cities, advancing on the capital city of Kyiv and taking steps to remove the Ukrainian government by force. The initial reaction by markets was surprise and a significant sell-off in equities ensued along with a rally in oil to above $100/bbl. But as the trading day progressed, a massive reversal took hold with the S&P 500 eventually ending the day up 1.5% and the technology heavy NASDAQ rising an astonishing 3.3%. The Russian Ruble fell 6% and Russian debt sold off as spreads between Russian bonds and U.S. Treasuries rocketed above 5%.

Russia is the world's 11th largest economy, which is roughly the size of the Texas economy, although Russia has 4.8 times the population of Texas with 145 million citizens. Russia has been building its foreign currency and gold reserves which now stand at almost $600 billion. Russia also has a low debt to GDP ratio and is self-funding at approximately $70 oil. China appears ready to assist Russia financially, as much as is feasible in light of Western sanctions. Despite what appears to be a close relationship between the Chinese and Russian leaders, we do not believe China will do anything to aid Russia that would ultimately put the Chinese economy at risk in any way. China is watching and waiting to see how to best leverage the global unrest to their greatest benefit.

In the short term, we expect that the crisis will put pressure on the global economy which is already wobbly due to congested supply chains and high inflation. Commodity prices including oil, natural gas, metals and wheat are currently surging, adding to existing inflation pressure for companies and consumers. We expect that Europe will be hit harder than other areas given its proximity to the conflict and dependence on Russian oil

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and natural gas. Russia supplies more than one-third of European natural gas one-quarter of oil imports. The natural gas supply figure tops out at over 50% for Germany.

Initial market reactions aside, we expect the escalation of tensions to all out war, even if over in relatively short order, to put a bid under safe haven assets such as the U.S. dollar, U.S. Treasuries, oil and gold. Sanctions imposed on Russia following the Crimean crisis in 2014 had a very real impact on the Russian economy and eventually led to a financial crisis in Russia and a 2.5% drop in GDP. Western governments are hoping the pain from the current round of sanctions, which are more severe and far reaching than the 2014 slate, against the financial and energy sectors in Russia will have the same or greater impact and ultimately result in some new calculus on the part of Putin, but we have our doubts. Without the removal of Russian financial institutions from the SWIFT payment system (Society for Worldwide Interbank Financial Telecommunication), current sanctions, while painful, seem unlikely to cause significant damage to the Russian economy.

With supply and demand still quite imbalanced, inflation was already set to be a significant headwind to real growth. The short-term commodity price impact of Russian aggressions is only going to exacerbate these challenges. If energy prices rise from current elevated levels into an outright energy price shock, the impact on headline inflation could be significant. Energy spending accounts for 7.5% of the CPI basket; therefore, it would not take much of a move in crude or gas prices to lift headline inflation by more than 1%. In most time periods, central bankers may be willing to look past the energy price impact on inflation, but given already high and sustained levels of inflation, central bankers may believe their hands are tied. However, we believe the follow-on effects of higher energy prices could actually tip the scales in the favor of delayed or slower interest rate hikes.

Energy prices ultimately act as a tax on global consumers and any further rise in energy prices should be expected to cut into consumer spending. It is this follow-on effect of slower consumer spending and a dip in the savings rate that should give central bankers pause in implementing their plans for rate hikes over the coming months, especially given our doubts on the ability of rate increases to have any meaningful impact on inflation that is in large part supply-shock based. In our December 2021 Market Perspectives, we argued that “higher inflation is not the foregone conclusion that some would have you believe.…Human nature is to focus on the [current momentum of inflationary pressures] while [reversion to the mean] is generally a much stronger force.” We still believe this to be the case although looking past the dark clouds is a challenging task for even the most long-term oriented investors.

In closing, we expect that higher commodity price inflation, a slowdown in globalization (which had already begun in response to the Covid-19 crisis) and its resulting supply chain challenges, will lead to lower real growth than may be currently forecast. While we continue to monitor the situation closely, the portfolio adjustments we make are driven by our bottom-up earnings-focused process which is aimed at identifying reasonably-valued companies with a high potential for unexpected growth. When macro forces are their strongest and market panic is at its greatest, investors are generally rewarded by returning to first principles and sticking with investment decisions made based on long-term fundamental expectations.

Maybe Jack Bogle, founder of The Vanguard Group, said it best, ***"Time is your friend; impulse is your enemy.”***