Market Review Commentary

Fourth Quarter 2021

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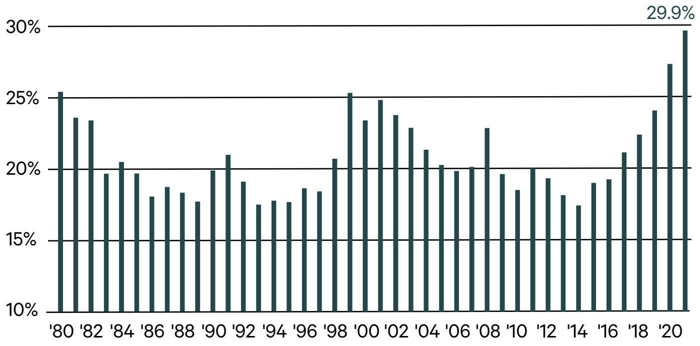
EQUITY PERFORMANCE

U.S. stocks staged another impressive year of returns led by the S&P 500 Index returning 28.71% for the year, with double-digit returns (11.03%) in the fourth quarter alone. The S&P 500 recorded 70 closing highs in 2021, the most for a single year since the 77 that were hit in 1995. Market breadth was weak in the fourth quarter with the average stock returning only 0.26%. Returns in the S&P 500 were heavily skewed by the performance of some very large market caps.

FIGURE 1: TOP 10 ISSUES BY % OF S&P 500® INDEX MARKET VALUE | (1980-2021)



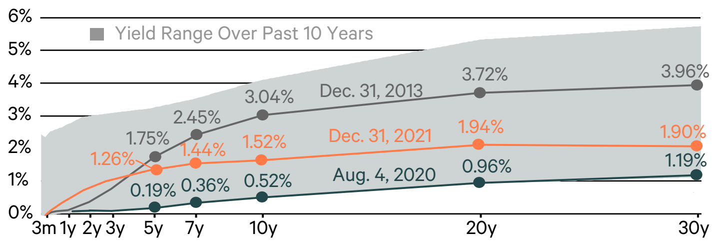
Data is presented as of December 31, 2021. Data is obtained from Strategas and is assumed to be reliable. ***Past performance is no guarantee of future results.***

Within large cap, growth continued its outperformance relative to value with the Russell 1000 Growth Index returning 27.60% and the Russell 1000 Value Index returning 25.16% for the year. However, as you move down in market cap, value dramatically outperformed growth as evidenced by the Russell 2000 Value Index which returned 28.27% versus the Russell 2000 Growth Index which returned 2.83% for the year. Small-cap stocks lagged the S&P 500 for the year with the Russell 2000 Index returning 14.82%. International stocks continued to underperform domestic stocks with a return of 11.26% for the year (as measured by the MSCI EAFE Index) and emerging market stocks (as measured by the MSCI Emerging Markets Index) actually declined 2.54%.

FIXED INCOME PERFORMANCE

Interest rates created some news during the quarter with the Federal Reserve chairman dropping the phrase "transitory" associated with the inflation outlook. The short end of the yield curve reacted to accelerated tapering and two to three interest rate increases are now expected in 2022. Interestingly, the 10-year bond yield was virtually unchanged for the quarter (1.53% to 1.52%). The 30-year bond yield actually declined in the quarter from 2.09% to 1.90%.

FIGURE 2: U.S. TREASURY YIELD CURVE



Data presented is as of December 31, 2021 and is obtained from Factset, Federal Reserve, J.P. Morgan Asset Management and is assumed to be reliable. December 31, 2013 is the date the yield curve reached one of its steepest levels in reaction to the Fed announcing it would begin paring down its bond-buying program. August 4, 2020 is the date of a record low on the 10-year, driven by safe haven demand and pessimism around the U.S. pandemic recovery. Forecasts are not a reliable indicator of future performance. Positive yield does not imply positive return. ***Past performance is no guarantee of future results.***

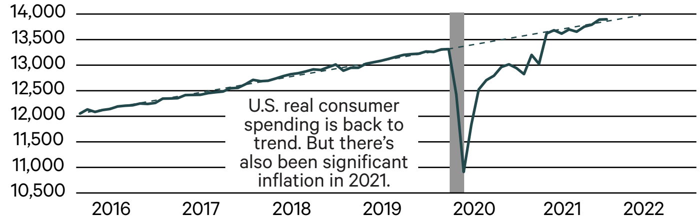
Overall, the Bloomberg U.S. Aggregate Bond Index was flat for the quarter (+0.01%) and declined for the year (-1.54%). High yield bonds continued to perform well with a positive return of 0.66% for the quarter and 5.36% for the year (as measured by the ICE BofA U.S. High Yield Index). The Bloomberg U.S. Municipal Index eked out a positive return of 0.72% for the quarter and 1.52% for the year. Similar to emerging market stocks, emerging market debt performed poorly declining 1.51% for the year (as measured by the J.P. Morgan GBI EM Global Diversified Index).

INFLATION NO LONGER TRANSITORY?

The inflation outlook was probably the most important factor that affected 2021 fundamentals and the outlook for 2022. The increase in inflation has been driven by robust consumer demand coupled with significant supply shortages of items such as aluminum, resin, lumber, and semiconductors. Continued COVID-19 cases throughout China and Asia in particular shut down cities and plants occasionally and created inventory shortages and transportation bottlenecks throughout 2021. Larger companies with more geographically dispersed supply chains were able to circumvent issues better than many small-to-medium sized firms. We expect supply chain issues to continue in 2022 due to continued COVID-19 variant outbreaks (Omicron the latest), but hopefully they will be less disruptive as the year progresses.

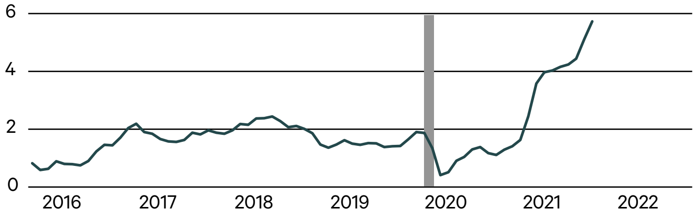
FIGURE 3: REAL PERSONAL CONSUMPTION EXPENDITURES

(SAAR, Bil. Chn. 2012$)



Data is presented as of December 31, 2021. Data is obtained from the Bureau of Economic Analysis and Strategas and is assumed to be reliable. ***Past performance is no guarantee of future results.***

FIGURE 4: PERSONAL CONSUMPTION EXPENDITURE: CHAIN PRICE INDEX | % Change - Year to Year SA, 2012=100



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INFLATION'S IMPACT ON MARKETS

The spike in inflation has certainly caused the Federal Reserve to reassess their outlook for short-term interest rates in 2022. A no rate increase in 2022 outlook has given way to two and potentially three short-term rate increases in 2022 due to the inflation spike. The shape of the yield curve has flattened somewhat as longer-term rates (10- and 30-year Treasuries) have barely budged so far. Stocks, which are long duration assets, should be most susceptible to changes in valuation based on longer-term rates. Watching how the yield curve shape changes when the Fed does raise rates will be important for investors.

INFLATION'S IMPACT ON EQUITIES

Companies have seen their costs increase dramatically this year due to raw material prices rising, transportation costs increasing, and even labor shortages in some industries. Gross margins have been negatively impacted throughout 2021 due to these cost increases. Yet many businesses have had more demand than they are capable of fulfilling. Consumers have never been wealthier due to increases in housing prices and the stock market, not to mention the monetary and fiscal stimulus. The result of this mismatch in supply and demand has been the increase in reported inflation statistics well above the Fed's longer-term target of 2%. So far, corporate America has been able to offset these costs with better revenue and less advertising and general and administrative expenses. In fact, S&P 500 corporate profit margins made an all-time high in the second and third quarters of this year.

Despite all of the significant cost pressure, these are the key reasons the S&P 500 has done so well in 2021. It has only taken a year and six months since the global pandemic broke out for the S&P 500 to fully recover its prior earnings peak. For reference, it took seven years for the S&P 500 to recover earnings lost during the 2008 crisis.

2022 OUTLOOK

Since the global pandemic recovery started in the summer of 2020, the S&P 500 has had no significant correction. Many parts of the equity market have seen significant internal corrections, such as small-cap stocks, high multiple growth stocks, SPACs, IPOs, and many individual sectors. This is unusual, but somewhat justified by the fundamentals (S&P 500 operating margins are at all-time highs now). We are of the view that inflation will moderate in 2022 but probably will still be above the Fed's longer-term target of 2%. COVID case severity will be the key driver in 2022 and obviously remains difficult to forecast. China remains a risk into next year due to its significant regulatory crackdown which has destroyed some industries and given investors pause to invest anywhere in China. Tensions with Taiwan also represent a risk due to our semiconductor dependence and the role that this plays in our ongoing digital transformation. Overall, though, we believe earnings will continue to grow next year and interest rates will remain fairly benign by any historical standard, which, in our view, should contribute to equity returns next year in line with earnings per share growth. We also believe businesses with pricing power and less labor intensity may perform well next year as well.

We wish all of you a safe and prosperous year in 2022. As always, thank you for your continued trust and confidence in managing your assets. We will continue to follow our strategy of owning quality companies, which we believe are competitively advantaged in your portfolios.

Douglas S. Foreman, CFA
Chief Investment Officer

Douglas S. Foreman, CFA is Chief Investment Officer, Portfolio Manager, and a member of the Executive Management Committee. He has approximately 35 years of investment experience.

Large-capitalization stocks are represented by the S&P 500® Index which is a market capitalization weighted index which includes 500 of the largest companies in leading industries of the U.S. economy. Growth stocks are represented by the Russell 1000® Growth Index which is a market capitalization-weighted index of growth-oriented stocks of the 1,000 largest companies in the Russell Universe, which comprises the 3,000 largest U.S. companies. Value stocks are represented by the Russell 1000® Value Index which is a market capitalization-weighted index of value-oriented stocks of the 1,000 largest companies in the Russell Universe, which comprises the 3,000 largest U.S. companies. Small-capitalization stocks are represented by the Russell 2000® Index which is a market capitalization-weighted index of the 2,000 smallest companies in the Russell Universe, which comprises the 3,000 largest U.S. companies. The MSCI® EAFE Index is a free float-adjusted market capitalization index that measures developed foreign market equity performance, excluding the U.S. and Canada. Emerging markets are represented by the MSCI® Emerging Markets (EM) Index which is a free float-adjusted market capitalization index tracking the equity performance of global emerging markets. The Bloomberg U.S. Aggregate Bond Index is a market value weighted index that tracks the daily price, coupon, pay downs and total return performance of fixed-rate, publicly placed, dollar-denominated and non-convertible investment grade debt issues with at least $250 million par amount outstanding with at least one year to final maturity. Performance is calculated on a total return basis with dividends reinvested. The ICE BofAML U.S. High Yield Index tracks the performance of U.S. dollar denominated below-investment-grade corporate debt publicly issued in the U.S. domestic market. The Bloomberg U.S. Municipal Index covers the USD-denominated long-term tax exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds and prefunded bonds. The J.P. Morgan GBI EM Global Diversified Index tracks the performance of local currency debt issued by emerging market governments, whose debt is accessible by most of the international investor base. This report is based on the assumptions and analysis made and believed to be reasonable by Advisor. However, no assurance can be given that Advisor's opinions or expectations will be correct. This report is intended for informational purposes only and should not be considered a recommendation or solicitation to purchase securities. ***Past performance is no guarantee of future results.***