



# Market Environment

MARCH 31, 2022

# Market Environment 1Q22: U.S. Equity

## RETURNS GRIND HIGHER DESPITE MOUNTING CONCERNS

- The S&P 500 Index fell 4.6% in 1Q22, but was down more than 12% early in March before rallying into quarter-end.
- Value stocks sharply outpaced growth across capitalizations, with the spread exceeding 10% in both mid and small caps and just over 8% in large caps.
- Energy (+39%) was the best-performing sector given a 33% spike in WTI crude oil prices. Commodity-linked Materials and Utilities sectors also performed well on a relative basis.
- Communication Services (-12%), Consumer Discretionary (-9%), and Information Technology (-8%) were the worst-performing sectors.
- Uncertainty over rates, inflation, and geopolitical tensions all contributed to a volatile and risk-averse environment.
- Interestingly, the Russell Dynamic Index (-4.3%) outperformed the Russell Defensive Index (-5.9%) during the 1Q downturn.

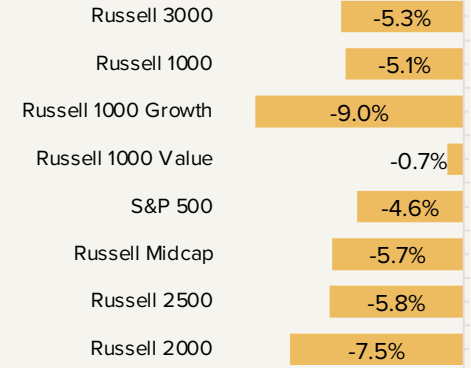
## HISTORICAL SMALL CAP DISCOUNT RELATIVE TO LARGE CAP

- The Russell 2000 Index continues to underperform the Russell 1000 Index; the small cap index now trails large cap by almost 1,660 basis points cumulatively on a three-year basis and over 2,360 bps on a five-year basis.

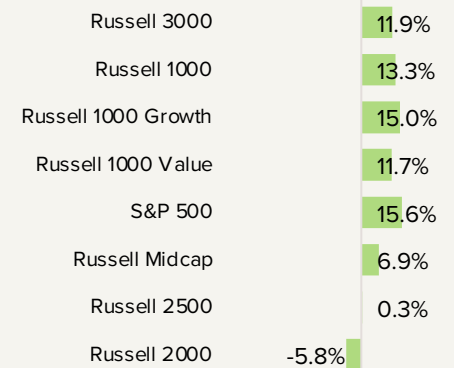
## INDEX CONCENTRATION

- Index concentration continues despite negative 1Q core index returns and falling earnings contribution.
- Among mega cap tech stocks, Apple and Microsoft now seen as providing downside protection.
- Index concentration continues to cause active managers significant headwinds in the large cap growth space—the Russell 1000 Growth Index has nearly 50% of its capitalization in just the top 10 names (Apple and Microsoft are greater than 10% weights).

### U.S Equity: Quarterly Returns

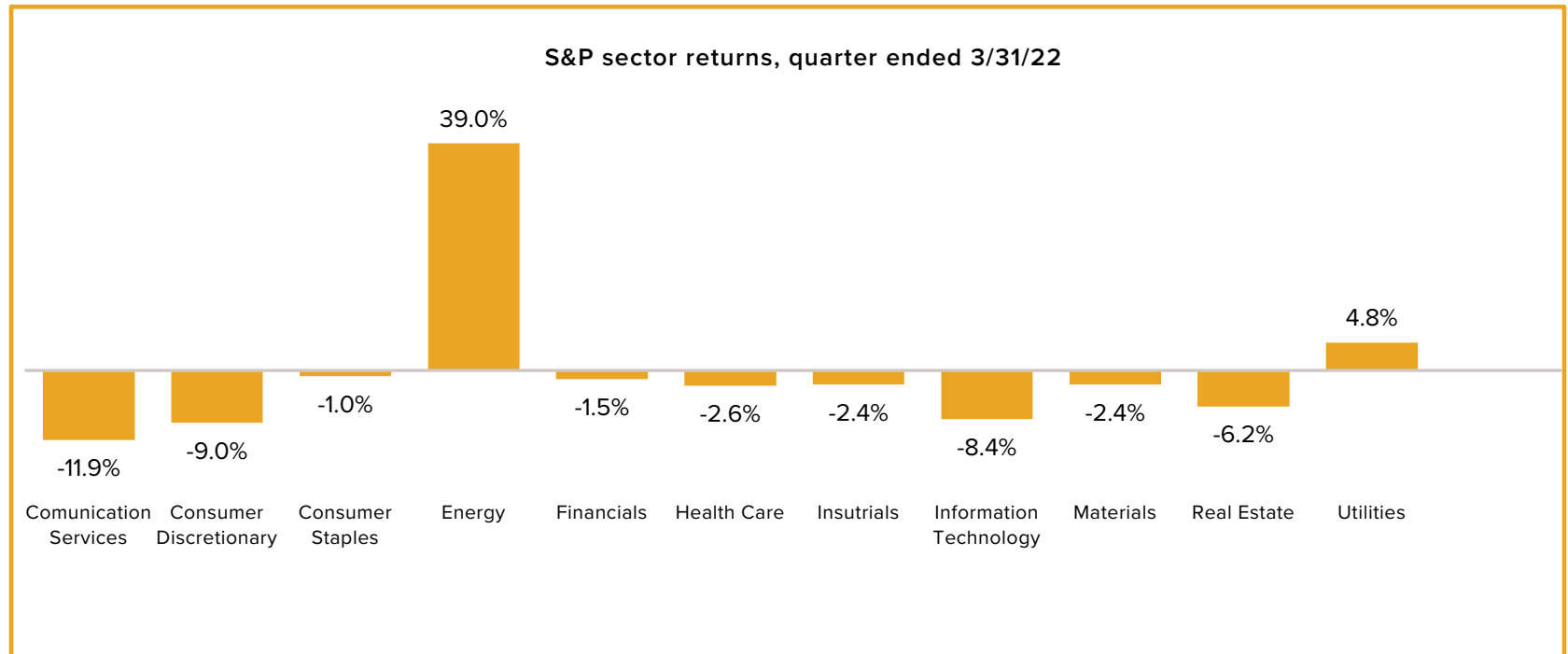


### U.S Equity: One-Year Returns

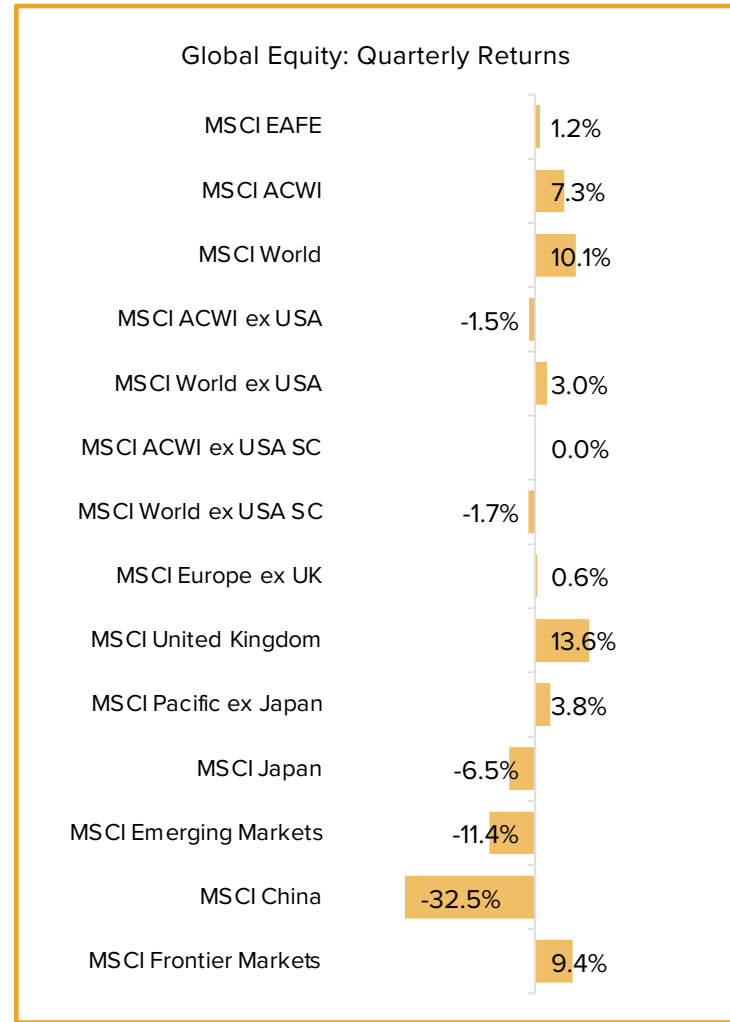
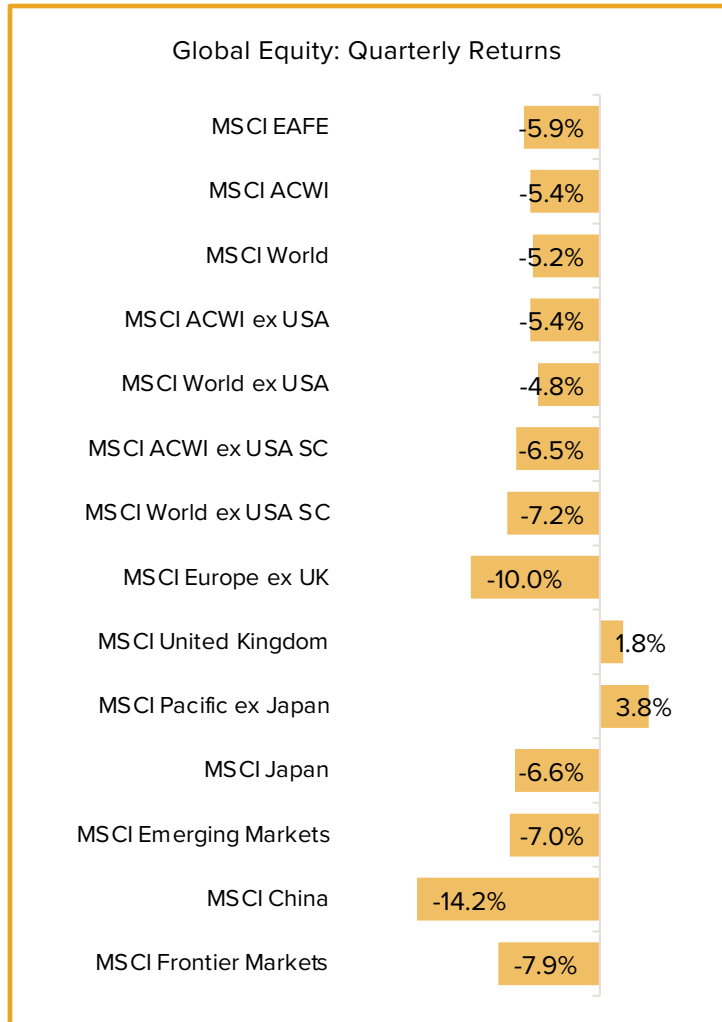


Source: Callan

# Market Environment 1Q22: U.S. Equity (cont.)



# Market Environment 1Q22: Global EX-U.S. Equity



Source: Callan

# Market Environment 1Q22: Global EX-U.S. Equity

## WAR IN UKRAINE STOKED MARKET VOLATILITY

- In the aftermath of invading Ukraine, Russia faced condemnation and sanctions that crippled its stocks, bonds, and currency and shocked the global markets.
- The fog of war exacerbated inflationary concerns and led to a surge in energy prices, as Russia is the second-largest natural gas provider and third-largest oil producer in the world.
- Energy exporters notably outperformed importers given the soaring prices.

## FEARS OF COVID-19

- A resurgence of COVID-19 cases in Europe and Asia, specifically in China, weighed on the global recovery.
- China's zero-COVID policy has injected doubt into its 2022 projected GDP growth of 5.5%, which is already its lowest annual target in more than 25 years.

## GROWTH VS. VALUE

- Value sectors such as Energy, Materials, and Financials were in favor relative to growth sectors like Consumer Discretionary and Information Technology, due to recession fears and a tightening monetary cycle.
- However, Energy was the worst performer within emerging markets due to the removal of Russia from indices.

## U.S. DOLLAR VS. OTHER CURRENCIES

- With the uncertainty of war, the U.S. dollar strengthened against other major currencies, including the yen, as the Bank of Japan maintained an easing policy.

## VALUE IS ATTRACTIVE RELATIVE TO HISTORY

- There are attractive valuations in multiple regions.
- Growth relative to value is more vulnerable as interest rates normalize.
- Global recovery from COVID and deficit in Energy should support value.
- Value sectors are underexposed in international indices relative to history.
- Value outperforms in “heating up” inflationary environments.

# Market Environment 1Q22: U.S. Fixed Income

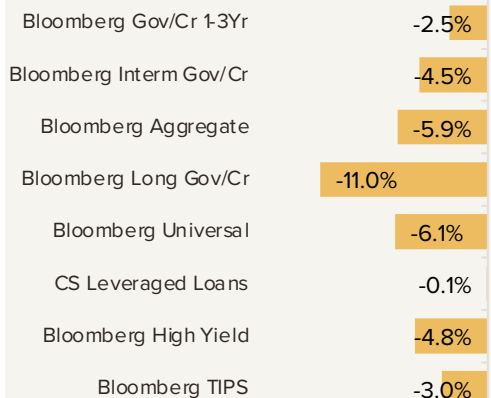
## BONDS HIT HARD AS RATES ROSE SHARPLY

- Bloomberg Aggregate worst quarterly return since 1980.
- Curve flattened; as of 3/31 5-year U.S. Treasury yield was 10 bps higher than 10-year UST yield (2.42% vs. 2.32%).
- TIPS topped nominal Treasuries, and 10-year breakeven spread widened to 2.84% from 2.56% at year-end.
- Fed raised rates by 25 bps, with many more hikes expected this year.

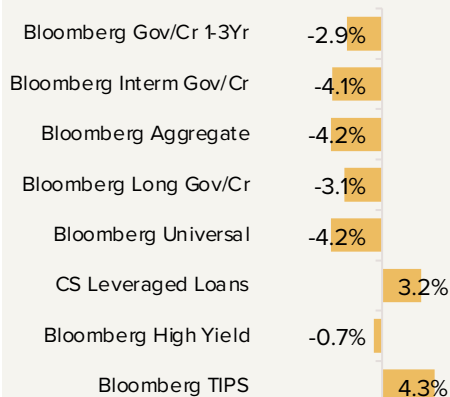
## CREDIT SECTORS UNDERPERFORMED

- Investment-grade corporates underperformed duration-matched U.S. Treasuries by 145 bps, RMBS by 71 bps.
- High yield “benefited” from less interest rate sensitivity and relatively higher exposure to the energy sector; excess return vs. U.S. Treasuries was 92 bps.
- Defaults remain low (less than 1%) and yield breached 6%.

### US Fixed Income: Quarterly Returns



### US Fixed Income: One-Year Returns



## LEVERAGED LOANS PERFORMED RELATIVELY WELL

- Helped by floating rate coupons/low duration.

## SECURITIZED SECTORS ALSO PERFORMED WELL

- Consumer ABS was the best within the sector due to its shorter duration profile and solid consumer spending.
- Conduit CMBS traded in line as the economy re-opens.
- Agency MBS saw duration extend by 0.4 year due to higher rates.
- The U.S. yield curve “bear-flattened” as the Fed pivoted to focus on higher-than-expected inflation.
- The U.S. yield curve (2Y/10Y) inverted on the last (intra) day of the quarter, which has not been seen since Aug. 2019.
- Despite rates moving higher this year, could the recent back-up indicate a new regime of higher rates, or is the market simply trading to the higher end of this secular range that has persisted for nearly 40 years?

Source: Callan

# Market Environment 1Q22: U.S. Fixed Income (cont.)

## MUNICIPAL BONDS

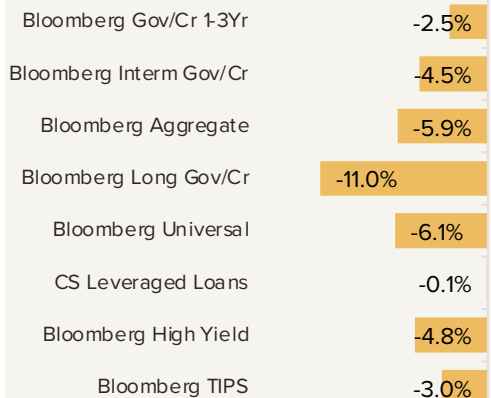
### MUNICIPAL BOND RETURNS HURT BY RISING RATES

- Bloomberg Municipal Bond Index suffered its worst quarterly return since 3Q81.
- Lower quality underperformed: BBB -7.1%; AAA -6.1%
- As with U.S. Treasuries, the muni yield curve flattened with 2-year yields rising more than 10-year and 30-year yields.

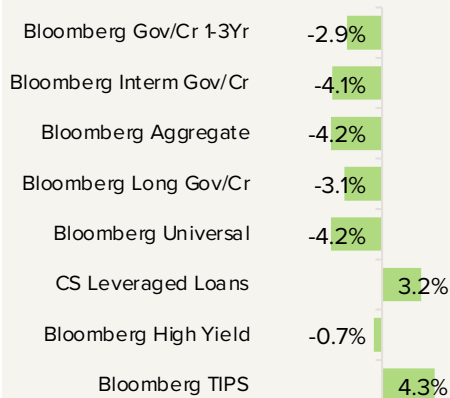
### VALUATIONS RELATIVELY ATTRACTIVE

- 10-year AAA Muni/10-year U.S. Treasury ratio = 94%
- Up from 68% at year-end; 10-year median = 90%
- Municipal Bond Index after-tax yield = 4.4% (tax rate of 37%)

#### US Fixed Income: Quarterly Returns



#### US Fixed Income: One-Year Returns



## SUPPLY / DEMAND

- Heavy outflows in 1Q22 following record inflows in 2021.
- \$22 billion in outflows in 1Q (one-fifth of 2021 inflows).
- Supply down modestly vs. 1Q21.

## CREDIT QUALITY REMAINS STABLE TO IMPROVING

- Tax revenues continued to rise and reserve levels are high.
- Upgrades outpaced downgrades.

Source: Callan

# Market Environment 1Q22: Non-U.S. Fixed Income

## NEGATIVE RETURNS DRIVEN BY BROAD INTEREST RATE INCREASES

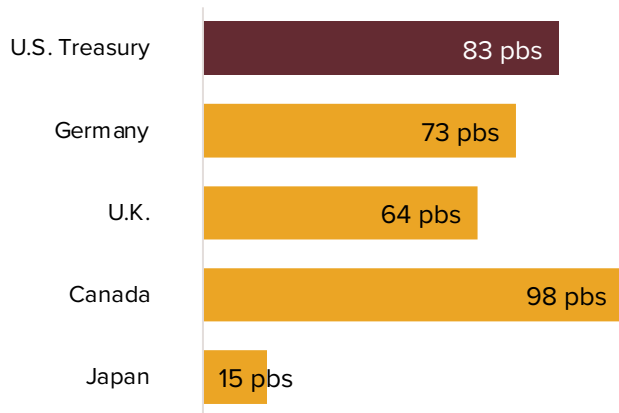
- U.S. dollar appreciated against the Japanese yen, euro, and British pound.

## EMERGING MARKET DEBT WAS NOT SPARED

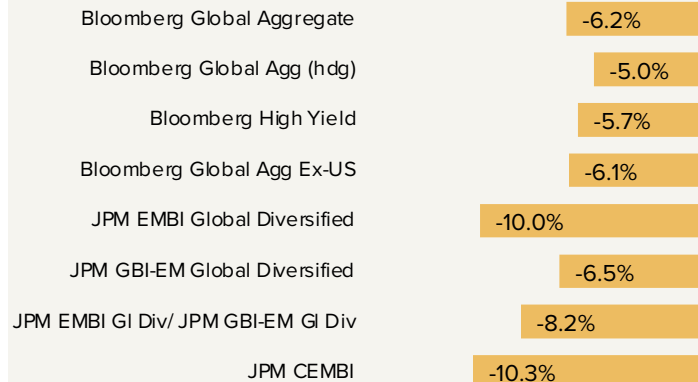
- JPM Global Diversified hurt by rising rates in the U.S.
- GBI-EM hurt by rising local rates, but currency appreciation helped in Latin America and Africa.
- Russia removed from indices at a price of \$0 (-100% return).

## CHANGE IN 10-YEAR GLOBAL GOVERNMENT BOND YIELDS

4Q21 to 1Q22



## Global Fixed Income: Quarterly Returns



## Global Fixed Income: One-Year Returns



Source: Callan



# Historical Investment Performance

## RETURNS FOR PERIODS ENDED MARCH 31, 2022

	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	(5.3)	3.5	11.9	34.9	18.2	15.8	15.4	13.4	14.3	10.1	9.4	9.5	10.5
Russell: 1000 Index	(5.1)	4.1	13.3	34.9	18.7	16.3	15.8	13.7	14.5	10.3	9.4	9.6	10.7
Russell: 1000 Value	(0.7)	7.0	11.7	32.0	13.0	11.1	10.3	9.7	11.7	7.4	8.1	8.7	10.2
Russell: 1000 Growth	(9.0)	1.5	15.0	36.8	23.6	20.8	20.9	17.3	17.0	12.9	10.5	9.9	10.7
Russell: Midcap Index	(5.7)	0.4	6.9	36.3	14.9	12.7	12.6	10.7	12.9	9.5	10.3	10.8	11.5
Russell: Midcap Value	(1.8)	6.6	11.5	39.2	13.7	10.9	10.0	9.3	12.0	8.3	10.0	10.5	11.6
Russell: Midcap Value	(12.6)	(10.1)	(0.9)	29.3	14.8	14.0	15.1	11.9	13.5	10.4	10.2	10.0	10.5
Russell: 2000 Index	(7.5)	(5.5)	(5.8)	35.5	11.7	9.2	9.7	8.9	11.0	8.0	8.7	8.9	9.5
Russell: 2000 Value	(2.4)	1.9	3.3	42.7	12.7	9.4	8.6	8.8	10.5	6.9	8.5	9.5	10.6
Russell: 2000 Growth	(12.6)	(12.6)	(14.3)	27.7	9.9	8.3	10.3	8.5	11.2	8.8	8.6	7.8	7.9
<b>Domestic Equity Benchmarks</b>													
MSCI: EAFE	(5.9)	(3.4)	1.2	20.9	7.8	4.8	6.7	5.1	6.3	2.9	6.0	5.0	5.9
MSCI: ACWI ex US	(5.4)	(3.7)	(1.5)	21.3	7.5	4.5	6.8	5.2	5.6	3.1	6.4	-	-
MSCI: EM	(7.0)	(8.2)	(11.4)	18.5	4.9	1.7	6.0	4.7	3.4	3.8	8.6	-	-
MSCI: EAFE Small Cap	(8.5)	(8.5)	(3.6)	24.9	8.5	3.7	7.4	7.3	8.3	4.5	9.1	-	-
MSCI: Frontier Markets	(7.9)	(7.3)	9.4	23.4	7.3	1.2	6.0	4.0	5.9	1.6	-	-	-
<b>Domestic Fixed Income Benchmarks</b>													
Blmbg: Aggregate	(5.9)	(5.9)	(4.2)	(1.8)	1.7	2.4	2.1	1.9	2.2	3.6	4.0	4.7	5.1
Blmbg: HY Corp	(4.8)	(4.2)	(0.7)	10.9	4.6	4.9	4.7	5.0	5.7	6.5	7.5	6.6	7.3
Blmbg: Municipal	(6.2)	(5.6)	(4.5)	0.4	1.5	2.5	2.5	2.4	2.9	3.7	4.2	4.6	5.0
Blmbg: Gov/Cred 1-3 Yr	(2.5)	(3.0)	(2.9)	(0.7)	1.0	1.5	1.3	1.1	1.1	2.0	2.4	3.2	3.6
Blmbg: TIPS	(3.0)	(0.7)	4.3	5.9	6.2	5.3	4.4	3.6	2.7	4.3	5.1	5.3	-
<b>Non-US Fixed Income Benchmarks</b>													
Blmbg: Glb Agg xUSD	(6.1)	(7.3)	(7.9)	(0.7)	(0.2)	(1.2)	1.3	1.3	0.1	2.1	4.2	3.4	4.4
Blmbg: Glb Agg xUSD Hdg	(4.1)	(4.0)	(3.6)	(1.1)	0.9	2.0	2.3	2.2	3.2	3.6	3.9	4.7	5.4
JPM: EMBI Global Divsfd	(10.0)	(10.4)	(7.4)	3.6	0.0	1.0	1.7	3.0	3.7	5.2	7.1	7.6	-
JPM: GBI-EM Global Divsfd	(6.5)	(8.8)	(8.5)	1.7	(1.1)	(2.8)	0.2	0.7	(0.7)	2.8	-	-	-

Source: Callan

# Historical Investment Performance

## RETURNS FOR PERIODS ENDED MARCH 31, 2022

	1 Qtr.																					
	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002	
<b>Domestic Equity Benchmarks</b>																						
Russell: 3000 Index	(5.3)	25.7	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)	
Russell: 1000 Index	(5.1)	26.5	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)	
Russell: 1000 Value	(0.7)	25.2	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)	
Russell: 1000 Growth	(9.0)	27.6	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)	
Russell: Midcap Index	(5.7)	22.6	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)	
Russell: Midcap Value	(1.8)	28.3	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)	
Russell: Midcap Growth	(12.6)	12.7	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)	
Russell: 2000 Index	(7.5)	14.8	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)	
Russell: 2000 Value	(2.4)	28.3	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)	
Russell: 2000 Growth	(12.6)	2.8	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)	
<b>Domestic Equity Benchmarks</b>																						
MSCI: EAFE	(5.9)	11.3	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)	
MSCI: ACWI ex US	(5.4)	7.8	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)	
MSCI: EM	(7.0)	(2.5)	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)	
MSCI: EAFE Small Cap	(8.5)	10.1	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)	
MSCI: Frontier Markets	(7.9)	19.7	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	-	
<b>Domestic Fixed Income Benchmarks</b>																						
Bimbg: Aggregate	(5.9)	(1.5)	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	
Bimbg: HY Corp	(4.8)	5.3	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)	
Bimbg: Municipal	(6.2)	1.5	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	
Bimbg: Gov/Cred 1-3 Yr	(2.5)	(0.5)	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	
Bimbg: TIPS	(3.0)	6.0	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	
<b>Non-US Fixed Income Benchmarks</b>																						
Bimbg: G1b Agg xUSD	(6.1)	(7.0)	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	
Bimbg: G1b Agg xUSD Hdq	(4.1)	(1.4)	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	
JPM: EMBI Global Divsfd	(10.0)	(1.8)	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	
JPM: GBI-EM Global Divsfd	(6.5)	(8.7)	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	-	

Source: Callan

# Periodic Table of Investment Returns

2013	2014	2015	2016	2017	2018	2019	2020	2021	1 Qtr. 2022
Russell 2000 Index	S&P 500	S&P 500	Russell 2000 Index	MSCI Emerging Markets	3 Month T-Bill	S&P 500	Russell 2000 Index	S&P 500	3 Month T-Bill
38.82%	13.69%	1.38%	21.31%	37.28%	1.87%	31.49%	19.96%	28.71%	0.04%
S&P 500	JPM EMBI Global Dvsfd	JPM EMBI Global Dvsfd	Blmbg Barclays Corp High Yield	MSCI ACWI ex US	Blmbg Barclays Aggregate	Russell 2000 Index	S&P 500	Russell 2000 Index	S&P 500
32.39%	7.43%	1.18%	17.13%	27.19%	0.01%	25.52%	18.40%	14.82%	- 4.60%
MSCI ACWI ex US	Blmbg Barclays Aggregate	Blmbg Barclays Aggregate	S&P 500	S&P 500	Blmbg Barclays Corp High Yield	MSCI ACWI ex US	MSCI Emerging Markets	MSCI ACWI ex US	Blmbg Barclays Corp High Yield
15.29%	5.97%	0.55%	11.96%	21.38%	- 2.08%	21.51%	18.31%	7.82%	- 4.84%
Blmbg Barclays Corp High Yield	Russell 2000 Index	3 Month T-Bill	MSCI Emerging Markets	Russell 2000 Index	Blmbg Barclays Global Agg ex US	MSCI Emerging Markets	MSCI ACWI ex US	Blmbg Barclays Corp High Yield	MSCI ACWI ex US
7.44%	4.89%	0.05%	11.19%	14.65%	- 2.15%	18.44%	10.65%	5.28%	- 5.44%
3 Month T-Bill	Blmbg Barclays Corp High Yield	Russell 2000 Index	JPM EMBI Global Dvsfd	Blmbg Barclays Global Agg ex US	JPM EMBI Global Dvsfd	JPM EMBI Global Dvsfd	Blmbg Barclays Global Agg ex US	3 Month T-Bill	Blmbg Barclays Aggregate
0.07%	2.45%	- 4.41%	10.15%	10.51%	- 4.26%	15.04%	10.11%	0.05%	- 5.93%
Blmbg Barclays Aggregate	3 Month T-Bill	Blmbg Barclays Corp High Yield	MSCI ACWI ex US	JPM EMBI Global Dvsfd	S&P 500	Blmbg Barclays Corp High Yield	Blmbg Barclays Aggregate	Blmbg Barclays Aggregate	Blmbg Barclays Global Agg ex US
- 2.02%	0.03%	- 4.47%	4.50%	10.26%	- 4.38%	14.32%	7.51%	- 1.54%	- 6.15%
MSCI Emerging Markets	MSCI Emerging Markets	MSCI ACWI ex US	Blmbg Barclays Aggregate	Blmbg Barclays Corp High Yield	Russell 2000 Index	Blmbg Barclays Aggregate	Blmbg Barclays Corp High Yield	JPM EMBI Global Dvsfd	MSCI Emerging Markets
- 2.60%	- 2.19%	- 5.66%	2.65%	7.50%	- 11.01%	8.72%	7.11%	- 1.80%	- 6.97%
Blmbg Barclays Global Agg ex US	Blmbg Barclays Global Agg ex US	Blmbg Barclays Global Agg ex US	Blmbg Barclays Global Agg ex US	Blmbg Barclays Aggregate	MSCI ACWI ex US	Blmbg Barclays Global Agg ex US	JPM EMBI Global Dvsfd	MSCI Emerging Markets	Russell 2000 Index
- 3.08%	- 3.09%	- 6.02%	1.49%	3.54%	- 14.20%	5.09%	5.26%	- 2.54%	- 7.53%
JPM EMBI Global Dvsfd	MSCI ACWI ex US	MSCI Emerging Markets	3 Month T-Bill	3 Month T-Bill	MSCI Emerging Markets	3 Month T-Bill	3 Month T-Bill	Blmbg Barclays Global Agg ex US	JPM EMBI Global Dvsfd
- 5.24%	- 3.87%	- 14.92%	0.33%	0.86%	- 14.57%	2.28%	0.67%	- 7.05%	- 10.02%

Source: Callan

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