



MARKET  
ENVIRONMENT

## MARKET ENVIRONMENT 4Q21: US EQUITY

### Returns grind higher despite mounting concerns

- S&P 500 posted a strong 11.0% gain in 4Q21; large cap growth (Russell 1000 Growth) was the top performer, which contrasted with the worst-performing asset class, small cap growth (Russell 2000 Growth).
- The new Omicron variant, continued supply chain disruptions, and renewed fears of persistent inflation pushed investors into the perceived safety of the largest stocks.
- S&P 500 sector results were mixed, with Real Estate (+17.5%) posting the top returns alongside Technology (+16.7%) and Materials (+15.2%); Communication Services (0.0%) and Financials (+4.6%) lagged broad returns.
- In 2021, small value outperformed small growth by over 2,500 bps (Russell 2000 Value: 28.3% vs. Russell 2000 Growth: 2.8%), a stark reversal from 2020 and a pattern consistent with period of robust GDP growth.

### Index concentration driving positive returns...

- The 10 largest stocks in the S&P 500 comprised 30.5% of the index but accounted for 65% of the 2021 return.
- During 4Q21, top 10 weights accounted for ~40% of return.

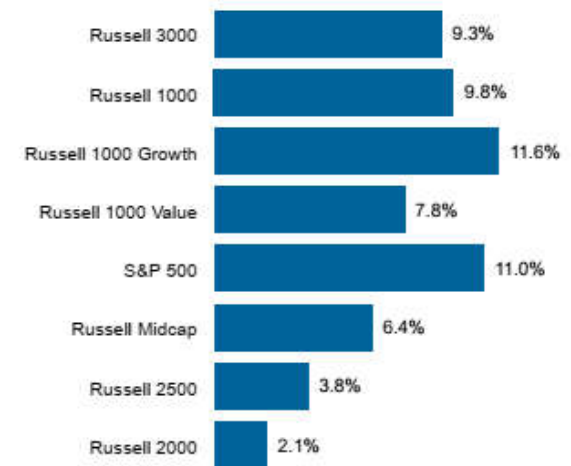
### ...but this may be hiding underlying weakness

- Nearly 10% of Russell 3000 stocks fell by 35% or more in 2021, which is unusual for a year when market returns were in excess of 25%.

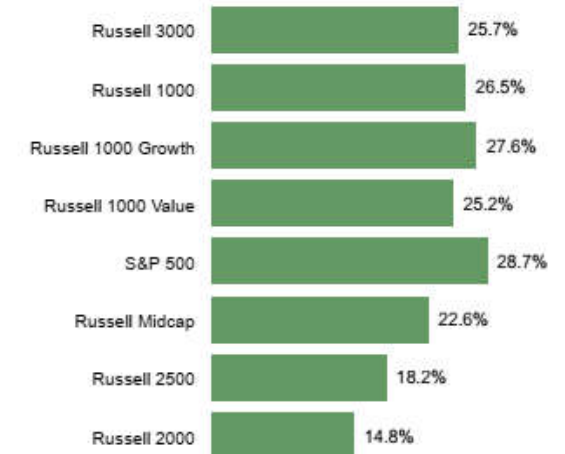
### Market capitalization, style driving divergence in returns

- Mega-cap growth (Russell Top 200 Growth) was the strongest performer in both 4Q21 and 2021.
- Growth style returns highly correlated with market capitalization in both 4Q21 and 2021 (higher market capitalization = high return).
- Within micro-, small-, and smid-cap growth, Health Care (especially biotech/pharma) was the biggest detractor of returns.
- Value returns correlation with market capitalization in 4Q21; for 2021, value returns did not experience much divergence.

U.S. Equity: Quarterly Returns



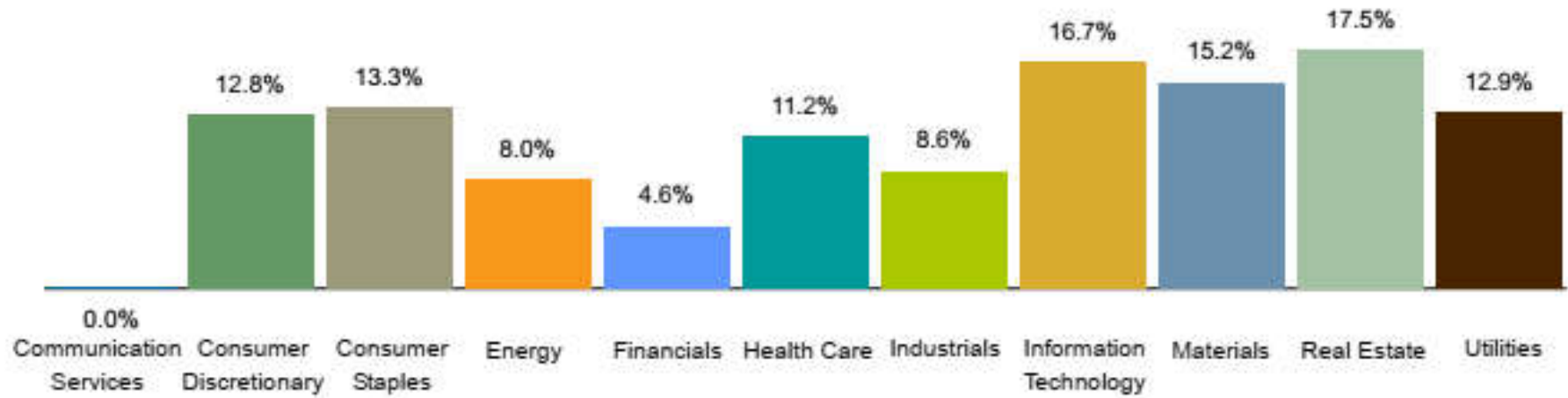
U.S. Equity: One-Year Returns



Source: Callan

## MARKET ENVIRONMENT 4Q21: US EQUITY

Industry Sector Quarterly Performance (S&P 500)



Source: S&P Dow Jones Indices

## MARKET ENVIRONMENT 4Q21: GLOBAL EX-U.S. EQUITY

### Omicron takes center stage

- A recovery-driven market shifted back to COVID favorites, boosting Information Technology stocks.
- Small cap underperformed large amid global growth concerns.
- Emerging markets struggled relative to developed markets as China experienced significant pressure from an economic slowdown and its regulatory crackdown.

### Stalled recovery

- As the new variant took hold, Energy and Communication Services lagged on fear of restrained growth.
- Japan suffered from both supply chain issues and economic constraints from COVID-19.
- Growth and momentum factors outperformed in developed markets but not in emerging markets.

### U.S. dollar vs. other currencies

- The U.S. dollar rose against other major currencies as tapering accelerated alongside the expectation for 2022 rate hikes, which notably detracted from global ex-U.S. results.

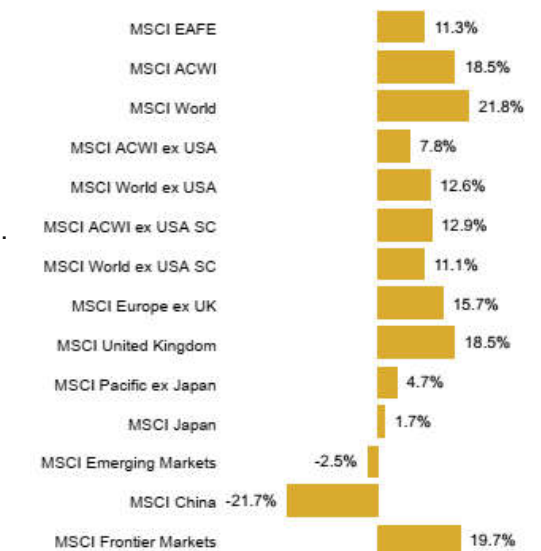
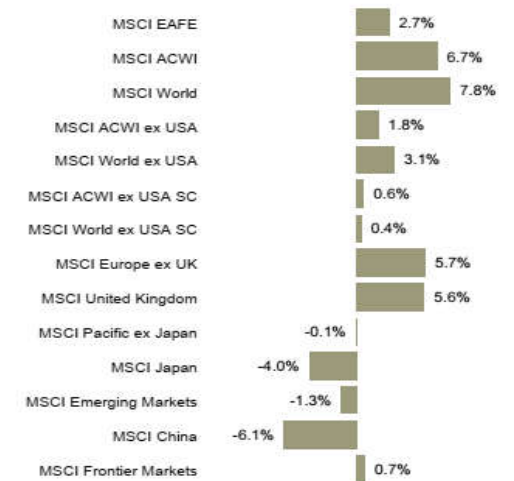
### Growth vs. value

- Inflationary pressures and the ultimate rebound from COVID-19 supported the value's leadership for the full year, despite the shift to growth in 4Q21.

### Regulation has spooked Chinese market

- Although regulation is not new in China, the duration, scope, and intensity of the current regime are unprecedented.
- Regulations have been centered on antitrust, financial markets, data/national security, and social welfare to enhance sustainability of its economy.
- Regulatory uncertainty should subside as China focuses on implementation.

Global Equity: Quarterly Returns



Source: Callan

## MARKET ENVIRONMENT 4Q21: GLOBAL EX-U.S. EQUITY CONT.

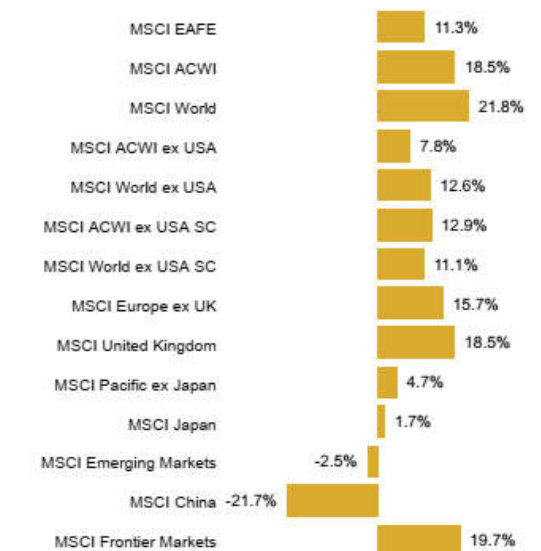
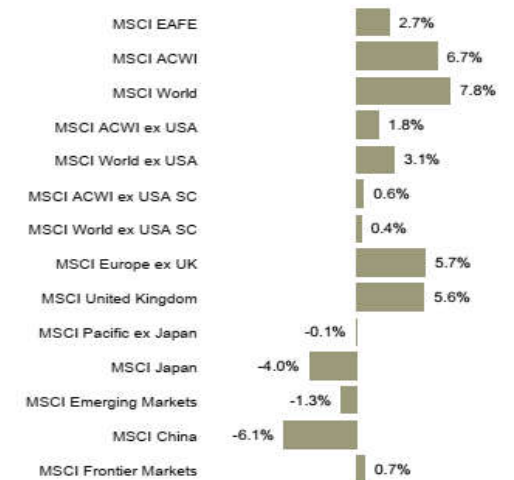
### Inflation is expected to normalize in a few years

- Forecasted year-over-year core CPI is expected to reach its peak between 1Q22 and 2Q22.
- Inflationary environment by and large has shifted central banks to contractionary policy.

### Rise in inflation expectations tends to stoke value

- Correlation between cyclical sectors and inflation/interest rate expectations generally has been positive.
- Growth relative to value is more vulnerable as interest rates normalize.
- Global recovery from COVID and deficit in Energy should support value.

Global Equity: Quarterly Returns



Source: Callan

## MARKET ENVIRONMENT 4Q21: U.S. FIXED INCOME

### Treasury yields again unchanged

- 10-year at 1.52% at 9/30 and 12/31, up slightly from 1.45% on 6/30.
- TIPS outperformed nominal Treasuries, and 10-year breakeven spreads widened to 2.56%.
- Real yields remain solidly in negative territory.

### Bloomberg Aggregate was flat, literally

- Spread sectors (Agencies, ABS, CMBS, MBS, and Credit) all underperformed UST by a modest amount (but positive YTD).
- Yield curve flattened; curve positioning had a meaningful impact on returns in 4Q.

### High yield and leveraged performed relatively well

- Spreads remain near historic tights.
- High yield issuers' default rate declined to a record low in December (J.P. Morgan).
- New issuance hit a record for the second year in a row as issuers looked to finance at relatively low rates.

### Munis underperform Treasuries

- Lower-quality bonds continued their trend of outperformance as investors sought yield.

### Inflation is being felt, indicated by several measures

- Annual CPI jumped to 7.0% in December –its eighth consecutive reading above 5% and the largest 12-month increase since the period ending June 1982.
- Increases for shelter and for used cars/trucks were the largest contributors to the seasonally adjusted all-items increase.
- Even service inflation, which had declined initially, has since recovered and is on an upward trend.

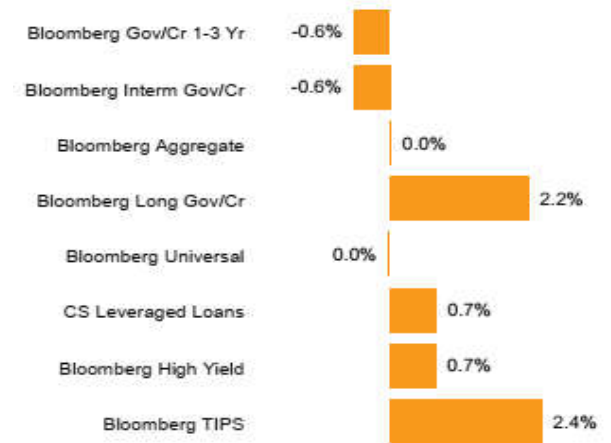
### Fed has turned more hawkish than expected

- Fed announced a doubling of the pace of tapering and an upward revision to the anticipated path of rate hikes.
- FOMC participants now expect three rate hikes in 2022 to bring the targeted range to 0.75%-1.0% by year-end.

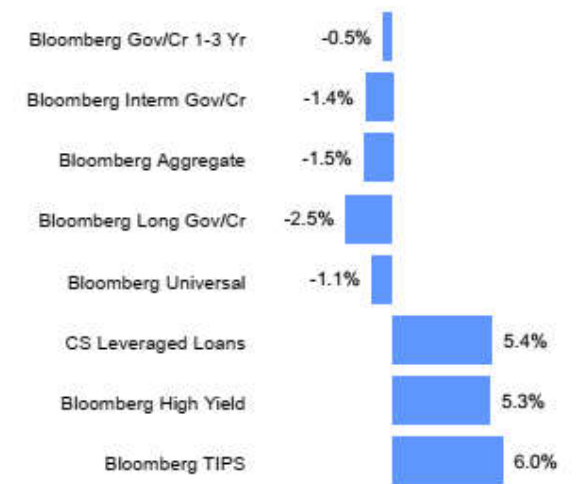
### Spreads have returned to tights

- Fundamentals remain strong and default expectations low.
- Revenue, profits, and free cash flow at or near cycle highs.
- Gross and net leverage trending lower while interest coverage trends higher.

### U.S. Fixed Income: Quarterly Returns



### U.S. Fixed Income: One-Year Returns



Source: Callan

## MARKET ENVIRONMENT 4Q21: NON-U.S. FIXED INCOME

### Global fixed income flat on a hedged basis

- Returns were muted and U.S. dollar strength eroded returns for unhedged U.S. investors in both 4Q and 2021.
- Yen was a notable underperformer in developed markets, falling 10% for the year.

### Emerging market debt posted negative returns

- Emerging market debt indices underperformed most other fixed income sectors in 2021.
- Currencies fared the worst vs. the U.S. dollar; the Turkish lira sank 44% on spiking inflation.

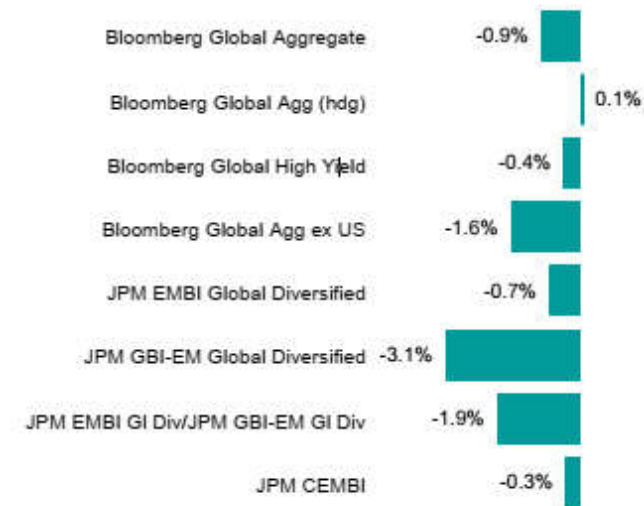
### Global outlook may shift lower with regional variance

- Moderating and differentiated outlook for various regions reflects certain DM and EM economies shifting to tightening balanced by others managing legacy issues.

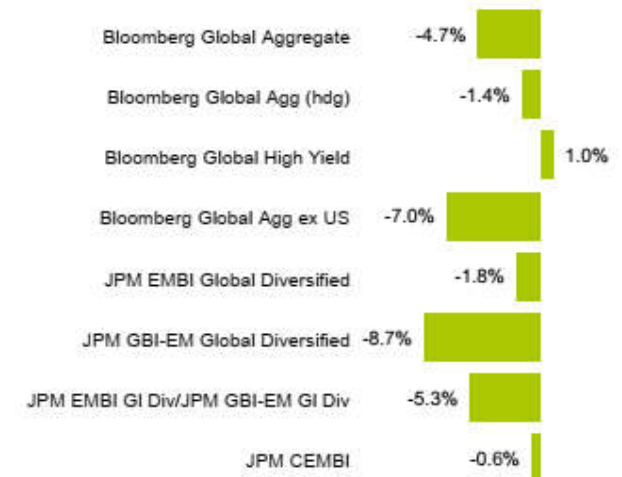
### Central bank policy is mixed

- The U.K. has led the way with interest rate hikes as the BOE expects inflation to peak in April 2022.
- Europe and Japan continue to have below-target inflation and are expected to maintain relatively accommodating monetary policy.
- EM central banks, having moved early to battle inflation, may be moving to a more late-cycle posture.

### Global Fixed Income: Quarterly Returns



### Global Fixed Income: One-Year Returns



Source: Callan

## HISTORICAL INVESTMENT PERFORMANCE

### RETURNS FOR PERIODS ENDED DECEMBER 31, 2021

	Last Quarter	Year to Date	Last Year	Last 2 Years	Last 3 Years	Last 4 Years	Last 5 Years	Last 7 Years	Last 10 Years	Last 15 Years	Last 20 Years	Last 25 Years	Last 30 Years
<b>Domestic Equity Benchmarks</b>													
Russell:3000 Index	9.3	9.2	25.7	23.3	25.8	17.2	18.0	14.5	16.3	10.6	9.7	9.8	10.7
Russell:1000 Index	9.8	10.0	26.5	23.7	26.2	17.6	18.4	14.8	16.5	10.7	9.7	9.9	10.8
Russell:1000 Value	7.8	6.9	25.2	13.4	17.6	10.5	11.2	9.7	13.0	7.5	8.3	8.9	10.2
Russell:1000 Growth	11.6	12.9	27.6	32.9	34.1	24.1	25.3	19.6	19.8	13.7	10.9	10.3	10.8
Russell:Midcap Index	6.4	5.4	22.6	19.8	23.3	14.3	15.1	12.2	14.9	10.2	10.9	11.0	11.8
Russell:Midcap Value	8.5	7.4	28.3	16.1	19.6	10.7	11.2	10.0	13.4	8.8	10.5	10.7	11.8
Russell:Midcap Growth	2.8	2.1	12.7	23.6	27.5	18.5	19.8	14.9	16.6	11.7	10.8	10.5	10.9
Russell:2000 Index	2.1	(2.3)	14.8	17.4	20.0	11.4	12.0	10.8	13.2	8.7	9.4	9.0	10.1
Russell:2000 Value	4.4	1.2	28.3	15.9	18.0	9.4	9.1	9.5	12.0	7.2	9.2	9.6	11.1
Russell:2000 Growth	0.0	(5.6)	2.8	17.7	21.2	12.7	14.5	11.7	14.1	10.0	9.2	7.9	8.5
<b>Non-US Equity Benchmarks</b>													
MSCI:EAFE	2.7	2.2	11.3	9.5	13.5	6.0	9.5	6.8	8.0	3.6	6.3	5.2	5.7
MSCI:ACWI ex US	1.8	(1.2)	7.8	9.2	13.2	5.6	9.6	6.6	7.3	3.8	6.8	--	--
MSCI:EM	(1.3)	(9.3)	(2.5)	7.4	10.9	3.9	9.9	6.1	5.5	4.5	9.6	--	--
MSCI:EAFE Small Cap	0.1	1.0	10.1	11.2	15.6	6.1	11.0	9.5	10.8	5.6	9.9	--	--
MSCI:Frontier Markets	0.7	4.1	19.7	10.2	12.7	4.6	9.6	4.8	7.3	2.7	--	--	--
<b>Domestic Fixed Income Benchmarks</b>													
Blmbg:Aggregate	0.0	0.1	(1.5)	2.9	4.8	3.6	3.6	3.0	2.9	4.1	4.3	4.9	5.3
Blmbg:HY Corp	0.7	1.6	5.3	6.2	8.8	6.0	6.3	6.1	6.8	7.1	7.8	6.9	7.8
Blmbg:Municipal	0.7	0.5	1.5	3.3	4.7	3.9	4.2	3.5	3.7	4.2	4.5	4.8	5.2
Blmbg:Gov/Cred 1-3 Yr	(0.6)	(0.5)	(0.5)	1.4	2.3	2.1	1.9	1.6	1.4	2.2	2.5	3.3	3.7
Blmbg:TIPS	2.4	4.2	6.0	8.4	8.4	5.9	5.3	4.2	3.1	4.7	5.3	--	--
<b>Non-US Fixed Income Benchmarks</b>													
Blmbg:Glb Agg xUSD	(1.2)	(2.8)	(7.0)	1.2	2.5	1.3	3.1	1.5	0.8	2.7	4.5	3.4	4.4
Blmbg:Glb Agg xUSD Hdg	0.1	0.2	(1.4)	1.2	3.3	3.3	3.1	3.1	3.8	4.0	4.1	4.9	5.5
JPM:EMBI Global Divsfd	(0.4)	(1.1)	(1.8)	1.7	5.9	3.3	4.7	4.9	5.3	6.1	7.9	8.0	--
JPM:GBI-EM Global Divsfd	(2.5)	(5.6)	(8.7)	(3.2)	2.1	(0.1)	2.8	1.0	0.7	3.5	--	--	--

Source: Callan



# HISTORICAL INVESTMENT PERFORMANCE

## RETURNS FOR PERIODS ENDED DECEMBER 31, 2021

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2021 2020 2019 2018 2017 2016 2015 2014 2013 2012 2011 2010 2009 2008 2007 2006 2005 2004 2003 2002 2001

### Domestic Equity Benchmarks

Russell:3000 Index	18.2	20.9	31.0	(5.2)	21.1	12.7	0.5	12.6	33.6	16.4	1.0	16.9	28.3	(37.3)	5.1	15.7	6.1	11.9	31.1	(21.5)	(11.5)
Russell:1000 Index	19.4	21.0	31.4	(4.8)	21.7	12.1	0.9	13.2	33.1	16.4	1.5	16.1	28.4	(37.6)	5.8	15.5	6.3	11.4	29.9	(21.7)	(12.4)
Russell:1000 Value	12.5	2.8	26.5	(8.3)	13.7	17.3	(3.8)	13.5	32.5	17.5	0.4	15.5	19.7	(36.8)	(0.2)	22.2	7.1	16.5	30.0	(15.5)	(5.6)
Russell:1000 Growth	26.4	38.5	36.4	(1.5)	30.2	7.1	5.7	13.0	33.5	15.3	2.6	16.7	37.2	(38.4)	11.8	9.1	5.3	6.3	29.7	(27.9)	(20.4)
Russell:Midcap Index	13.4	17.1	30.5	(9.1)	18.5	13.8	(2.4)	13.2	34.8	17.3	(1.5)	25.5	40.5	(41.5)	5.6	15.3	12.7	20.2	40.1	(16.2)	(5.6)
Russell:Midcap Value	13.5	5.0	27.1	(12.3)	13.3	20.0	(4.8)	14.7	33.5	18.5	(1.4)	24.8	34.2	(38.4)	(1.4)	20.2	12.6	23.7	38.1	(9.6)	2.3
Russell:Midcap Growth	13.4	35.6	35.5	(4.8)	25.3	7.3	(0.2)	11.9	35.7	15.8	(1.7)	26.4	46.3	(44.3)	11.4	10.7	12.1	15.5	42.7	(27.4)	(20.2)
Russell:2000 Index	1.9	20.0	25.5	(11.0)	14.6	21.3	(4.4)	4.9	38.8	16.3	(4.2)	26.9	27.2	(33.8)	(1.6)	18.4	4.6	18.3	47.3	(20.5)	2.5
Russell:2000 Value	5.9	4.6	22.4	(12.9)	7.8	31.7	(7.5)	4.2	34.5	18.1	(5.5)	24.5	20.6	(28.9)	(9.8)	23.5	4.7	22.2	46.0	(11.4)	14.0
Russell:2000 Growth	(1.9)	34.6	28.5	(9.3)	22.2	11.3	(1.4)	5.6	43.3	14.6	(2.9)	29.1	34.5	(38.5)	7.0	13.3	4.2	14.3	48.5	(30.3)	(9.2)

### Non-US Equity Benchmarks

MSCI:EAFE	7.5	7.8	22.0	(13.8)	25.0	1.0	(0.8)	(4.9)	22.8	17.3	(12.1)	7.8	31.8	(43.4)	11.2	26.3	13.5	20.2	38.6	(15.9)	(21.4)
MSCI:ACWI ex US	4.2	10.7	21.5	(14.2)	27.2	4.5	(5.7)	(3.9)	15.3	16.8	(13.7)	11.2	41.4	(45.5)	16.7	26.7	16.6	20.9	40.8	(14.9)	(19.7)
MSCI:EM	(4.7)	18.3	18.4	(14.6)	37.3	11.2	(14.9)	(2.2)	(2.6)	18.2	(18.4)	18.9	78.5	(53.3)	39.4	32.2	34.0	25.6	55.8	(6.2)	(2.6)
MSCI:EAFE Small Cap	5.4	12.3	25.0	(17.9)	33.0	2.2	9.6	(4.9)	29.3	20.0	(15.9)	22.0	46.8	(47.0)	1.4	19.3	26.2	30.8	61.3	(7.8)	(12.5)
MSCI:Frontier Markets	18.8	1.4	18.0	(16.4)	31.9	2.7	(14.5)	6.8	25.9	8.9	(18.7)	23.7	11.6	(54.1)	41.9	(8.9)	72.7	22.6	43.5	--	--

### Domestic Fixed Income Benchmarks

Blmbg:Aggregate	1.9	7.5	8.7	0.0	3.5	2.6	0.5	6.0	(2.0)	4.2	7.8	6.5	5.9	5.2	7.0	4.3	2.4	4.3	4.1	10.3	8.4
Blmbg:HY Corp	4.4	7.1	14.3	(2.1)	7.5	17.1	(4.5)	2.5	7.4	15.8	5.0	15.1	58.2	(26.2)	1.9	11.8	2.7	11.1	29.0	(1.4)	5.3
Blmbg:Municipal	1.9	5.2	7.5	1.3	5.4	0.2	3.3	9.1	(2.6)	6.8	10.7	2.4	12.9	(2.5)	3.4	4.8	3.5	4.5	5.3	9.6	5.1
Blmbg:Gov/Cred 1-3 Yr	(0.4)	3.3	4.0	1.6	0.8	1.3	0.7	0.8	0.6	1.3	1.6	2.8	3.8	5.0	6.8	4.3	1.8	1.3	2.8	6.3	8.8
Blmbg:TIPS	7.5	11.0	8.4	(1.3)	3.0	4.7	(1.4)	3.6	(8.6)	7.0	13.6	6.3	11.4	(2.4)	11.6	0.4	2.8	8.5	8.4	16.6	7.9

### Non-US Fixed Income Benchmarks

Blmbg:Glb Agg xUSD	(1.9)	10.1	5.1	(2.1)	10.5	1.5	(6.0)	(3.1)	(3.1)	4.1	4.4	4.9	7.5	4.4	11.0	8.2	(8.6)	12.5	19.4	22.4	(3.7)
Blmbg:Glb Agg xUSD Hdg	0.5	3.9	7.6	3.2	2.5	4.9	1.4	8.8	1.2	6.5	3.9	3.3	4.4	5.7	4.3	3.2	5.4	5.3	2.4	6.8	6.3
JPM:EMBI Global Divsfd	2.9	5.3	15.0	(4.3)	10.3	10.2	1.2	7.4	(5.2)	17.4	7.3	12.2	29.8	(12.0)	6.2	9.9	10.2	11.6	22.2	13.7	9.7
JPM:GBI-EM Global Divsfd	(2.2)	2.7	13.5	(6.2)	15.2	9.9	(14.9)	(5.7)	(9.0)	16.8	(1.8)	15.7	22.0	(5.2)	18.1	15.2	6.3	23.0	16.9	--	--

## PERIODIC TABLE OF INVESTMENT RETURNS

2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
MSCI Emerging Markets 18.23%	Russell 2000 Index 38.82%	S&P 500 13.69%	S&P 500 1.38%	Russell 2000 Index 21.31%	MSCI Emerging Markets 37.28%	3 Month T-Bill 1.87%	S&P 500 31.49%	Russell 2000 Index 19.96%	S&P 500 28.71%
JPM EMBI Global Dvsfd 17.44%	S&P 500 32.39%	JPM EMBI Global Dvsfd 7.43%	JPM EMBI Global Dvsfd 1.18%	Blmbg Barclays Corp High Yield 17.13%	MSCI ACWI ex US 27.19%	Blmbg Barclays Aggregate 0.01%	Russell 2000 Index 25.52%	S&P 500 18.40%	Russell 2000 Index 14.82%
MSCI ACWI ex US 16.83%	MSCI ACWI ex US 15.29%	Blmbg Barclays Aggregate 5.97%	Blmbg Barclays Aggregate 0.55%	S&P 500 11.96%	S&P 500 21.83%	Blmbg Barclays Corp High Yield -2.08%	MSCI ACWI ex US 21.51%	MSCI Emerging Markets 18.31%	MSCI ACWI ex US 7.82%
Russell 2000 Index 16.35%	Blmbg Barclays Corp High Yield 7.44%	Russell 2000 Index 4.89%	3 Month T-Bill 0.05%	MSCI Emerging Markets 11.19%	Russell 2000 Index 14.65%	Blmbg Barclays Global Agg ex US -2.15%	MSCI Emerging Markets 18.44%	MSCI ACWI ex US 10.65%	Blmbg Barclays Corp High Yield 5.28%
S&P 500 16.00%	3 Month T-Bill 0.07%	Blmbg Barclays Corp High Yield 2.45%	Russell 2000 Index -4.41%	JPM EMBI Global Dvsfd 10.15%	Blmbg Barclays Global Agg ex US 10.51%	JPM EMBI Global Dvsfd -4.26%	JPM EMBI Global Dvsfd 15.04%	Blmbg Barclays Global Agg ex US 10.11%	3 Month T-Bill 0.05%
Blmbg Barclays Corp High Yield 15.81%	Blmbg Barclays Aggregate -2.02%	3 Month T-Bill 0.03%	Blmbg Barclays Corp High Yield -4.47%	MSCI ACWI ex US 4.50%	JPM EMBI Global Dvsfd 10.26%	S&P 500 -4.38%	Blmbg Barclays Corp High Yield 14.32%	Blmbg Barclays Aggregate 7.51%	Blmbg Barclays Aggregate -1.54%
Blmbg Barclays Aggregate 4.21%	MSCI Emerging Markets -2.60%	MSCI Emerging Markets -2.19%	MSCI ACWI ex US -5.66%	Blmbg Barclays Aggregate 2.65%	Blmbg Barclays Corp High Yield 7.50%	Russell 2000 Index -11.01%	Blmbg Barclays Aggregate 8.72%	Blmbg Barclays Corp High Yield 7.11%	JPM EMBI Global Dvsfd -1.80%
Blmbg Barclays Global Agg ex US 4.09%	Blmbg Barclays Global Agg ex US -3.08%	Blmbg Barclays Global Agg ex US -3.09%	Blmbg Barclays Global Agg ex US -6.02%	Blmbg Barclays Global Agg ex US 1.49%	Blmbg Barclays Aggregate 3.54%	MSCI ACWI ex US -14.20%	Blmbg Barclays Global Agg ex US 5.09%	JPM EMBI Global Dvsfd 5.26%	MSCI Emerging Markets -2.54%
3 Month T-Bill 0.11%	JPM EMBI Global Dvsfd -5.24%	MSCI ACWI ex US -3.87%	MSCI Emerging Markets -14.92%	3 Month T-Bill 0.33%	3 Month T-Bill 0.86%	MSCI Emerging Markets -14.57%	3 Month T-Bill 2.28%	3 Month T-Bill 0.67%	Blmbg Barclays Global Agg ex US -7.05%

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