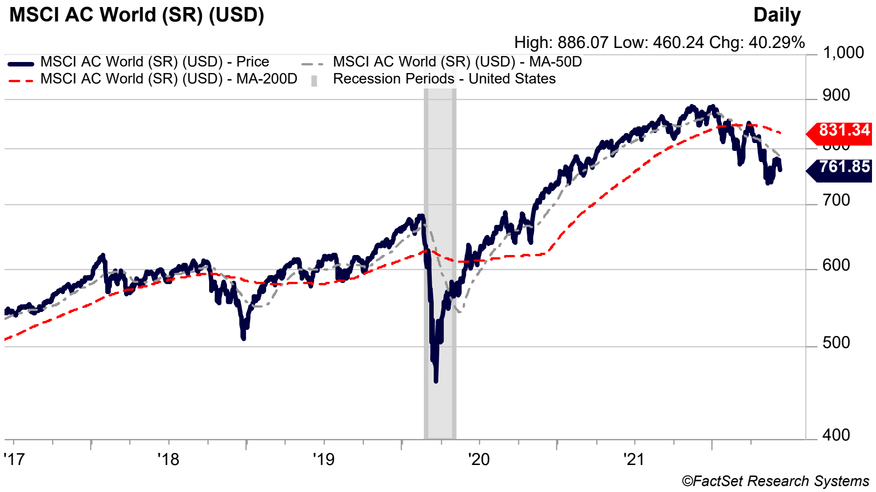
Observation Deck

Views from the Investment Policy Committee



2nd Quarter 2022

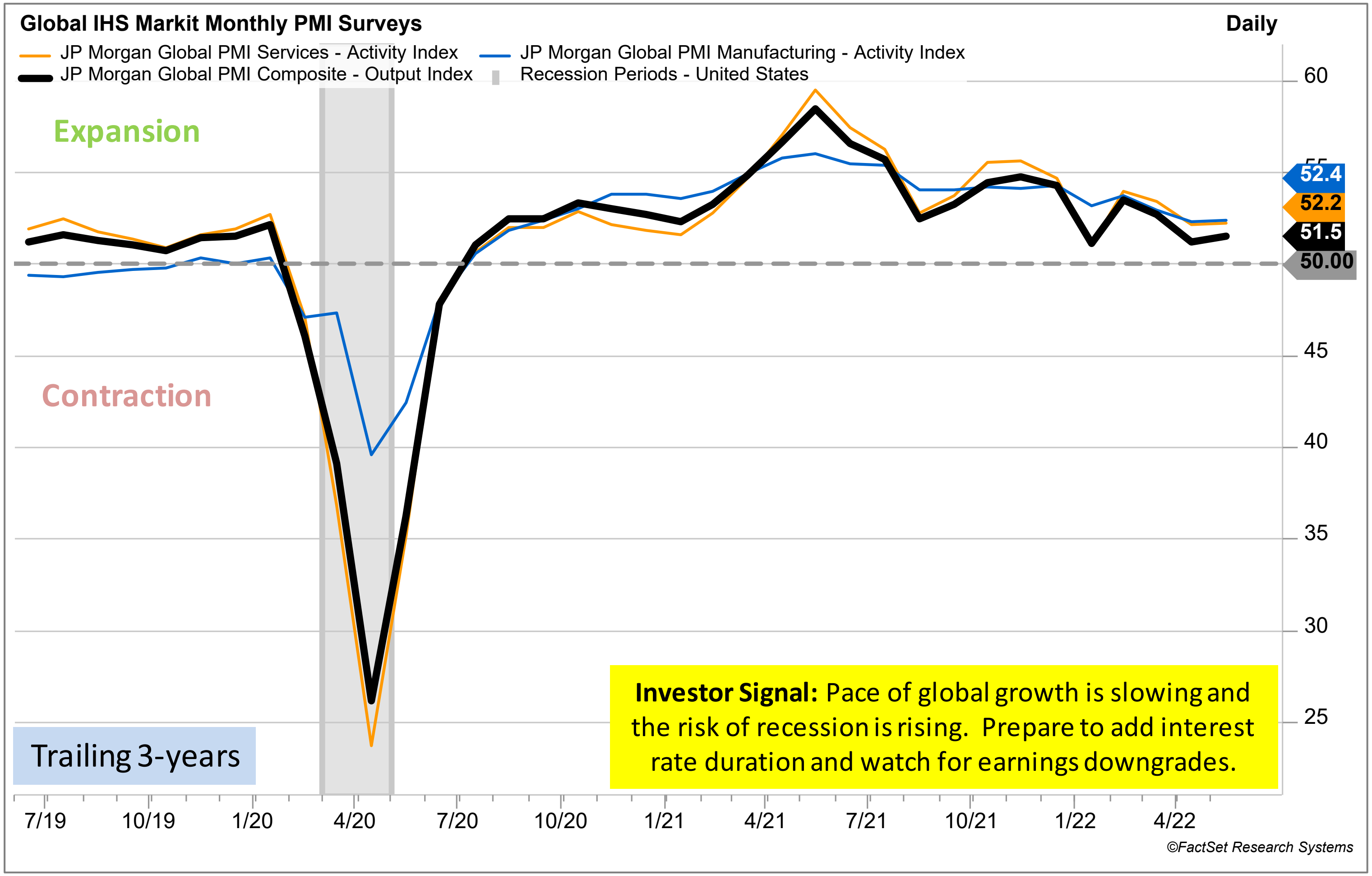
Purpose

- The Observation Deck is a series of pictures designed to communicate points of view and to stimulate discussion and debate, it is NOT a set of recommendations
- Our commentary is not the result of any single data point or graphic, it is a reflection of the weekly conversations within the Investment Policy Committee and a set of perspectives that are derived from many observations accumulated over varying time frames
- Slides that are included in the Observation Deck are a subset of the scores of data points and graphics that the Investment Policy Committee views each week in assessing the status of the business cycle and the health of financial markets
- We hope that you enjoy the Observation Deck and recognize that the views and opinions expressed are capturing a moment in time and are subject to change without notice

Observation #1 – Growth is Slowing

Economy

- The Purchasing Managers' Index Series are monthly economic surveys that provide an advance signal of what is happening in the real economy. They track activity variables such as output, new orders, supply times, employment and prices across key sectors.
- The Series cover 30 countries and 86% of global GDP. The PMI is a diffusion index with values above 50 signaling expansion and below 50 indicating contraction. The further from 50 the faster the rate of change indicated.
- The Composite (black line) accommodates the activities within the Manufacturing (blue line) and Services (orange line) sectors.



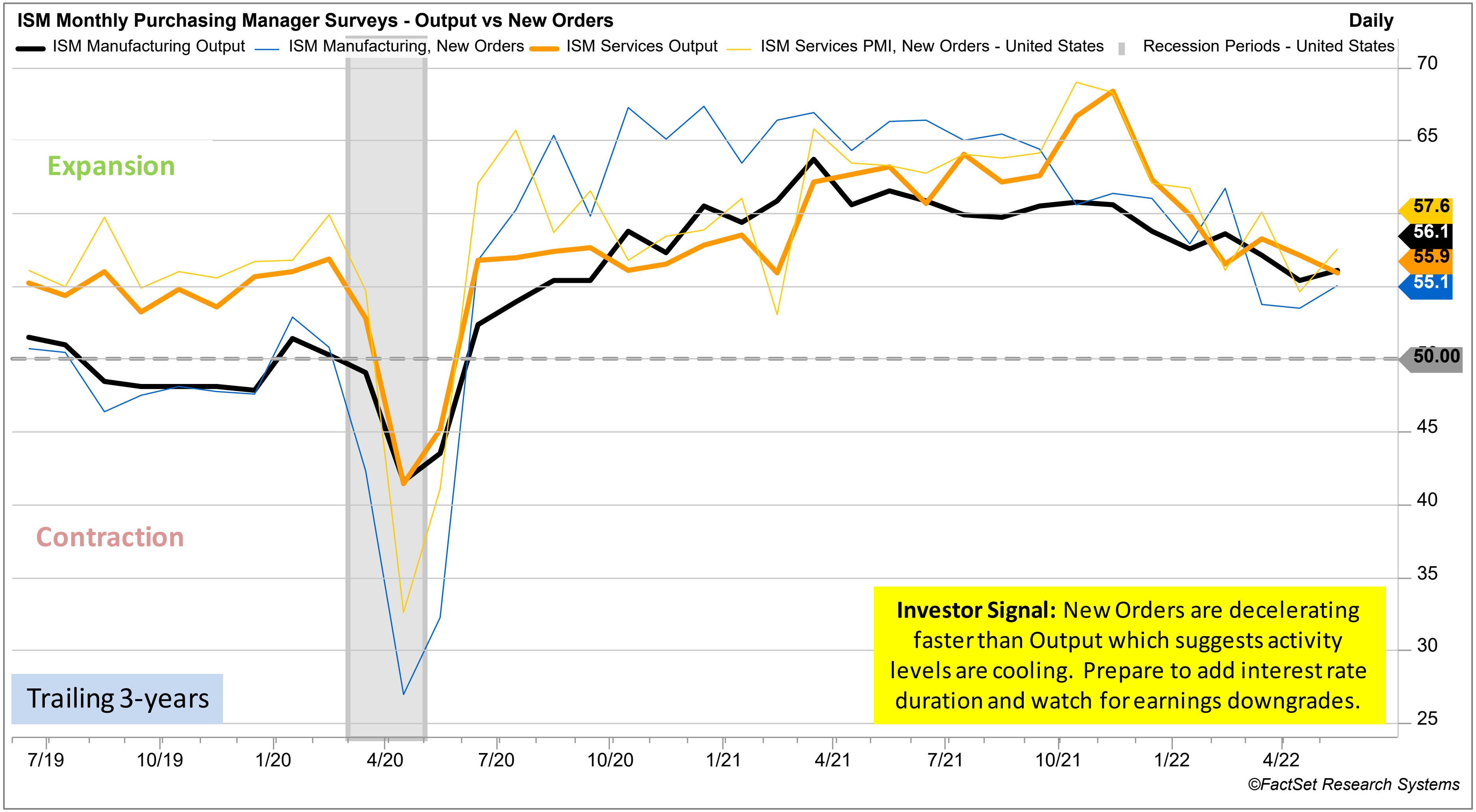
Date	Mfg	Srv
May-22	52.4	52.2
Apr-22	52.3	52.2
Mar-22	52.9	53.4
Feb-22	53.7	54.0
Jan-22	53.2	51.0
Dec-21	54.3	54.7
Nov-21	54.2	55.6
Oct-21	54.2	55.6
Sep-21	54.1	53.8
Aug-21	54.1	52.8
Jul-21	55.4	56.3
Jun-21	55.5	57.5
May-21	56.0	59.5
Apr-21	55.8	57.1
Mar-21	55.0	54.7
Feb-21	54.0	52.8
Jan-21	53.6	51.6
Dec-20	53.8	51.8
Nov-20	53.8	52.2
Oct-20	53.1	52.9
Sep-20	52.4	52.0
Aug-20	51.8	52.0
Jul-20	50.6	50.7
Jun-20	48.0	48.1
May-20	42.4	35.1

- The Heat Map is conditionally formatted using the month-end data points in a rolling 20Y time series.

Observation #1 – Growth is Slowing

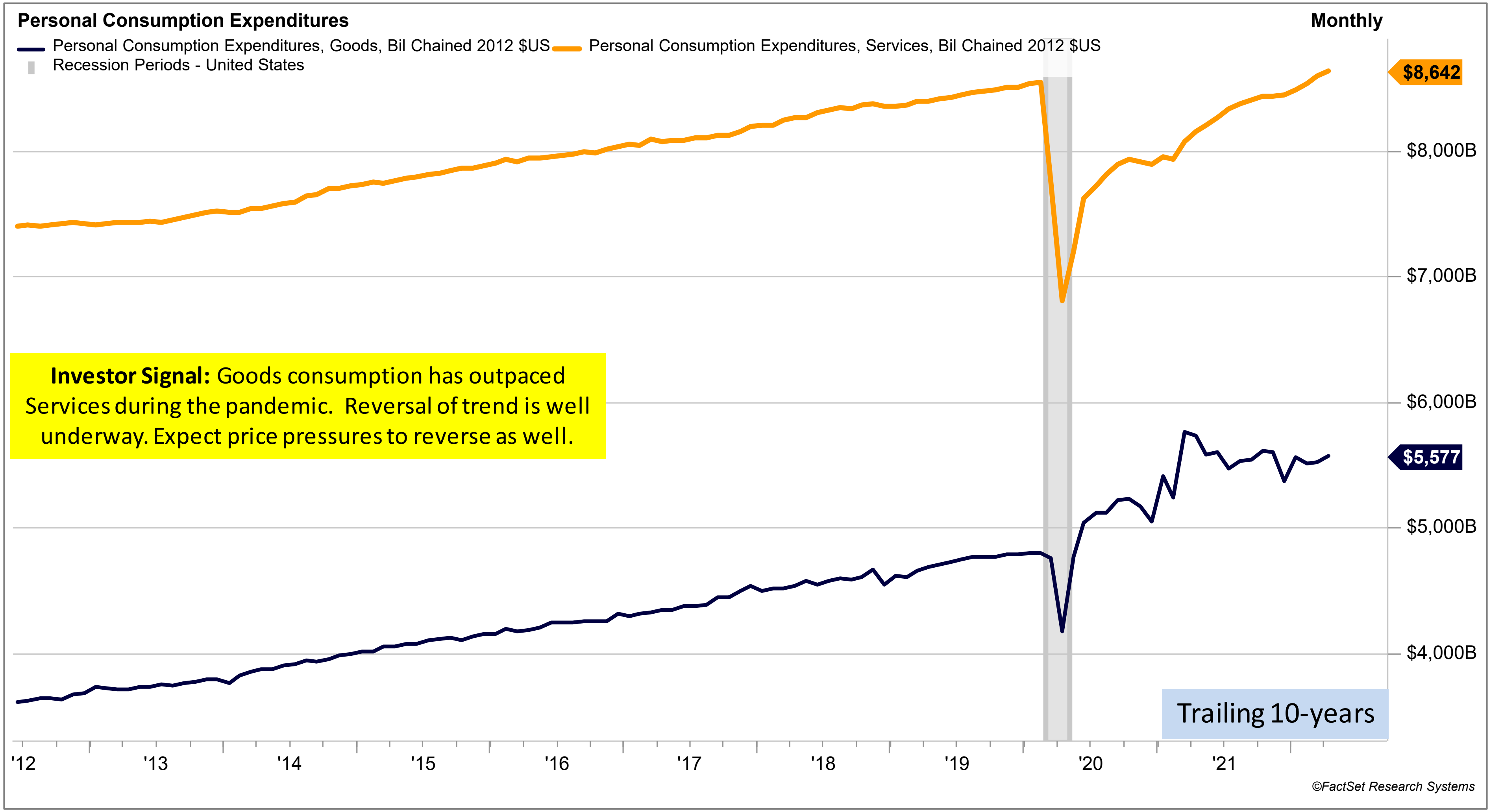
Economy

- The ISM Report on Business (ROB) is the collective name for two monthly reports, the ISM Manufacturing ROB (blue line) and the ISM Services ROB (gold line), published by the Institute for Supply Management. The ROB is based on a national survey of purchasing managers where respondents indicate each month whether particular activities have increased, decreased, or remained unchanged.
- The ISM ROBs are diffusion indexes with values above 50 signaling expansion and below 50 indicating contraction. The further from 50 the faster the rate of change indicated. The ISM Indexes are considered one of the most reliable barometers of the US economy.



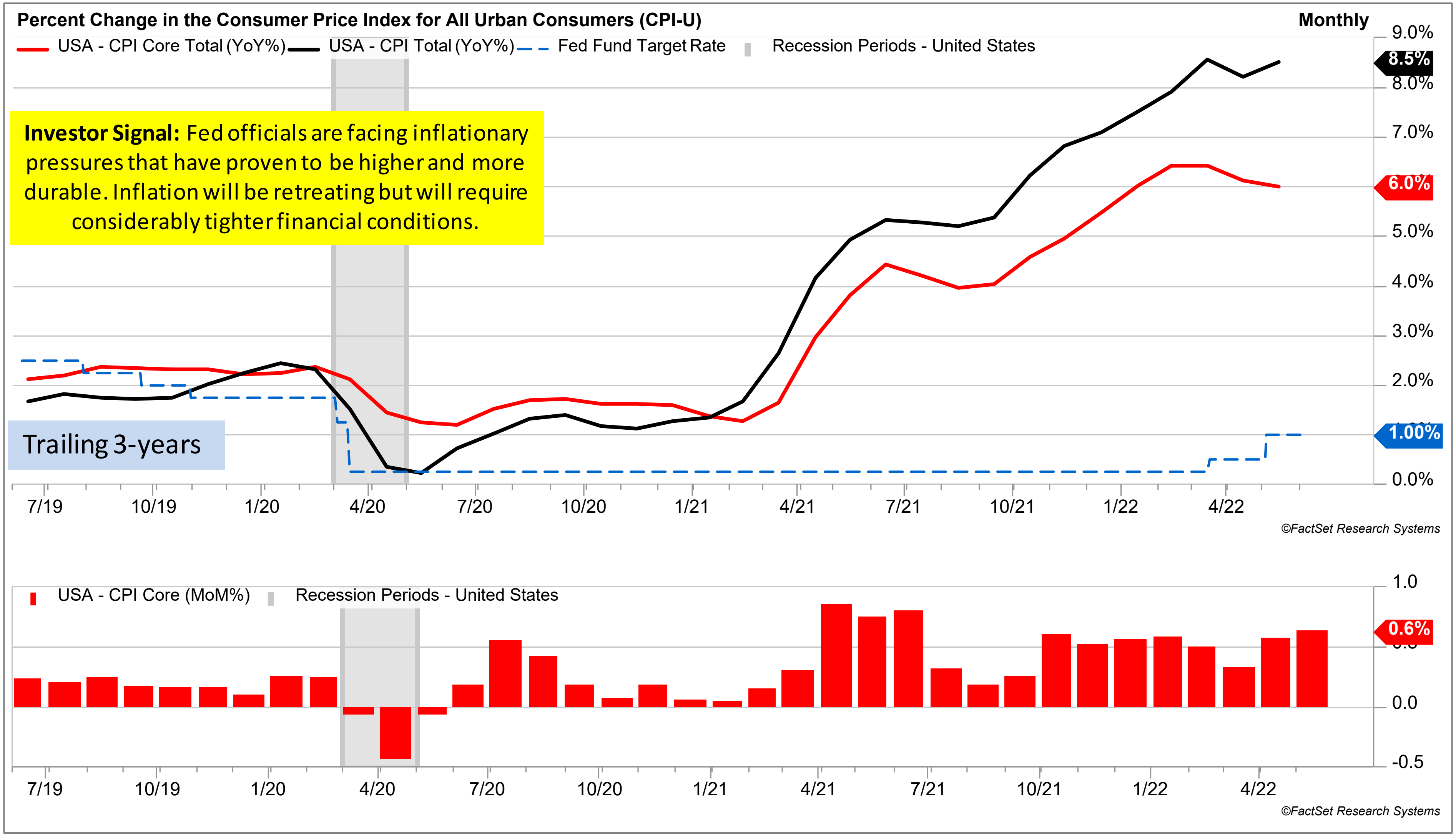
Observation #2 – Source of Growth is Reversing

- The Bureau of Economic Analysis (BEA) reports the total value of personal consumption expenditures (PCE) collectively every month. The PCEs are broken down by goods (blue line) and services (gold line), with goods split between non-durable goods that have a life expectancy that is less than three years and durable goods that are pricier items that last longer than three years.
- The BEA uses the current dollar value of PCEs to calculate the PCE Price Index that shows the price inflation that occurs from one period to the next. The PCE Price Index is the preferred measure of inflation used by the Federal Reserve in setting monetary policy.



Observation #3 – Inflation is Peaking

- The **Consumer Price Index (CPI)** measures the changes in prices paid by consumers for goods and services. Released by the Bureau of Labor Statistics each month, the CPI-U is based on prices of food, clothing, shelter, fuels, transportation, medical services, drugs, and other goods and services that people buy for day-to-day living. The Urban Consumer group represents approximately 93% of the US population.
- Core CPI (red line) excludes the more volatile prices of food and energy from the headline CPI (black line)



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Economy

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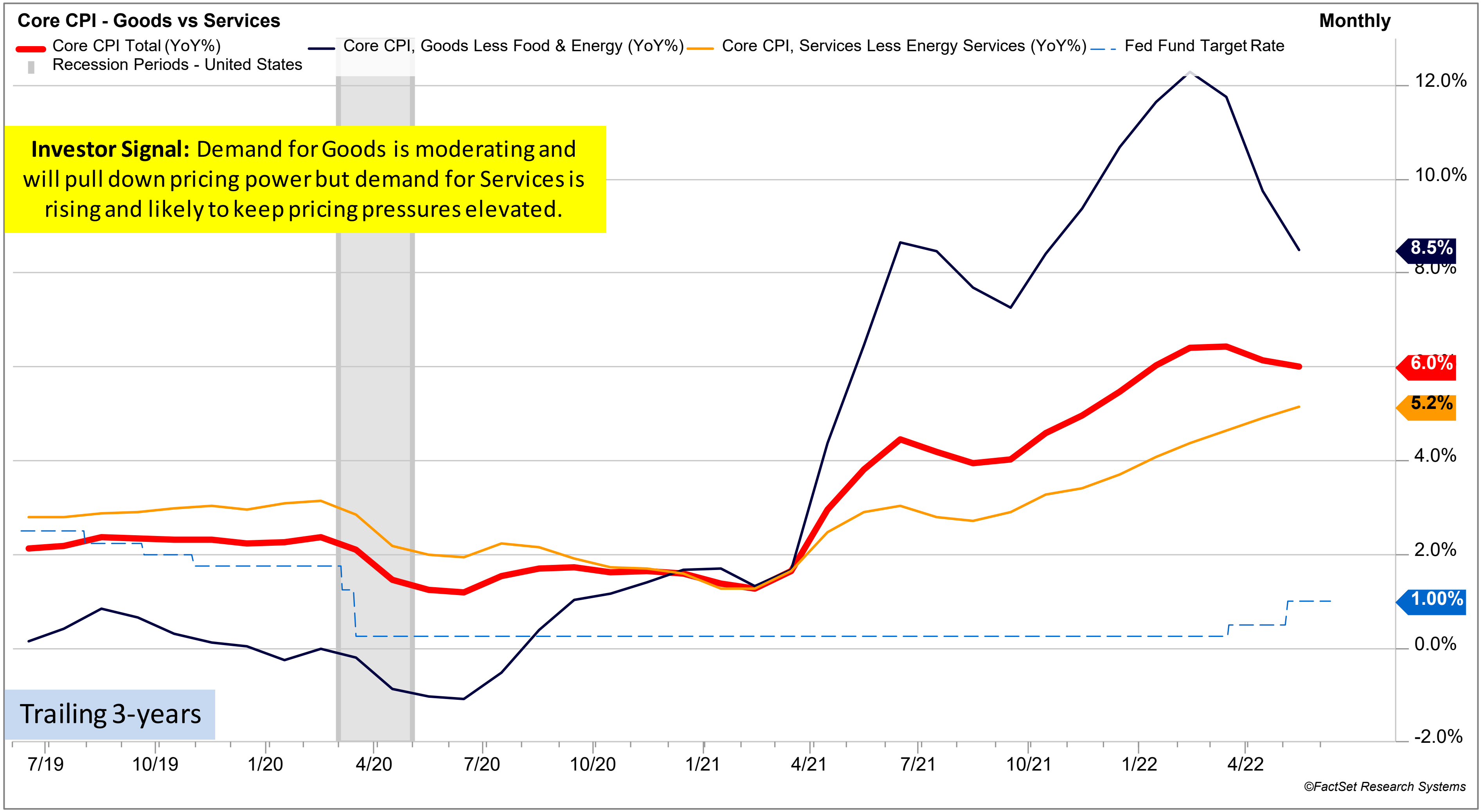
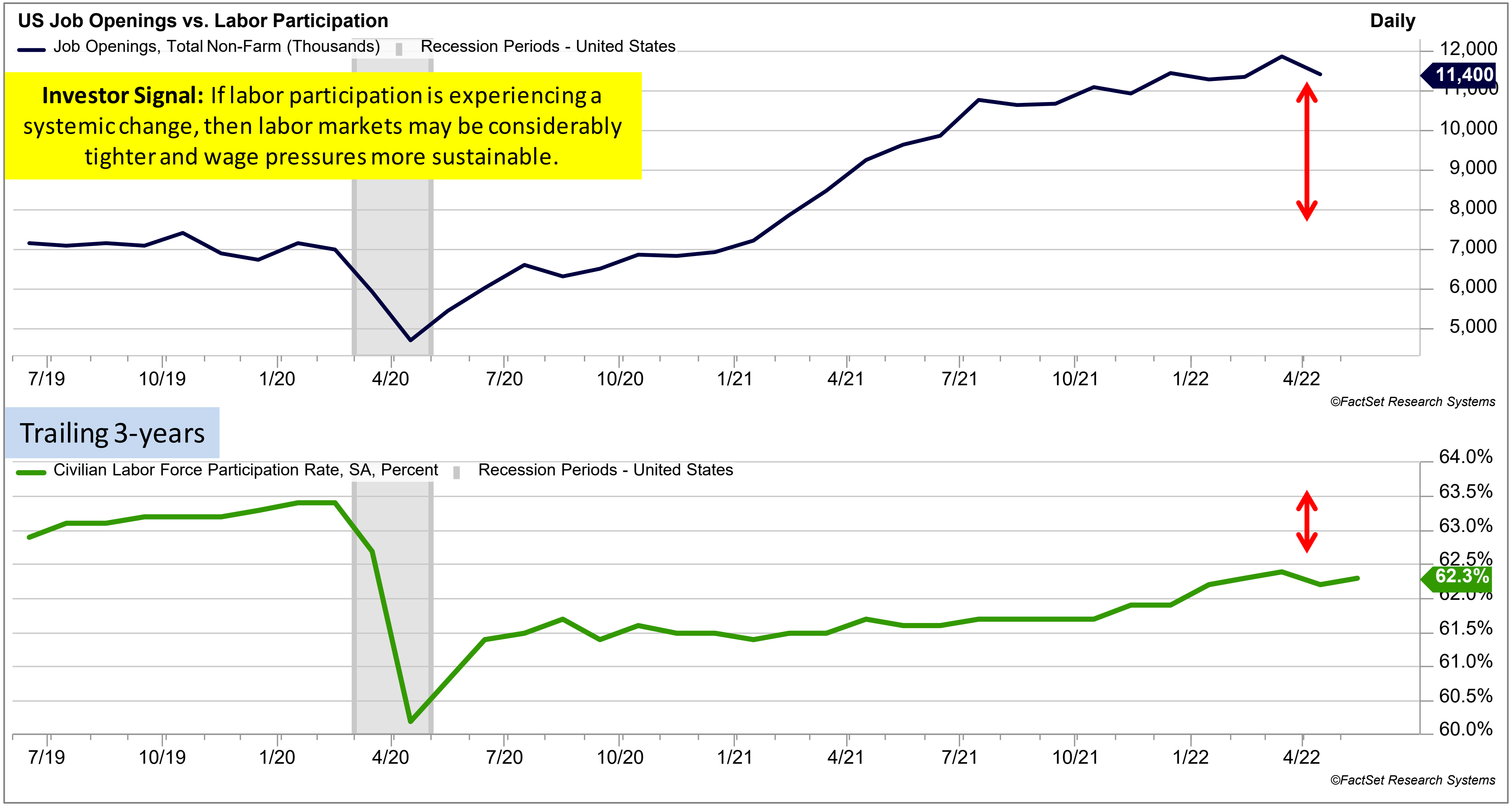
- Core CPI (red line) excludes the more volatile prices of food and energy. The CPI may also be viewed through the lens of Goods (dark blue line) and Services (orange line) to further identify the source of price pressures on the consumer.



Observation #4 - Labor Gap Should Narrow

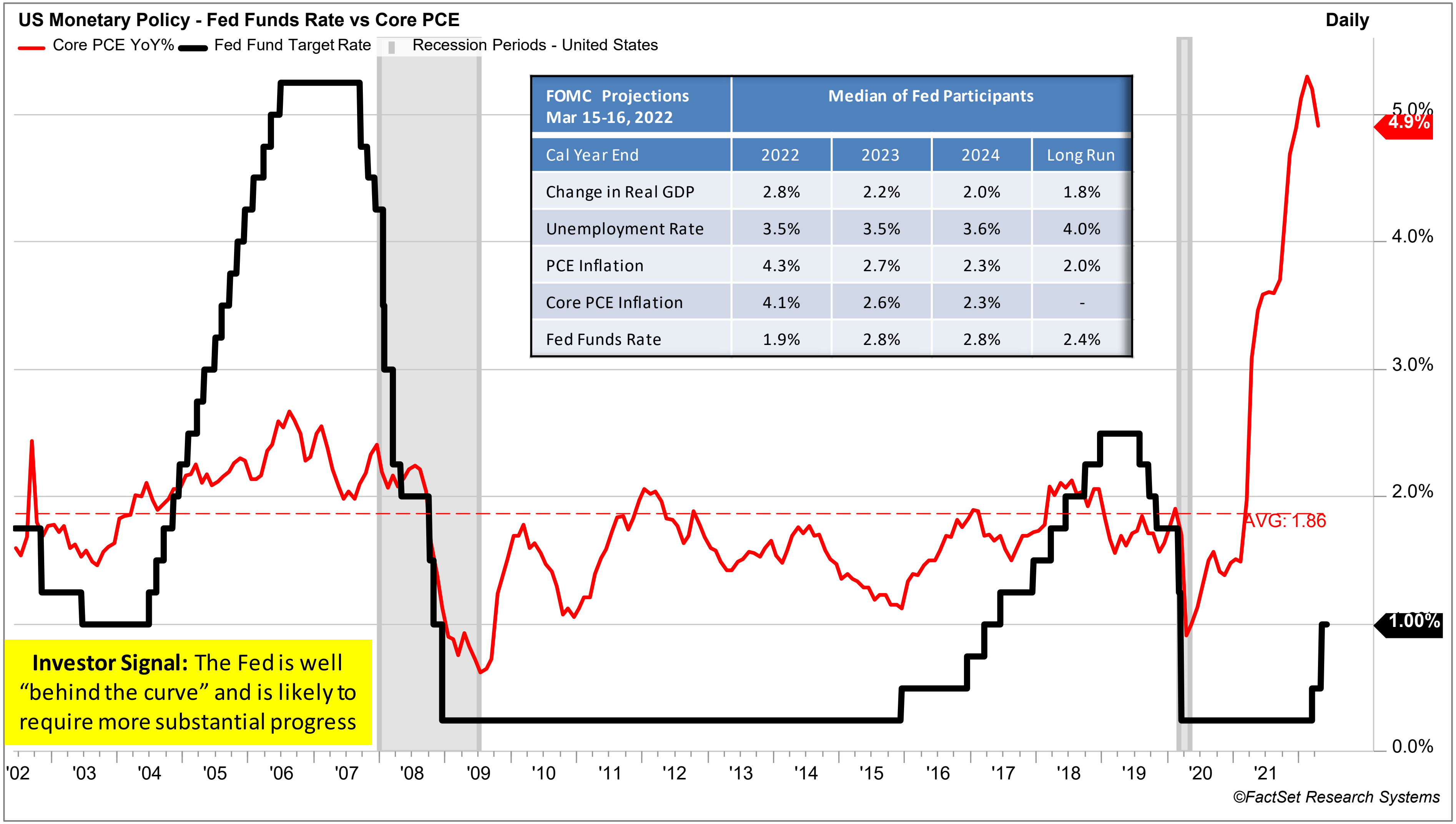
- The Job Openings and Labor Turnover Survey (JOLTS) is a survey conducted by the Bureau of Labor Statistics to measure job vacancies. Each month, the BLS surveys a wide variety of employers across geographies asking quantitative and qualitative questions about their businesses' employment trends, job openings, recruitment, hires, separations and layoffs.
- The Bureau of Labor Statistics (BLS) publishes a monthly update to the US Labor Participation Rate which measures the percentage of all people of working age who are employed or are actively seeking work. It offers additional perspective when used in conjunction with the monthly unemployment numbers from the Nonfarm Payrolls Report and Household surveys.



Observation #5 – Fed is Behind the Curve

Fixed Income

- In Conjunction with the Federal Open Market Committee meetings, Federal Reserve Board members and Federal Reserve Bank presidents submit their projections of the most likely outcomes for real gross domestic product (GDP) growth, the unemployment rate, and inflation.
- "Appropriate Monetary Policy" is defined as the future path of policy that each participant deems most likely to foster outcomes for economic activity and inflation that best satisfy the mandate to promote maximum employment and price stability.

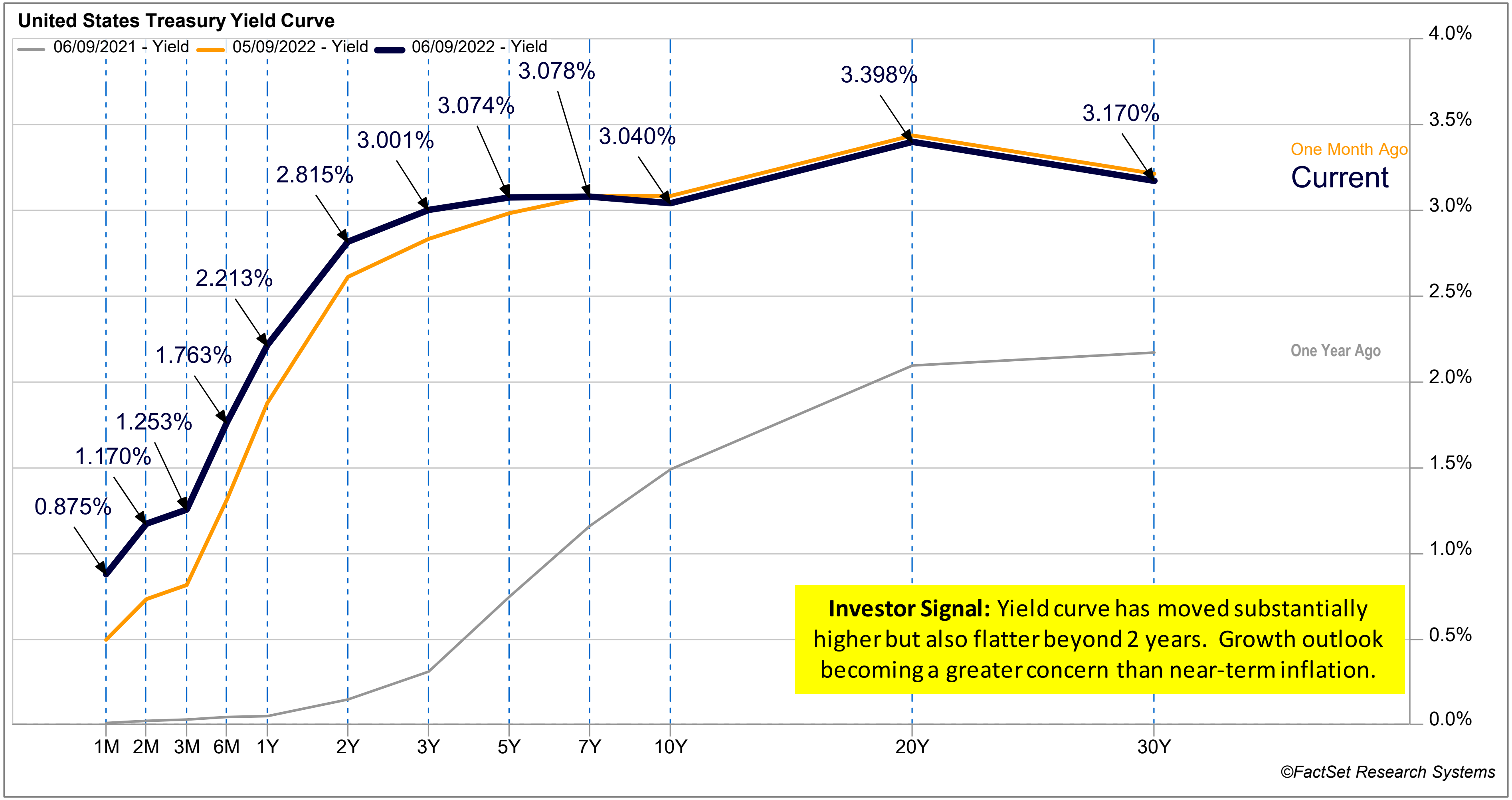


FOMC Projections Mar 15-16, 2022	Median of Fed Participants			
Cal Year End	2022	2023	2024	Long Run
Change in Real GDP	2.8%	2.2%	2.0%	1.8%
Unemployment Rate	3.5%	3.5%	3.6%	4.0%
PCE Inflation	4.3%	2.7%	2.3%	2.0%
Core PCE Inflation	4.1%	2.6%	2.3%	-
Fed Funds Rate	1.9%	2.8%	2.8%	2.4%

Investor Signal: The Fed is well "behind the curve" and is likely to require more substantial progress

Observation #6 – Risk Shifting from Inflation to Growth

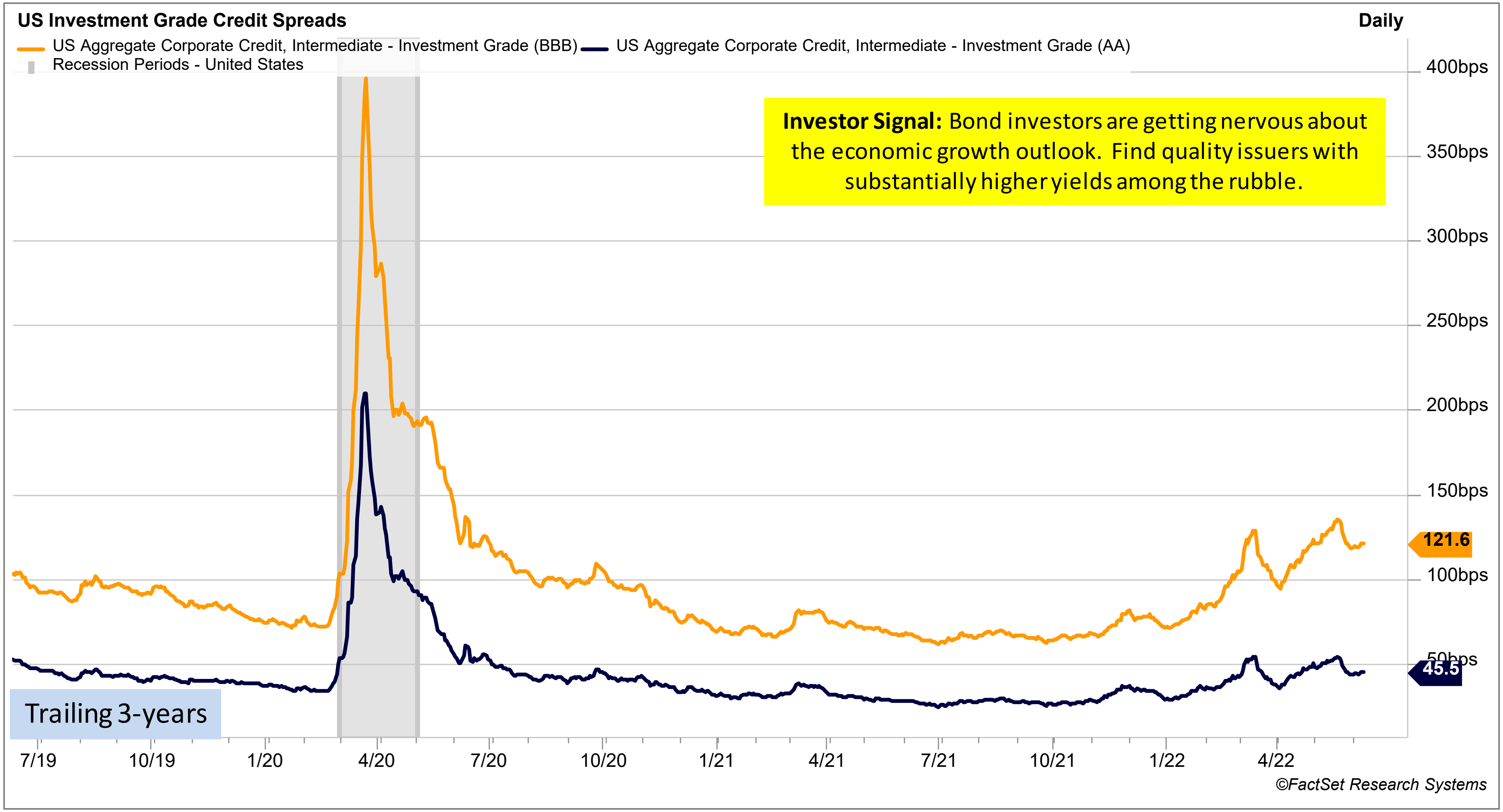
- The US Treasury yield curve is a line chart that depicts the yields of short-term US Treasury bills compared to yields of longer-term Treasury notes and bonds. The chart shows the relationship between the interest rates and the maturities of US Treasury fixed-income securities, also called the term structure of interest rates.
- A normal or up-sloped yield curve indicates yields on longer-term bonds may continue to rise, responding to periods of economic expansion. A flat curve may imply economic uncertainty and fear of a slowdown. An inverted yield curve corresponds to periods of economic recession, where investors expect yields of longer-maturity bonds to become even lower in the future.



Observation #6 – Risk Shifting from Inflation to Growth

Fixed Income

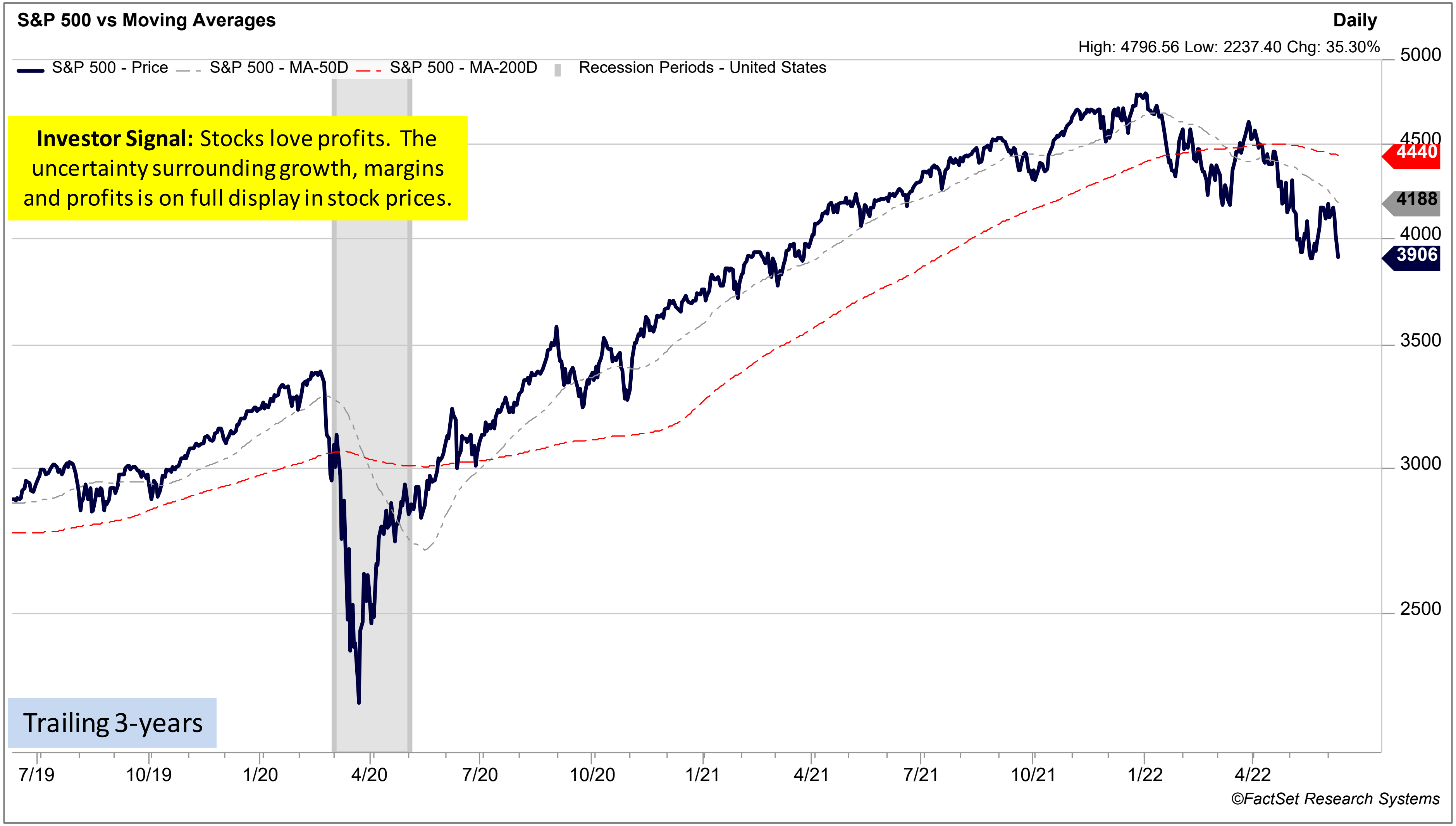
- Investors in corporate bonds assume not only interest rate risk but also credit risk, the chance that the corporate issuer will default on its debt obligations. Credit ratings published by agencies such as Moody's, Standard & Poors, and Fitch are meant to capture and categorize credit risk.
- The credit spread is the difference in yield between a corporate bond and a government bond at each point of maturity and reflects the extra compensation investors receive for bearing credit risk. In terms of business cycles, a slowing economy tends to widen credit spreads as companies are more likely to default, and an economy emerging from recession tends to narrow the spread.



Observation #7 – Market Anxiety

Equities

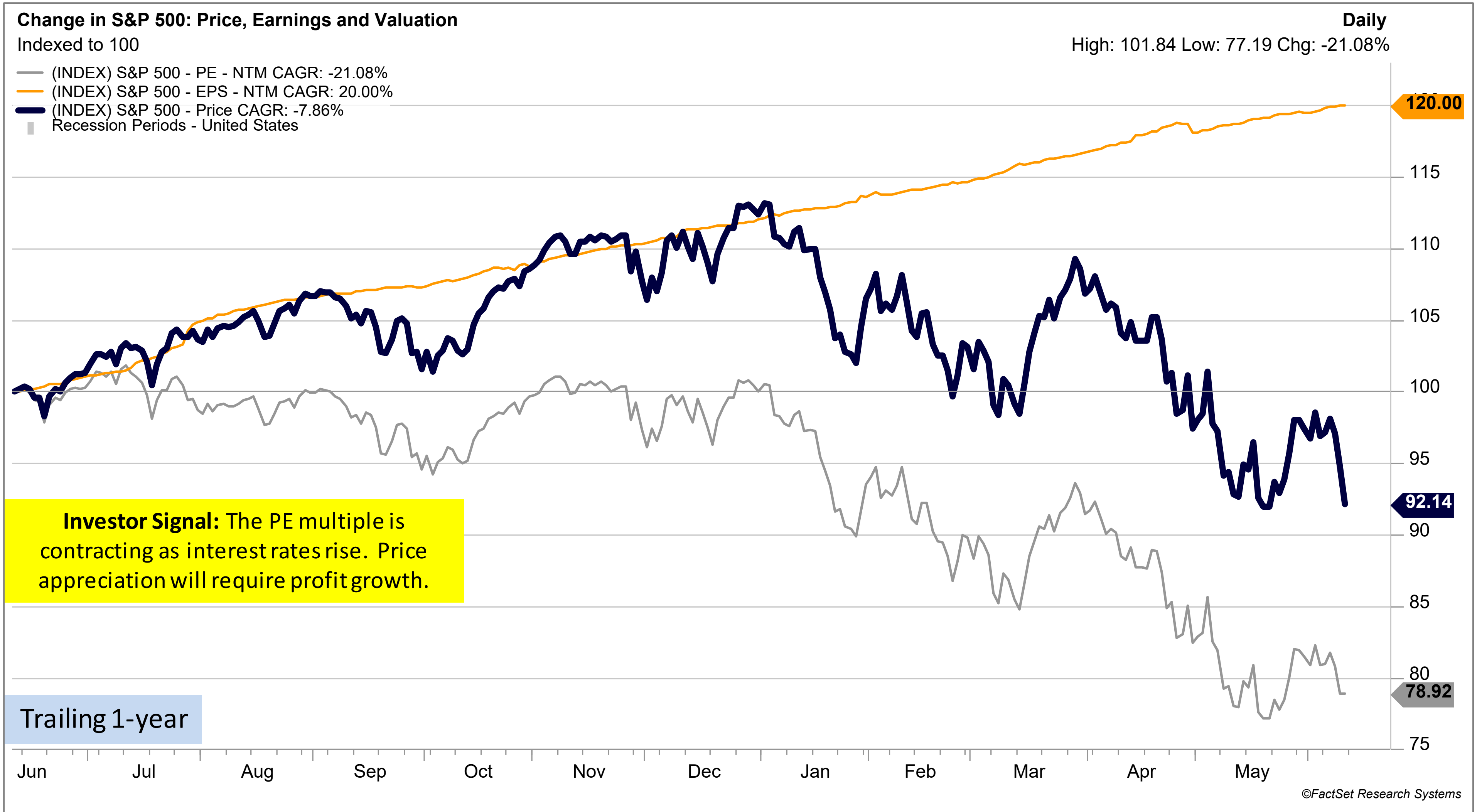
- S&P 500 Price Index on a trailing 20-year time horizon versus the 200-day moving average of the index.



Observation #7 – Market Anxiety

Equities

- The ability for companies to navigate their way through the ebb and flow of business cycles is a key determinant in the stream of profits available to investors. Over the long-term, stocks love profits and will follow their path.
- The price that investors are willing to pay to participate in the long-term stream of profits may be determined by an objective valuation process. But in the short-term, the price of stocks is frequently subject to the shifting investor sentiment between fear and greed.



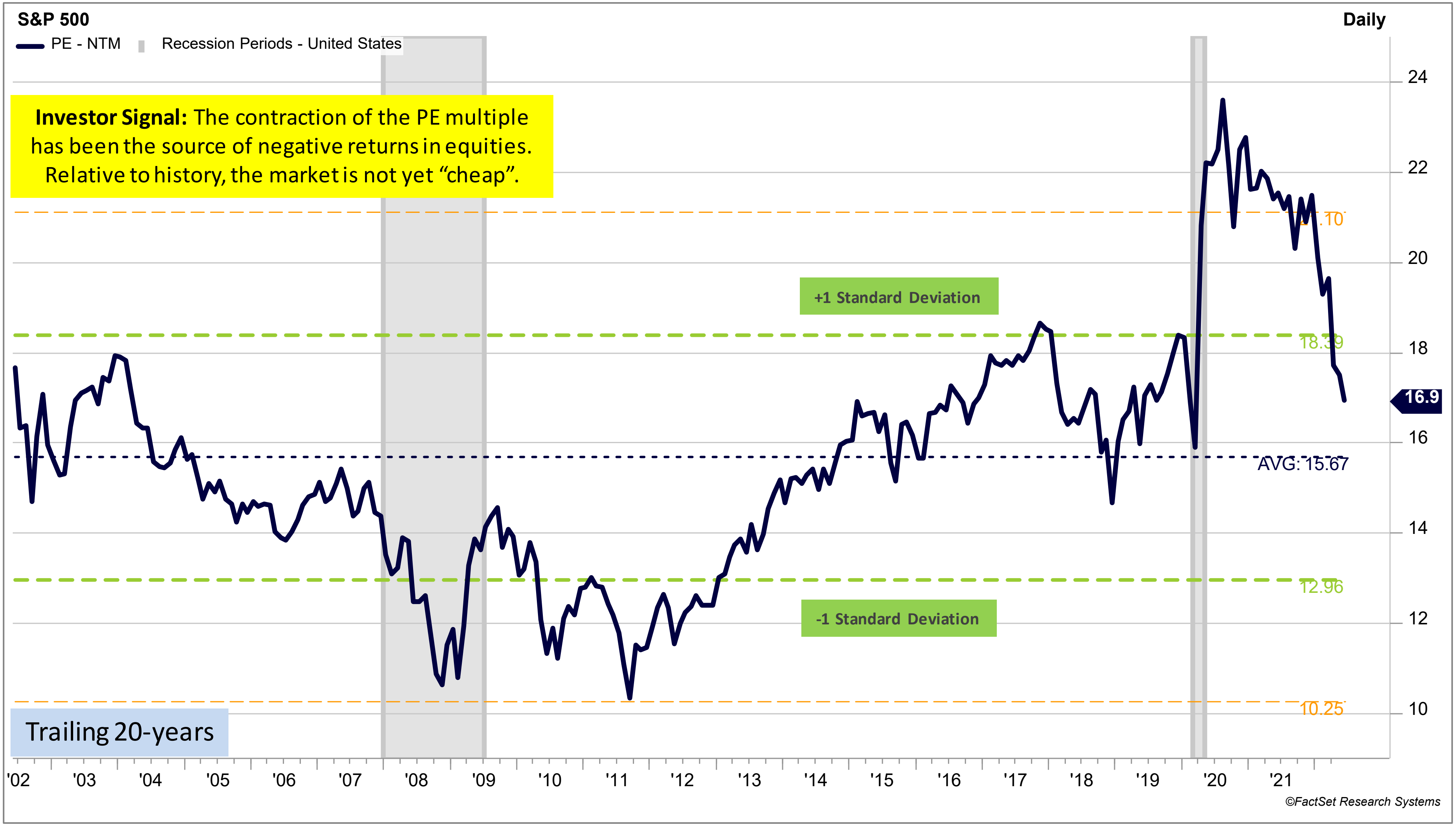
Investor Signal: The PE multiple is contracting as interest rates rise. Price appreciation will require profit growth.

Trailing 1-year

Observation #8 – Destination AVG

Equities

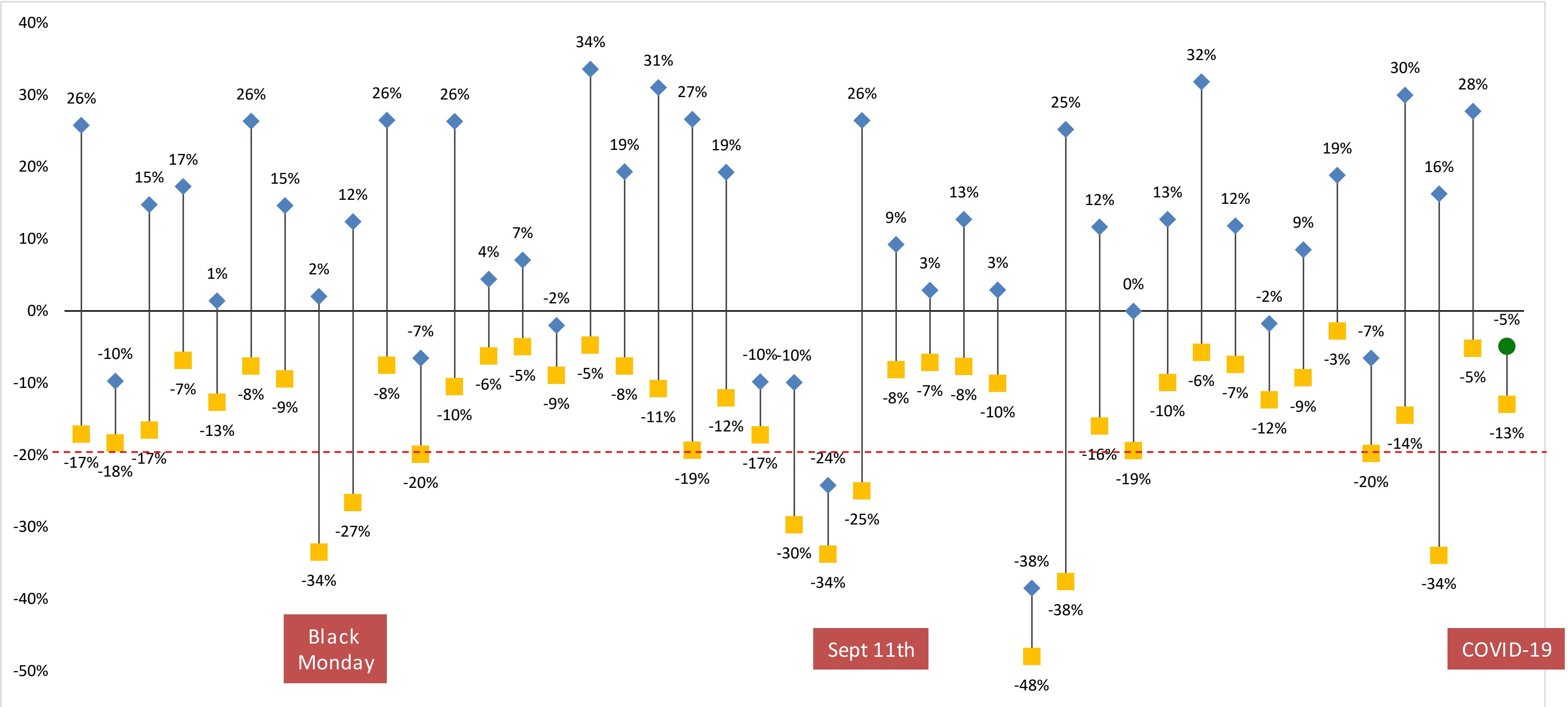
- Methods for valuing the stock market are plentiful, from using a simple Price/Earnings Ratio to employing a more complex model that contemplates future cash flows and discount rates. A wide variety of methods are used by investors everyday.
- The P/E ratio is used by investors to determine the relative value of a market against its own historical record or to compare markets over time.



Observation #9 – Market Timing

S&P 500 intra-year declines vs. calendar year returns (1980 – March 31, 2022)

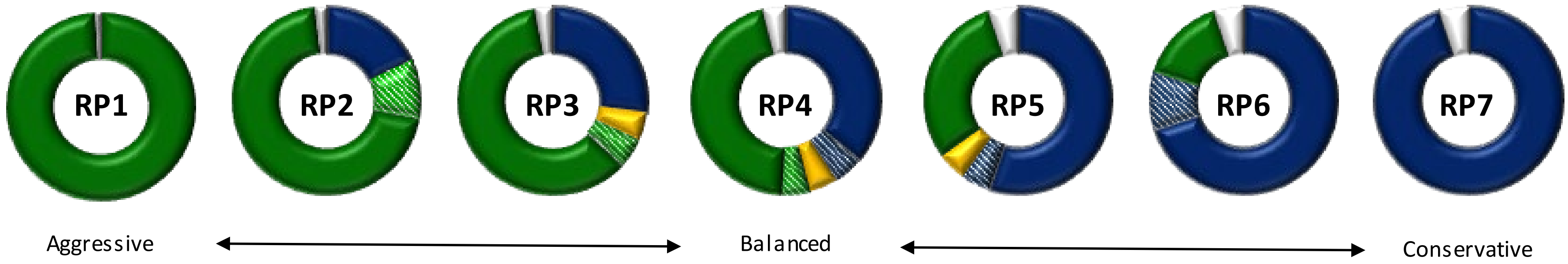
Despite average intra-year drops of -15.2%, annual returns positive in 32 of 42 years



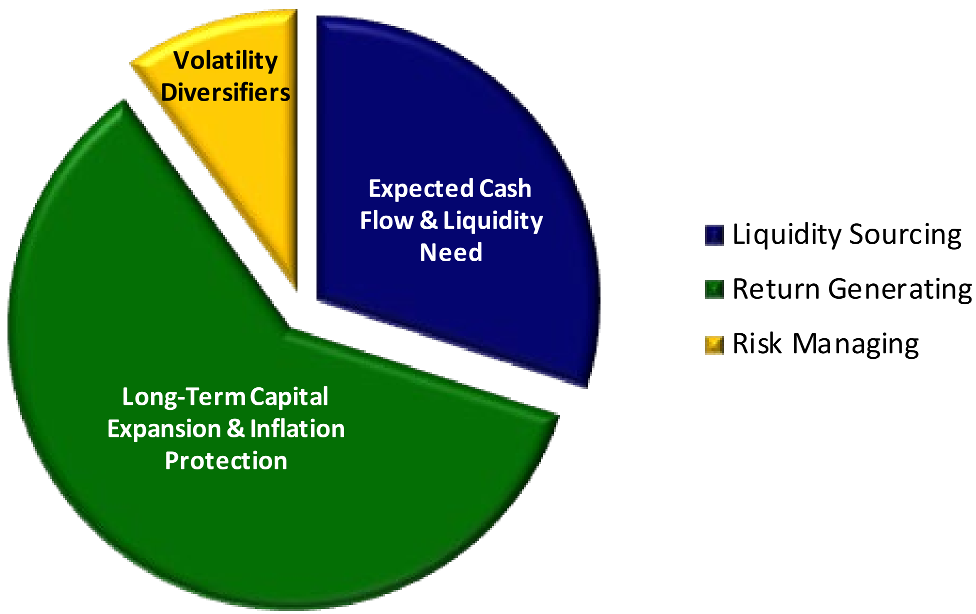
Investor Signal: Investors have experienced negative stock returns (yellow boxes) at some point in every calendar year since 1980, but have been rewarded for maintaining ownership over 75% of the time (blue diamonds).

Source: Bloomberg, L.P. Returns are based on the S&P 500 Price Index, an unmanaged, capitalization weighted index. Indices do not include fees or operating expenses and are not available for actual investment. The hypothetical performance calculations are for illustrative purposes only and are not meant to be representative of actual results while investing during the time period. Past performance is not indicative of future returns.

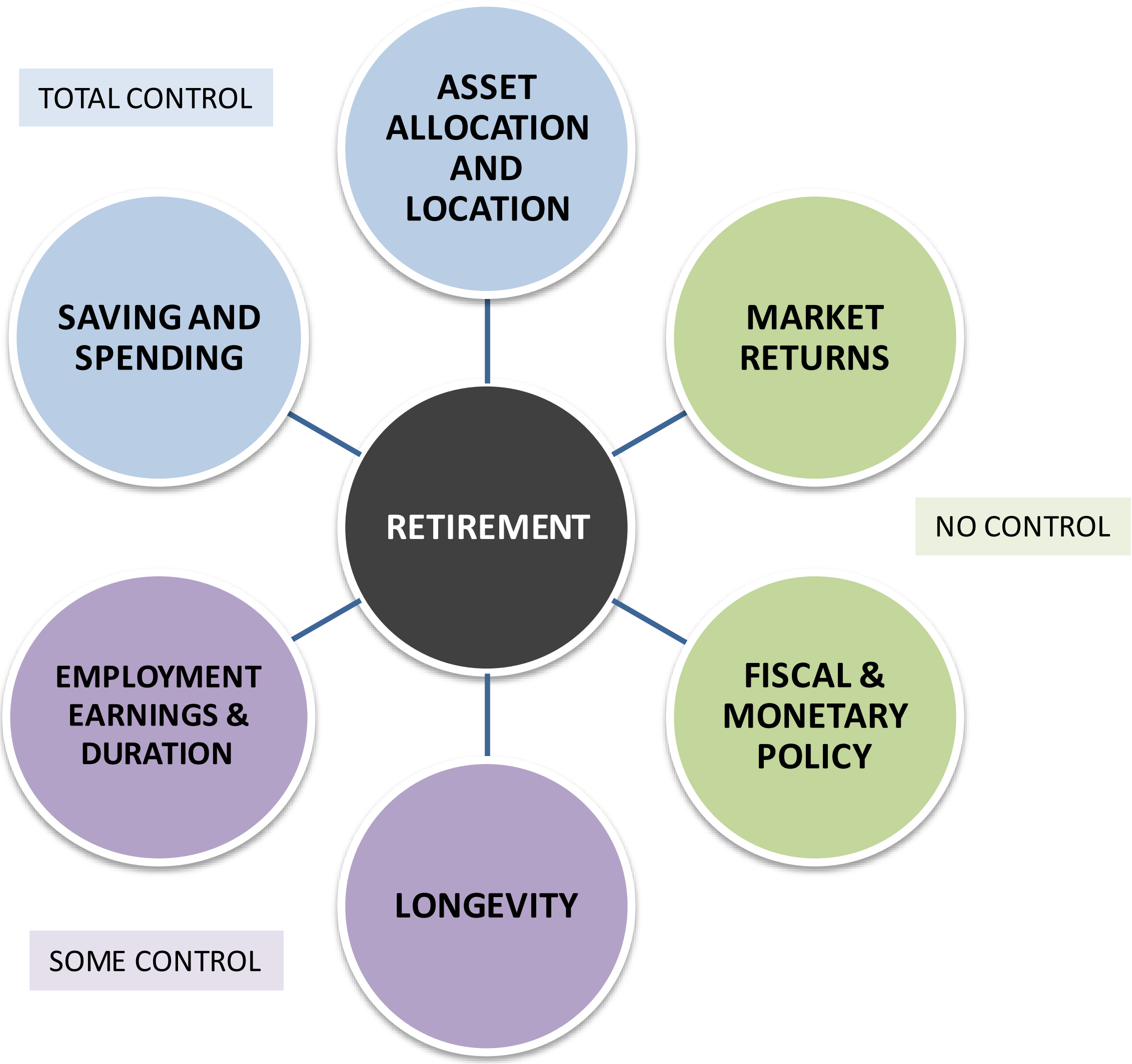
Observation #10 - Total Control



- Understand the primary attributes that each asset class may deliver to an investment portfolio
- Define the client specific liquidity needs, time horizon and tolerance for volatility by executing a thoughtful and thorough Investment Policy Statement process
- Establish the dollars that should be dedicated to each asset class that aligns attributes with needs



Control Your Retirement



A SOUND RETIREMENT PLAN

Make the most of the things that you can control.

Select the Investment Advisor that is best positioned to evaluate the factors that are somewhat or completely out of your control.

Review the results with your Investment Advisor at least annually.

JP Morgan Asset Management "Guide to Retirement"

Disclosure

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Please contact Vigilant Capital Management, LLC if there are any changes in your financial situation or investment objectives, or if you wish to impose, add or modify any reasonable restrictions to the management of your account.

Vigilant Capital Management, LLC completes and updates regulatory filings with the SEC as required. Please refer to the Firm's ADV Part 1, Part 2A and Part 2B filings for important information about how the Firm manages investment portfolios, what fees may apply to investment portfolios, important Firm disclosures, and information about employees that may participate in the investment process of the Firm. These filings may be viewed at www.sec.gov and are available upon request.

For a description of the Financial Times FT 300 Ranking, please visit https://vigilantcap.com/wp-content/uploads/2019/07/2019-FT-300-List-Announcement.pdf

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