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April 7, 2022

Dear Valued Investor:

"Bull markets are born on pessimism, grown on skepticism, mature on optimism, and die on euphoria." - Sir John Templeton

According to the guidance of revered investor Sir John Templeton, it appears to us that this market may have a bit more left in the tank. The market returns we witnessed in March seem to bear this out, as stocks surged during the month despite the backdrop of war in Ukraine, inflationary pressures, and surging interest rates. However, over the intermediate term, the path forward may only be partially defined by Federal Reserve policies, global diplomatic efforts, and rates. Why? For one reason—earnings from corporate America remain strong and the jobs market is back to approximate pre-pandemic levels. Indeed, there seems to be plenty of skepticism, but market fundamentals have yet to be materially shaken from their foundation.

Historically, geopolitical events have typically dented market sentiment for a period, but stocks have shown a tendency to rebound rather quickly when initial pessimism subsides. Past performance is no guarantee of future outcomes of course, but the latest market rebound seems to fit historical precedents. After hitting a March closing low of 4,170, the S&P 500 Index has regained considerable ground and is hovering near 4,500 at the time of this letter.

Meanwhile, the Federal Reserve's first move to raise interest rates (in March) was well telegraphed by market participants, and most expect further tightening from the central bank. The primary policy target is rising U.S. inflation, an undesirable circumstance driven by unprecedented COVID-19-induced economic volatility and a massive policy response. That has been further complicated by current geopolitical tensions. The good news is we expect inflation to come down significantly as the year progresses.

And finally, the third pillar in the latest wall of worry is new concern over yield-curve inversion. Recently, the 10-year Treasury yield fell below the two-year Treasury yield, an occurrence that has preceded economic recessions in the past, but not always. A similar circumstance transpired in 1998 and 2005 and no recession immediately followed, while a recession following the yield curve inversion in 2019 would have been very unlikely if not for COVID-19. So while yield curves may tell a cautionary tale and the media is quick to report on it, we do not believe a recession is imminent, given the overall strength in the economy.

To sum it all up, March has given us some signs that staying the course may be the most prudent investing decision to make. Although we warned that volatility was likely to return in 2022, and it has, we believe riskier assets, like stocks, still may present opportunities for investors. In our view, financial conditions remain favorable, earnings may continue to surprise to the upside, and economic data in many corners of the economy remain favorable. These elements help us label the recent market skepticism as potentially healthy and help us to forecast that the upswing in the business cycle may yet have a ways to go.

Please contact your financial advisor with questions.

Sincerely,

Marc A. Zabicki

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All index data from FactSet.

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