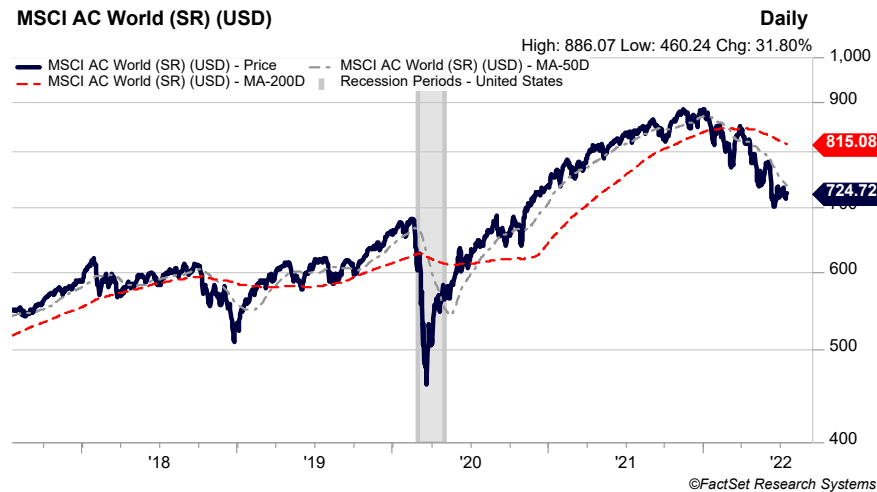


Monthly Chart Pack - Favorite Fifteen

Views from the Investment Policy Committee



July 19, 2022

Purpose

- The Monthly Chart Pack – Favorite Fifteen, is a brief collection of charts and data sets that are viewed regularly by many investors, it is NOT a set of recommendations
- This selection of 15 slides is a small subset of the graphs and data points that are viewed by the Investment Policy Committee each week in assessing the status of the business cycle and the health of financial markets
- Our study of the economic environment and market conditions inform our view for tactical positioning and may influence the security selection process
- We hope that you enjoy the Monthly Chart Pack – Favorite Fifteen, and recognize that the views and opinions expressed are capturing a moment in time and are subject to change without notice

Macro TIP Chart

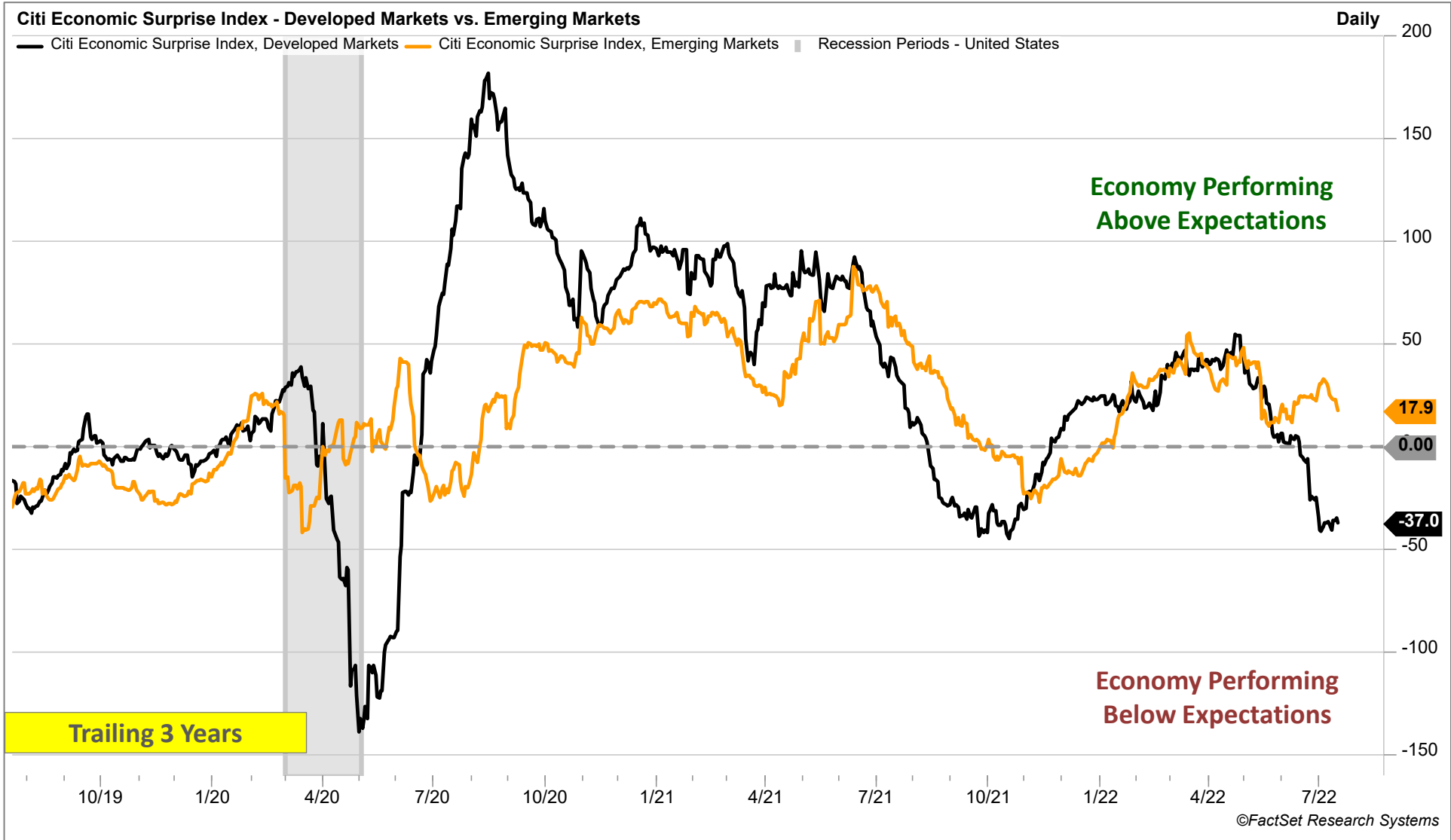
Tactical Investment Positioning

July 2022

Strength of Conviction	Chg	Negative	Neutral	Positive	Rationale	
Business Cycle	←				Growth downshifting quickly as consumers retreat, goods inventories build, and inflation remains sticky in food, energy and shelter.	
Financial Conditions					Monetary scramble to control inflation with aggressive restrictive actions. Fiscal support has decelerated quickly from 2020 & 2021.	
Relative Preference	Chg	Neutral			Rationale	
Asset Class		Bonds	Stocks		Higher yields are welcome news for new purchases of FI. Expect consensus earnings to come down as margin pressures expand.	
Economic Sensitivity	←	Defensive	Cyclical			Overweight to defensive sectors of the markets and emphasize high-quality balance sheets and sustainable cash flows.
Credit Quality	←	Sovereign	Credit			IG and HY credit spreads have expanded but still not wide enough to compensate for risk, especially given expected economic slowdown.
Duration Profile		Short Maturity	Long Maturity		Expect yields to move slightly higher as inflation remains sticky but curve may become anchored by rapidly slowing economic growth.	
Commodities		Below Weight	Above Weight		Commodity prices very volatile with geopolitical risk presenting supply and demand imbalances. Demand destruction very likely.	
Cash		Below Weight	Above Weight		Negative real yields remain excessive but contracting as markets experience Fed policy shift. Attractive relative return for now.	

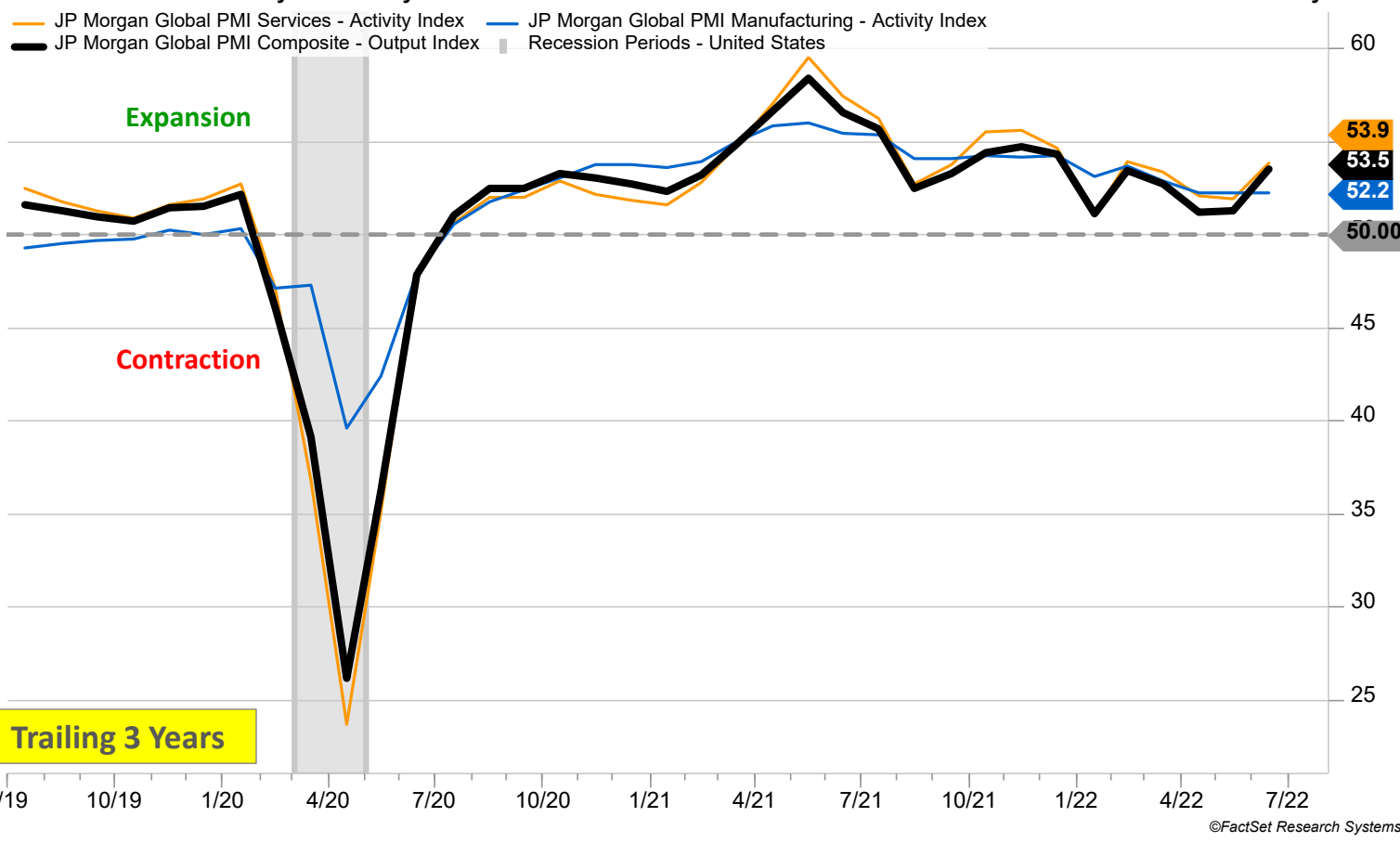
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- The Citigroup Economic Surprise Indices are objective and quantitative measures of economic news. They are defined as weighted historical standard deviations of data surprises (actual vs. Bloomberg median). A positive reading suggests actual results are better than consensus had expected and is generally a positive catalyst for risk assets.



- 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.

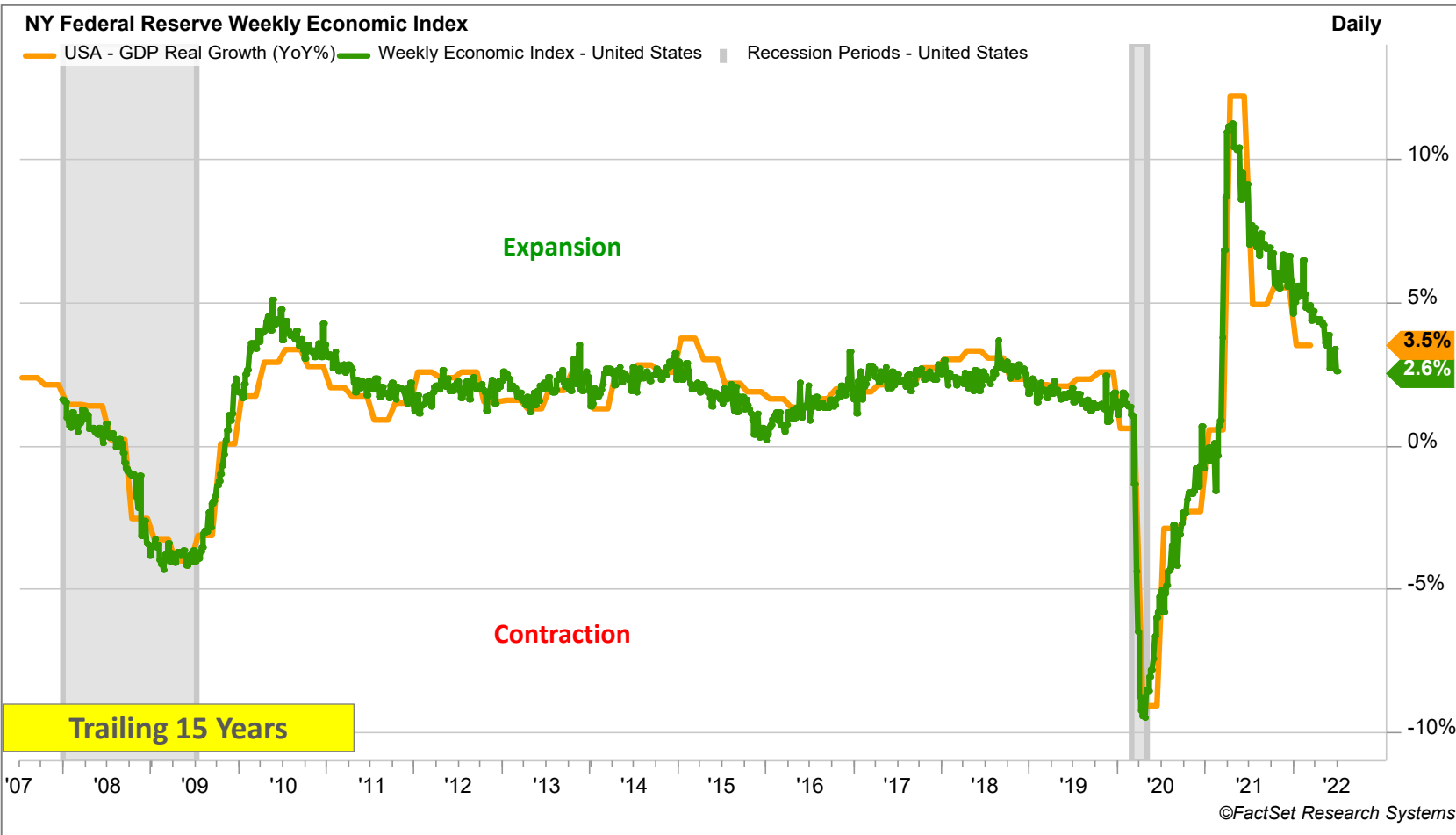
Global IHS Markit Monthly PMI Surveys



Date	Mfg	Srv
Jun-22	52.2	53.9
May-22	52.3	51.9
Apr-22	52.3	52.1
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	57.0
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

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

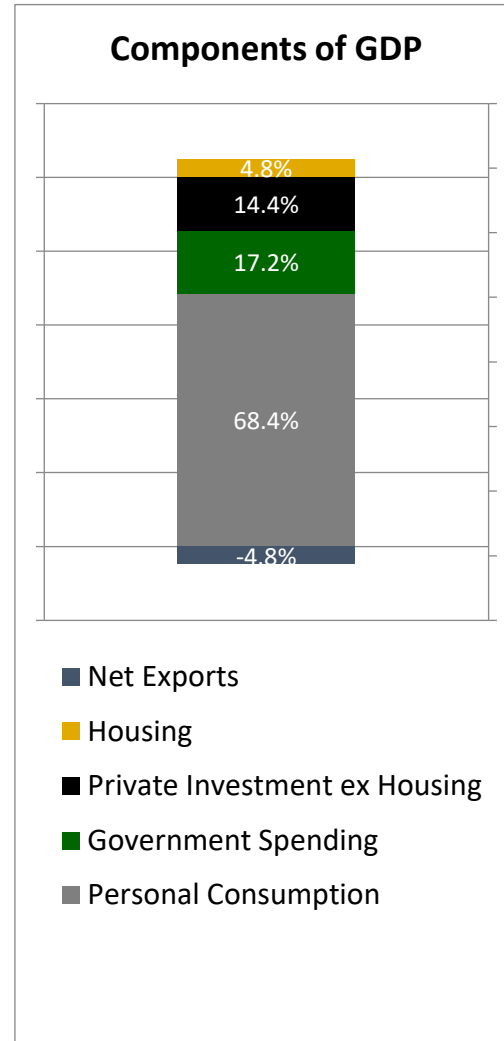
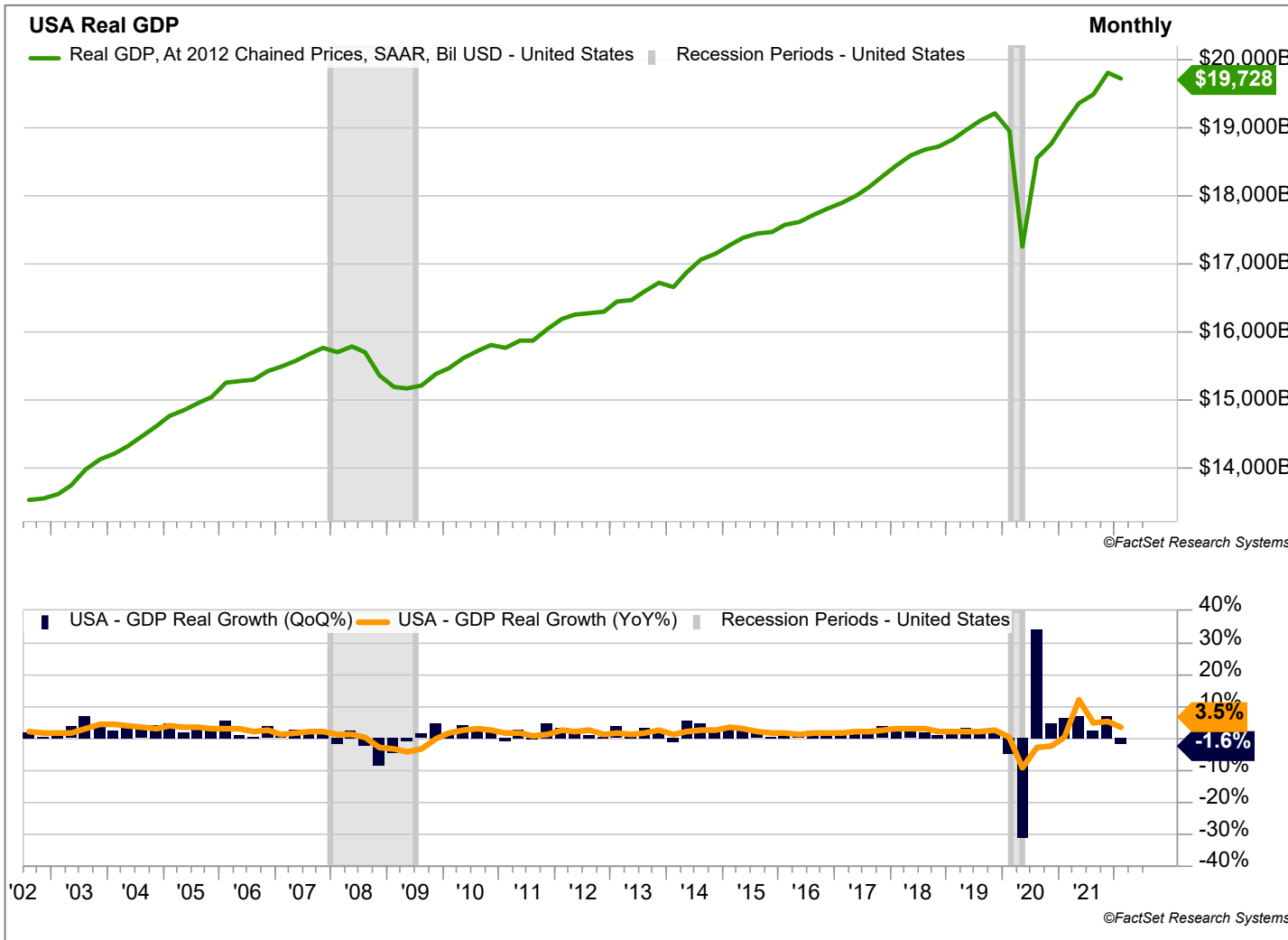
- The Weekly Economic Index (green line) is a set of ten high frequency indicators of real economic activity, scaled to align with the four-quarter real GDP growth rate (gold line). It represents the common component of series covering consumer behavior, the labor market, and production. The NY Federal Reserve Bank designed the WEI to be a real-time indicator of activity in the US economy.
- The WEI (green line) is instructive for investors in assessing the status of the economic cycle as it leads the Commerce Departments reporting of estimated real GDP growth (gold line).



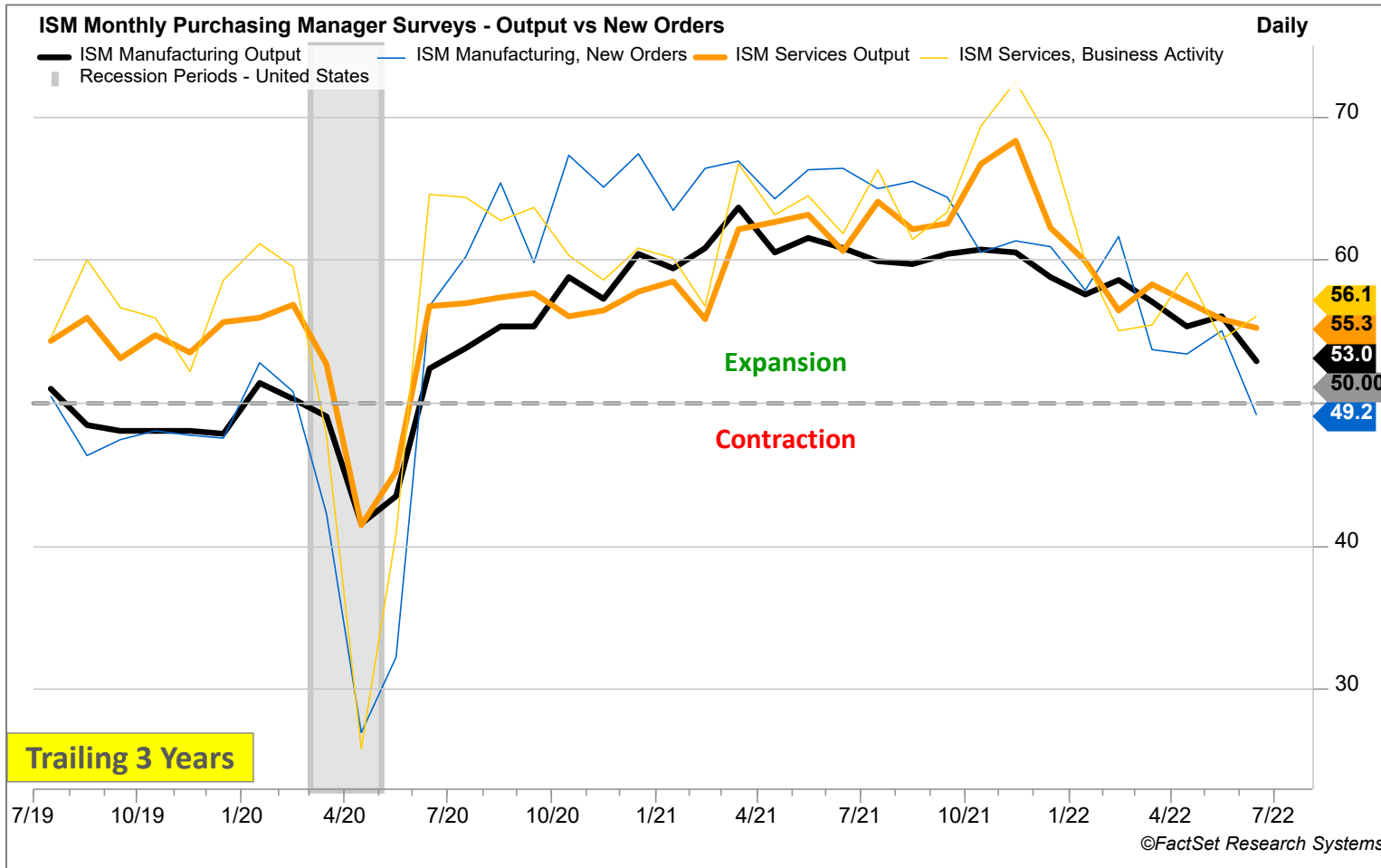
Date	WEI
Jun-22	3.2
May-22	3.9
Apr-22	4.4
Mar-22	4.7
Feb-22	5.6
Jan-22	5.1
Dec-21	6.0
Nov-21	5.9
Oct-21	6.3
Sep-21	6.9
Aug-21	7.1
Jul-21	7.8
Jun-21	9.0
May-21	10.4
Apr-21	10.6
Mar-21	3.0
Feb-21	-0.6
Jan-21	-0.4
Dec-20	-0.7
Nov-20	-1.4
Oct-20	-2.2
Sep-20	-3.3
Aug-20	-3.7
Jul-20	-5.2
Jun-20	-6.5

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

- Real Gross Domestic Product (GDP) is a macroeconomic statistic used to measure the value of goods and services produced by an economy in a specified period, adjusted for inflation. The Bureau of Economic Analysis (BEA) provides a quarterly report on GDP with headline data statistics representing annualized real GDP growth over the prior period. The report provides important detail on the components of GDP.



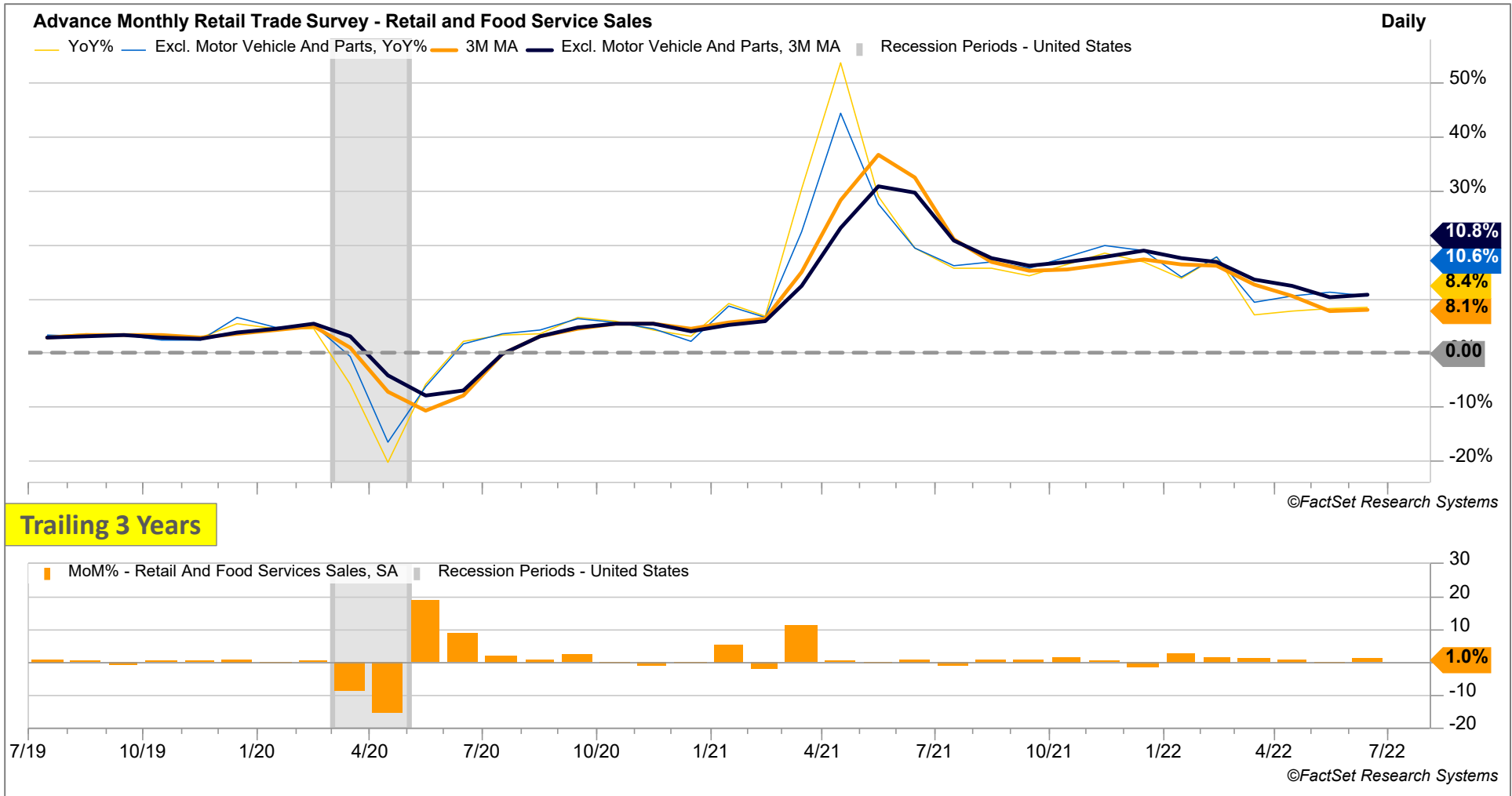
- The ISM Report on Business is based on a national survey of purchasing managers tracking changes in the Manufacturing and Services sectors. They have the properties of leading indicators and are convenient summary measures showing the prevailing direction and scope of change. Values above 50 signal expansion and below 50 indicate contraction. The further from 50 the faster the rate of change indicated.
- The manufacturing “new orders” (light blue line) can be a good leading indicator of the manufacturing “output” (dark blue line) in the economy, and the services “business activity” (light orange line) often leads the services “output” (orange line) index.



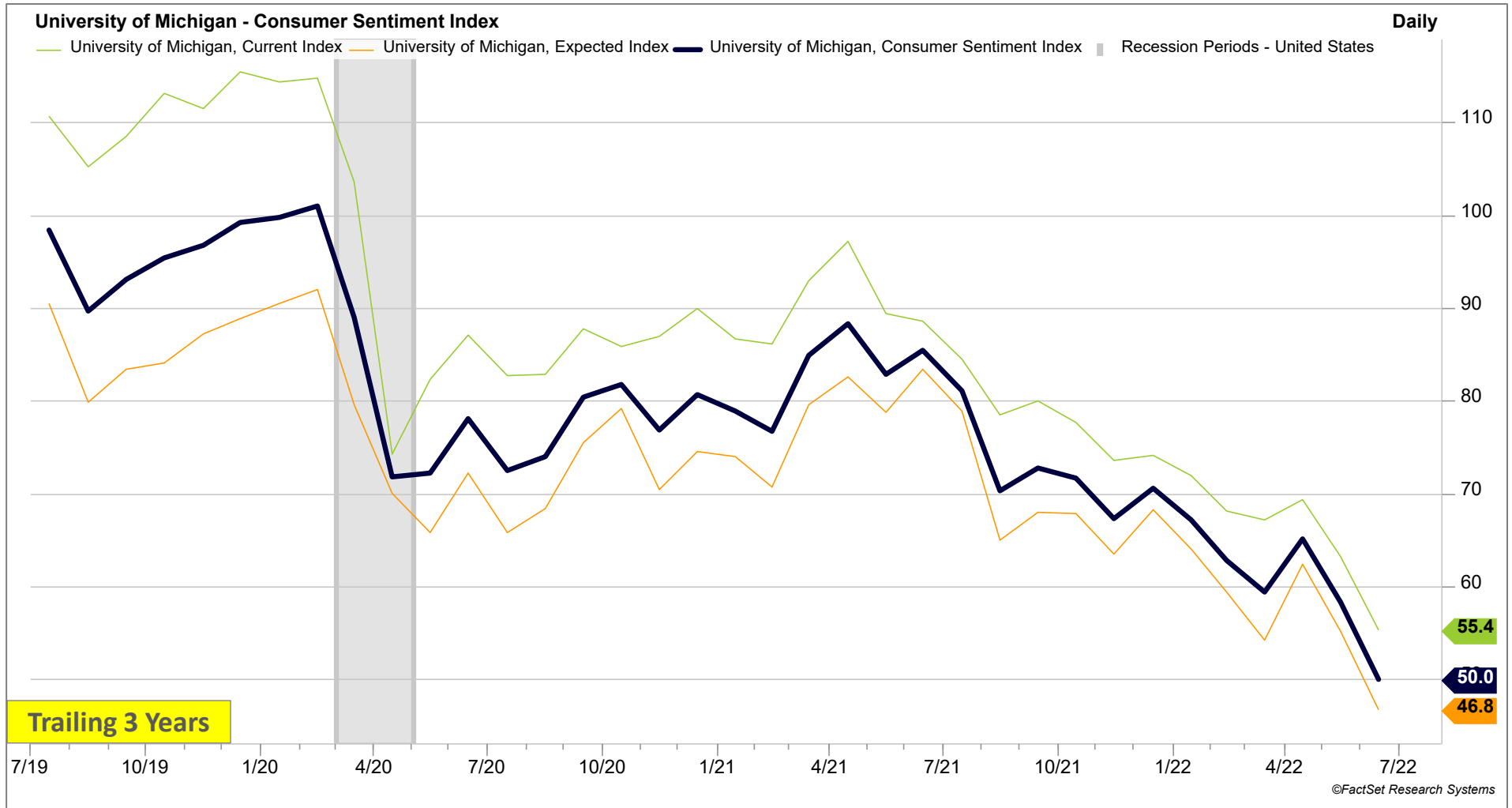
Date	Mfg	Srv
Jun-22	53.0	55.3
May-22	56.1	55.9
Apr-22	55.4	57.1
Mar-22	57.1	58.3
Feb-22	58.6	56.5
Jan-22	57.6	59.9
Dec-21	58.8	62.3
Nov-21	60.6	68.4
Oct-21	60.8	66.7
Sep-21	60.5	62.6
Aug-21	59.7	62.2
Jul-21	59.9	64.1
Jun-21	60.9	60.7
May-21	61.6	63.2
Apr-21	60.6	62.7
Mar-21	63.7	62.2
Feb-21	60.9	55.9
Jan-21	59.4	58.5
Dec-20	60.5	57.8
Nov-20	57.3	56.5
Oct-20	58.8	56.1
Sep-20	55.4	57.7
Aug-20	55.4	57.4
Jul-20	53.9	57.0
Jun-20	52.4	56.8

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

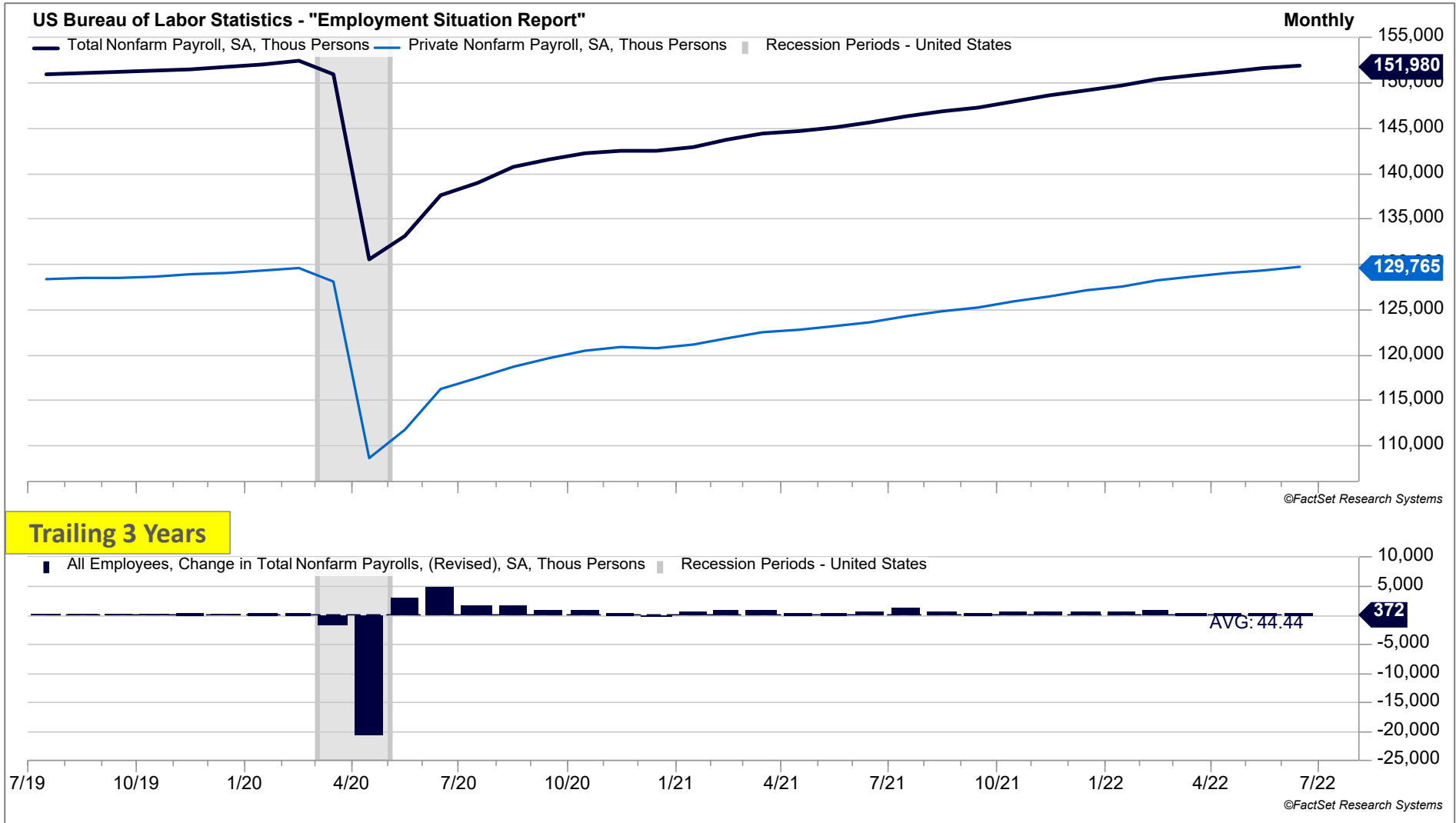
- The U.S. Census Bureau conducts the Advance Monthly Retail Trade and Food Services Survey, a random sampling of approximately 5,500 retail firms whose sales are weighted and benchmarked to represent the universe of over 3 million retailers in the United States. Monthly data is adjusted to accommodate seasonal variation, holidays and trading-day differences. Sales capture price and volume of goods and services.
- Retail Sales can be quite volatile from month to month (light blue, light orange), so viewing a 3-month moving average (dark blue, dark orange) may provide a better picture of consumer sentiment. Retail Sales are reported in total (orange lines) and backing out Auto (blue lines).



- Since 1946, The University of Michigan has conducted a minimum of 500 interviews each month from its survey center in Ann Arbor. The 50-question survey stresses the important influence of consumer spending and saving decisions in determining the course of the national economy. The core questions cover three broad areas of consumer sentiment; personal finances, business conditions and buying conditions.
- The Consumer Sentiment Index (blue line) measures how consumers feel about their current situation (green line) and how they view prospects for the general economy over the intermediate to long-term (orange line).

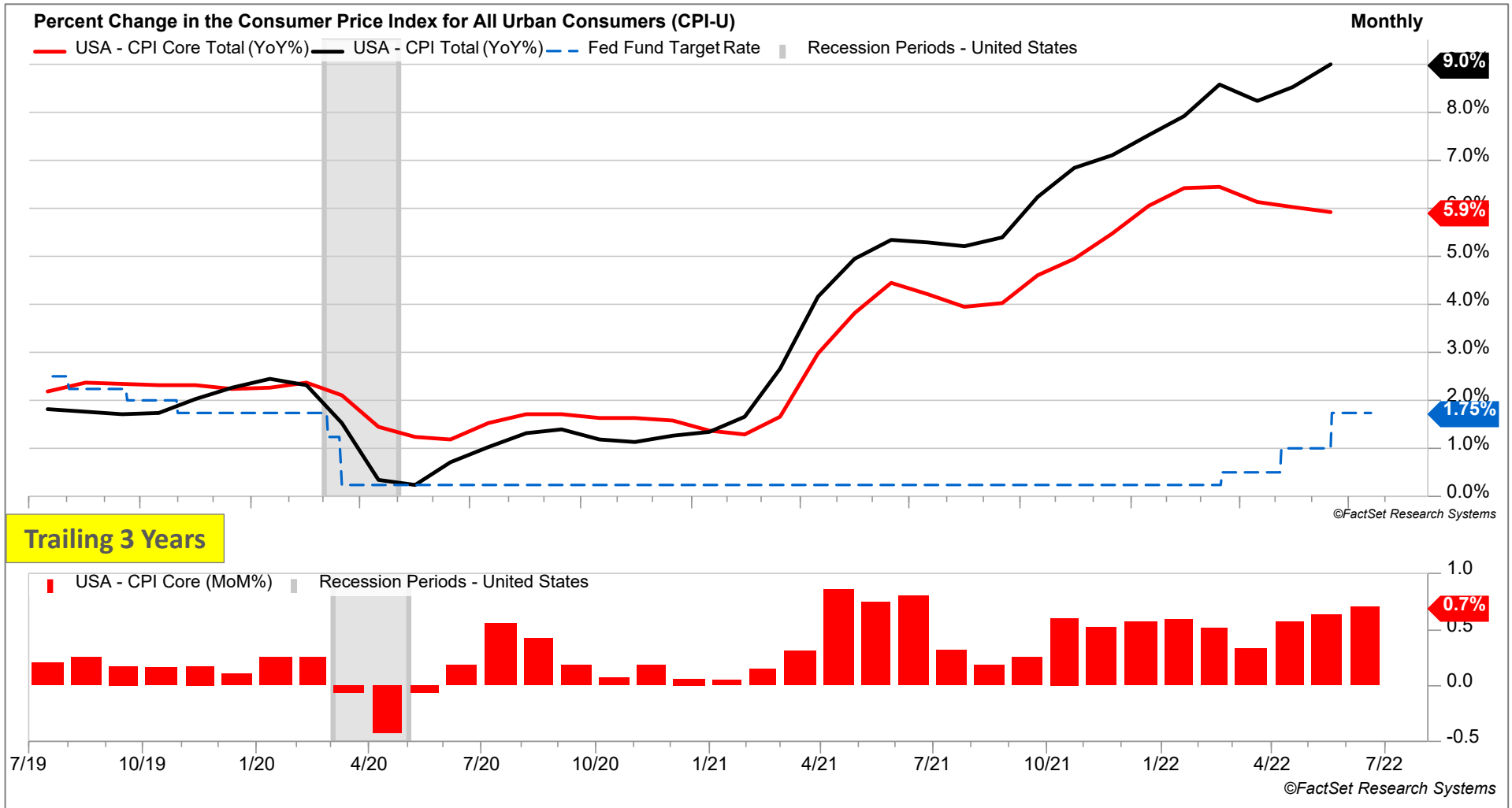


- The “Employment Situation Report” is released by the Bureau of Labor Statistics (BLS) on the first Friday of every month. The Household Survey measures labor force status by demographic characteristics. The Establishment Survey measures nonfarm employment, hours, and earnings by industry. These reports cover an estimated 80% of US businesses and offer insights into the status of the labor force.
- Observers focus on the Total Nonfarm Payroll (dark blue), Private Nonfarm Payroll (light blue), and monthly employment gains (bottom).



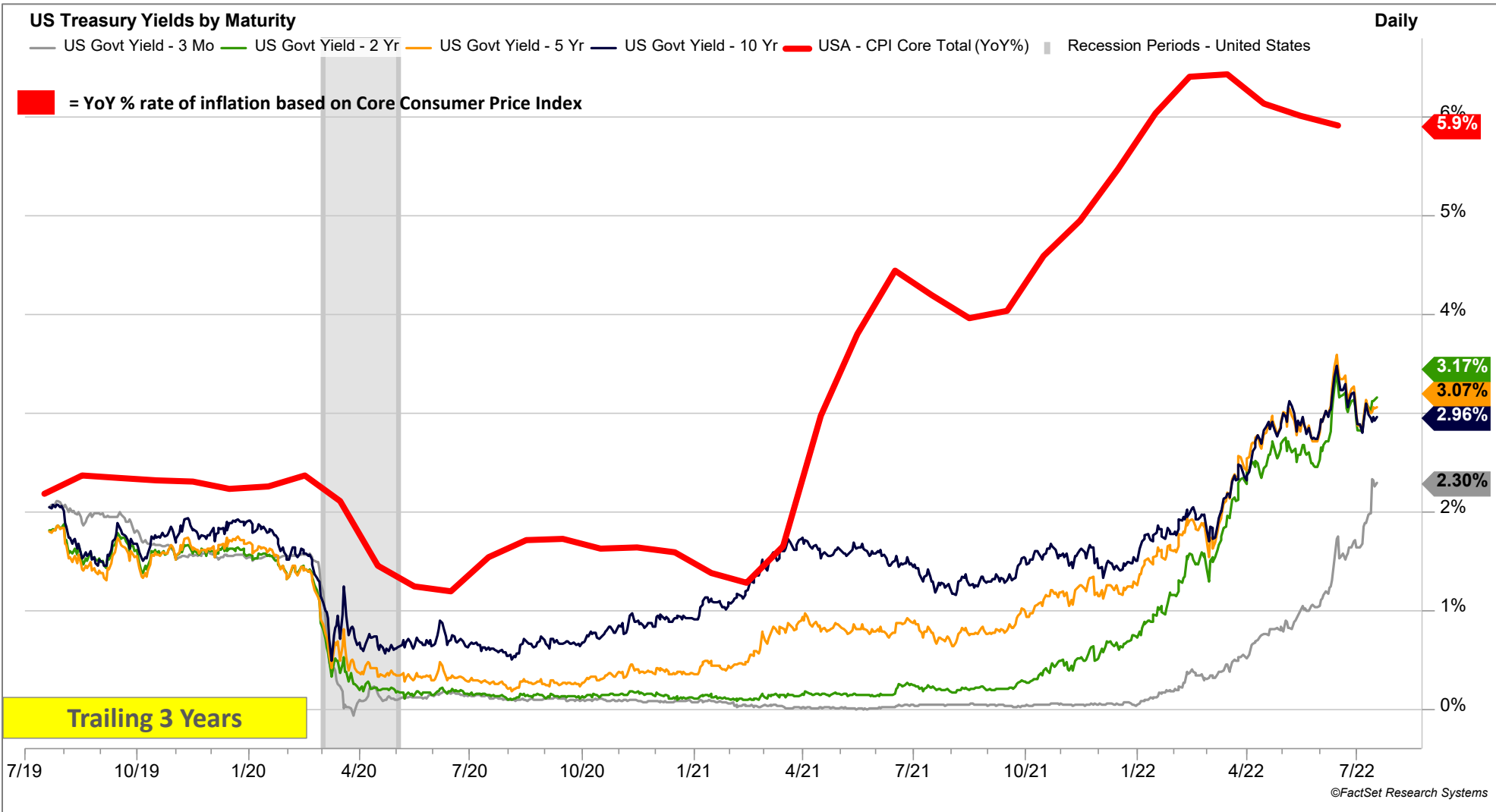
Consumer Price Index (CPI-U)

- 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). The Federal Reserve sets the Fed Funds Target Rate (blue dashed line) based on its “full employment” and “price stability” monetary policy mandate.

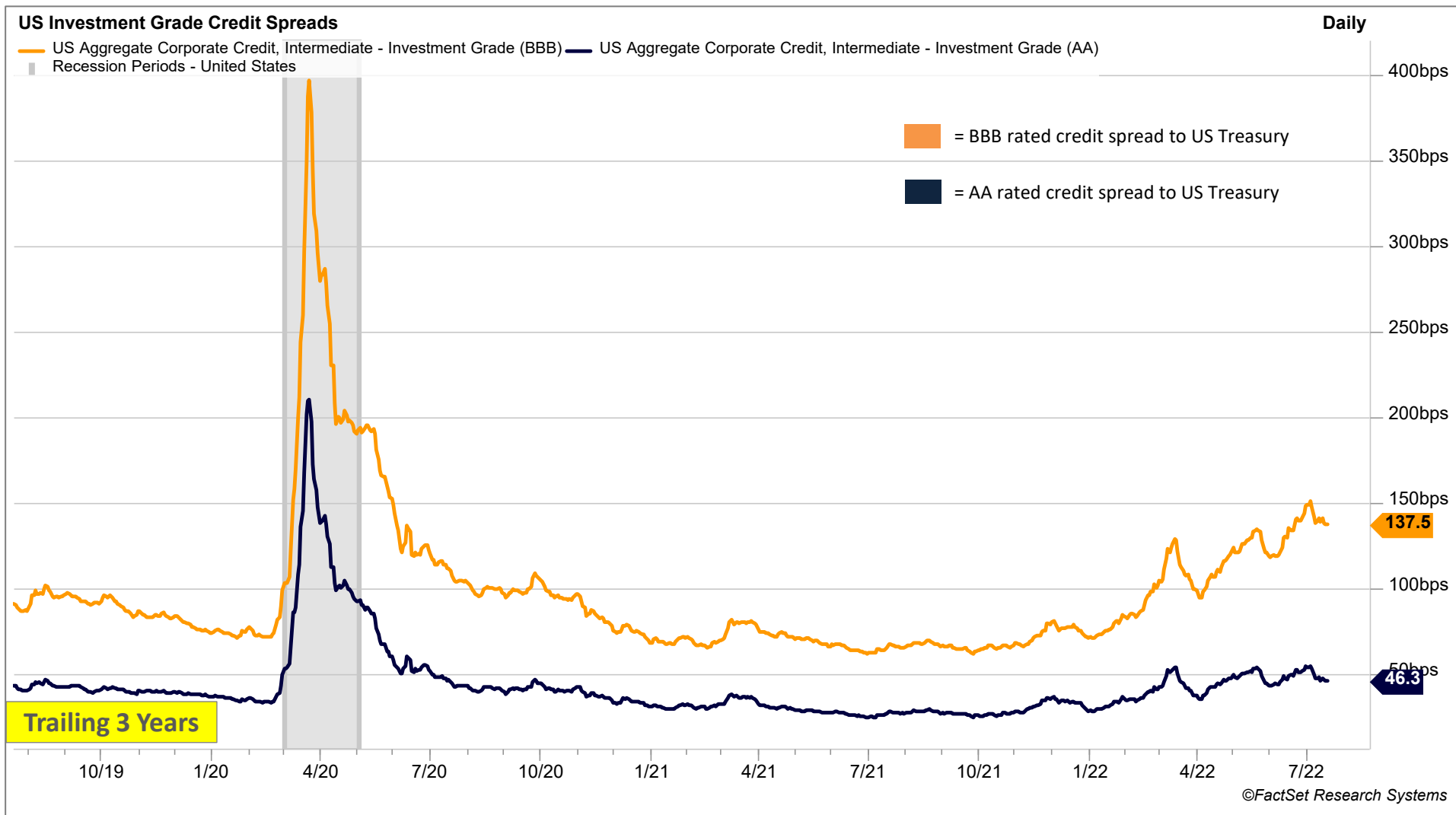


US Treasury Yields vs. Inflation

- Investors consider US Treasury Bonds to be free of default risk, leaving interest rate risk as the primary concern. Bonds are subject to interest rate risk, since rising rates will result in falling prices and vice-versa. The longer the maturity the greater the sensitivity to changes in rates.
- Interest rates respond to inflation - a bonds worst enemy. When prices in an economy rise, or are expected to rise, investors will demand a higher yield-to-maturity to compensate them for the erosion of purchasing power. This is of particular concern for longer dated bonds.



- A credit spread is the difference in yield between a US Treasury Bond (risk-free) and another bond of similar maturity. Corporate bonds, even for the most stable and highly rated companies, are considered to be riskier investments for which the investor demands compensation.
- Fluctuations in credit spreads are often a reflection of changing expectations around economic conditions and issuer default risk. Credit spreads can be a good barometer of economic health – widening when growth slows and narrowing when growth improves.

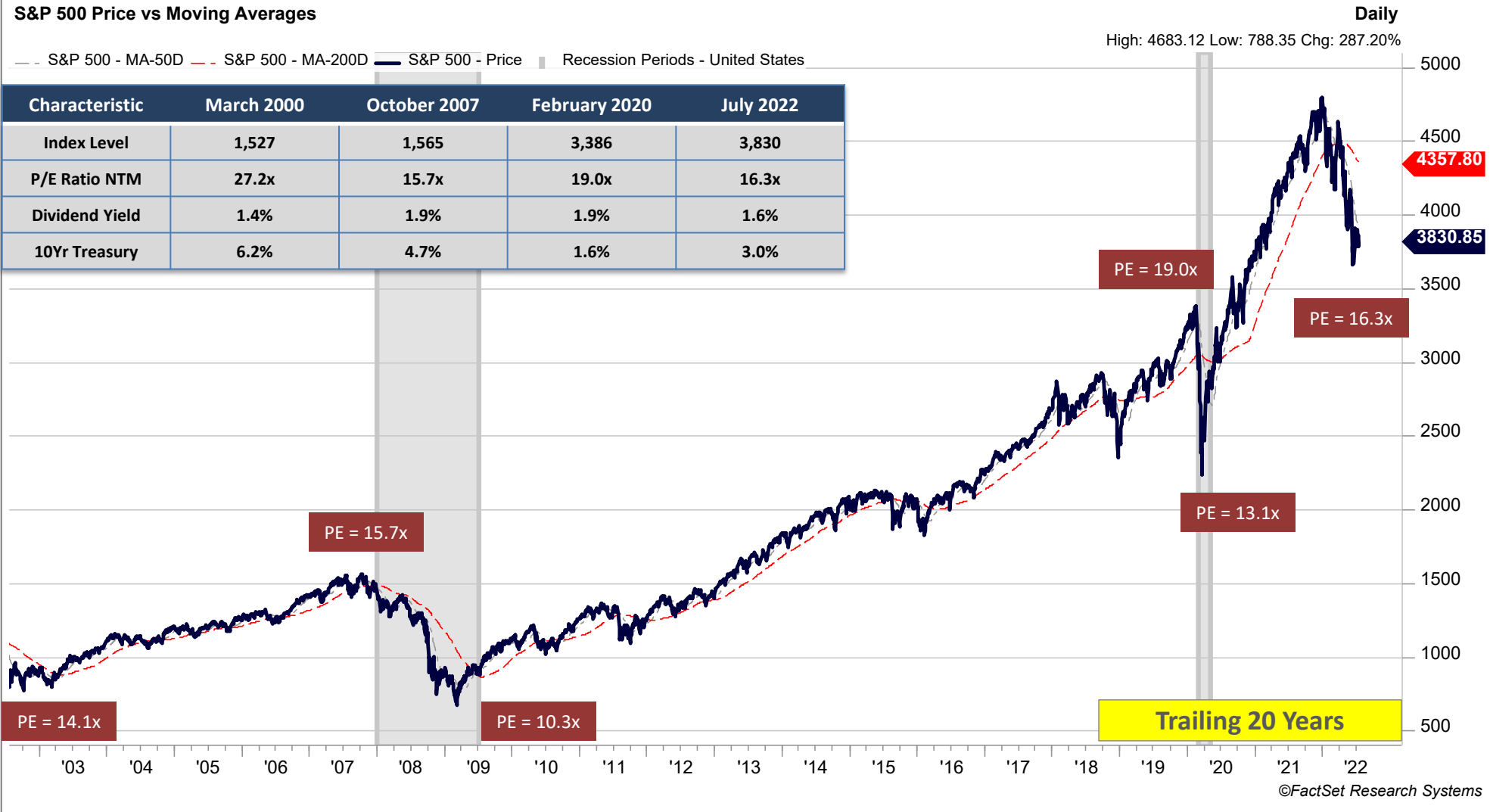


- The ability for companies to navigate their way through the ebb and flow of business cycles is a key determinant in the stream of profits available to investors. Over the long-term, stocks love profits and will follow their path.
- The price that investors are willing to pay to participate in the long-term 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.

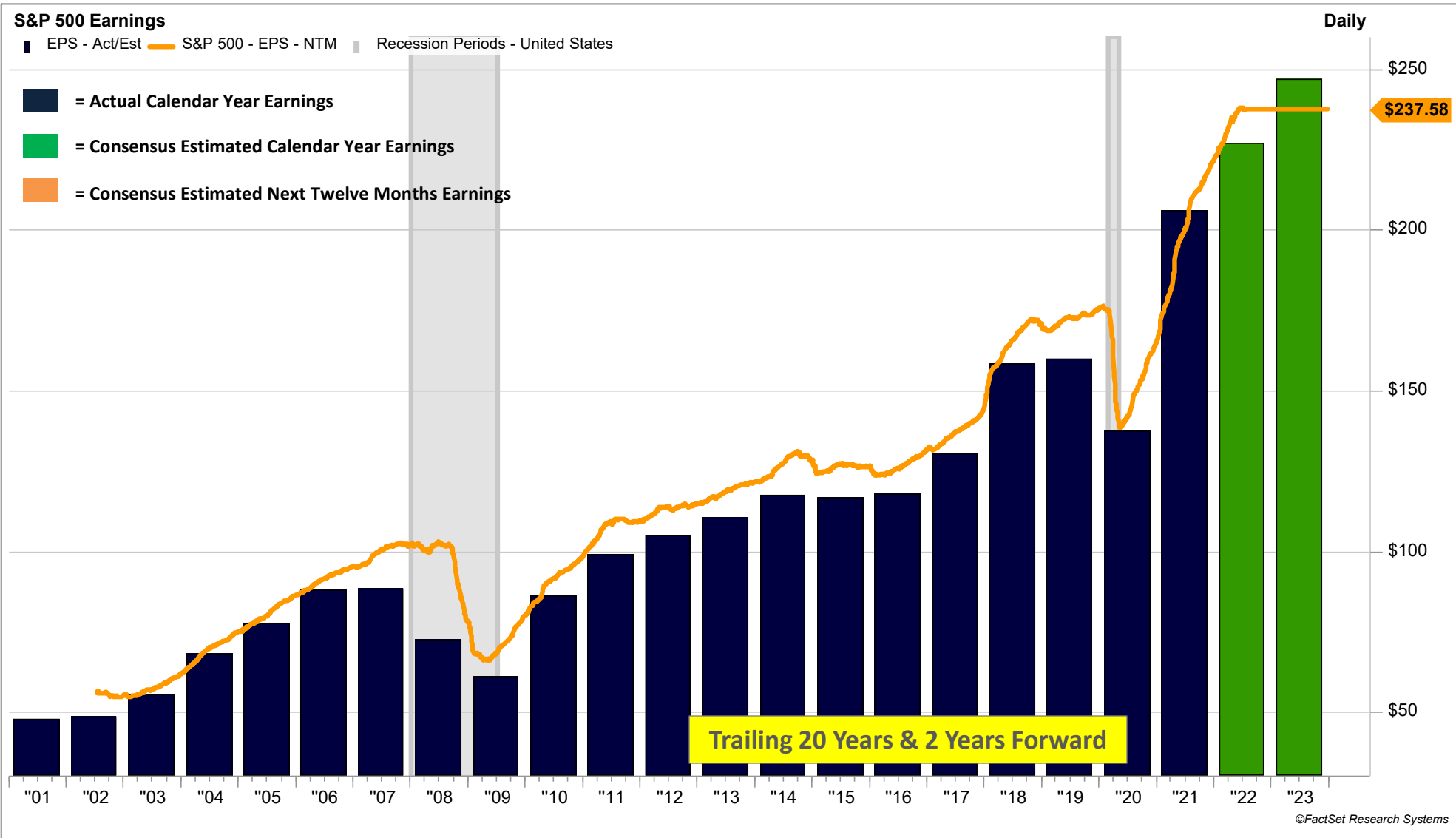
S&P 500 Price vs Moving Averages

--- S&P 500 - MA-50D - - - S&P 500 - MA-200D — S&P 500 - Price ■ Recession Periods - United States

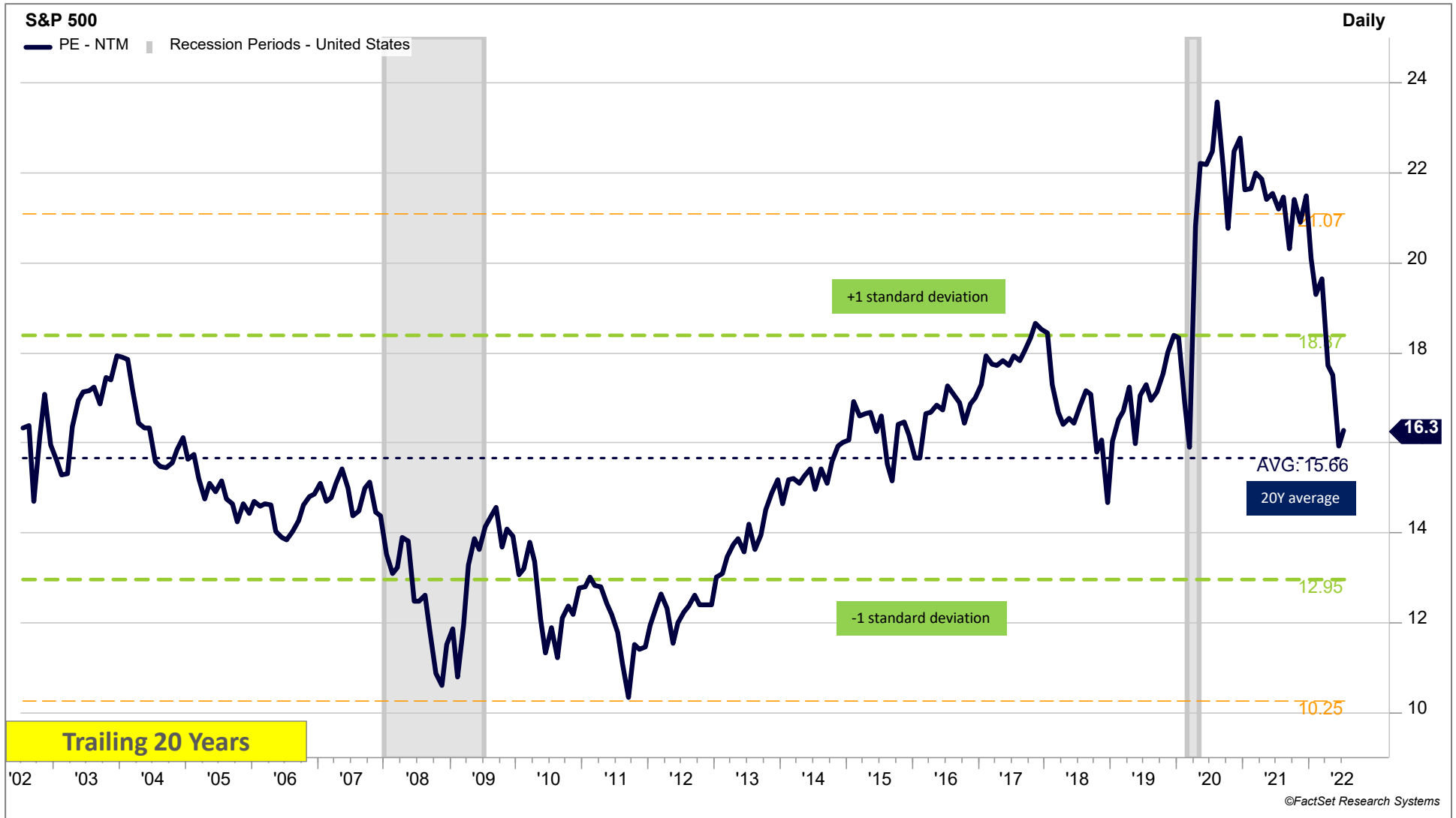
Characteristic	March 2000	October 2007	February 2020	July 2022
Index Level	1,527	1,565	3,386	3,830
P/E Ratio NTM	27.2x	15.7x	19.0x	16.3x
Dividend Yield	1.4%	1.9%	1.9%	1.6%
10Yr Treasury	6.2%	4.7%	1.6%	3.0%



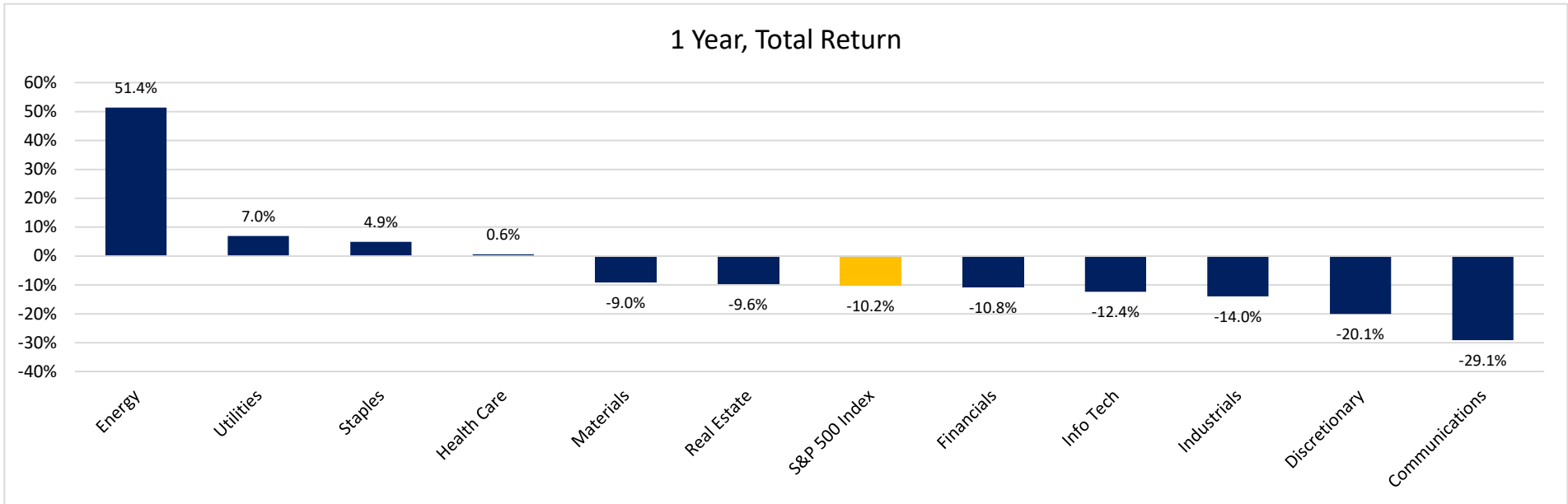
- Stocks love profits. The long-term path of a stock market follows the investor expectations for higher earnings. Periods of earnings uncertainty are often met with market declines. But, as the outlook for profits improves, markets tend to look past the trough and toward the renewed earnings trajectory.



- 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.



- The Stock Market is a market of stocks that can be compartmentalized into sectors. Constituents of a sector often share a similar sensitivity to the ebbs and flows of the business cycle. Each sector has its own identity and characteristics that can be examined by investors.



Sector	Financials	Materials	Real Estate	Industrials	Discretionary	Info Tech	Energy	Health Care	Staples	Communications	Utilities	S&P 500 Index
Sector Weight	10.8%	2.5%	2.9%	7.6%	11.0%	27.4%	4.2%	14.9%	6.9%	8.9%	3.0%	100.0%
Dividend Yield	2.2%	2.2%	2.8%	1.7%	0.7%	1.0%	3.3%	1.5%	2.5%	1.0%	3.0%	1.6%
NTM P/E	11.4x	12.5x	17.9x	16.0x	24.3x	20.0x	7.7x	16.1x	20.2x	15.2x	19.4x	16.3x
LTM P/B	1.3x	2.7x	3.1x	4.6x	8.6x	8.4x	2.1x	4.9x	5.8x	3.1x	2.2x	3.8x
NTM P/S	2.2x	1.6x	6.6x	1.7x	1.8x	5.0x	1.0x	1.7x	1.4x	2.5x	2.7x	2.2x
1Y Beta	0.95	0.83	0.80	0.82	1.37	1.25	0.56	0.75	0.67	1.00	0.60	1.00
30D RSI	36.79	25.29	40.08	34.82	43.36	42.81	32.89	47.50	45.49	41.65	39.16	39.30

NTM = Next Twelve Months estimate

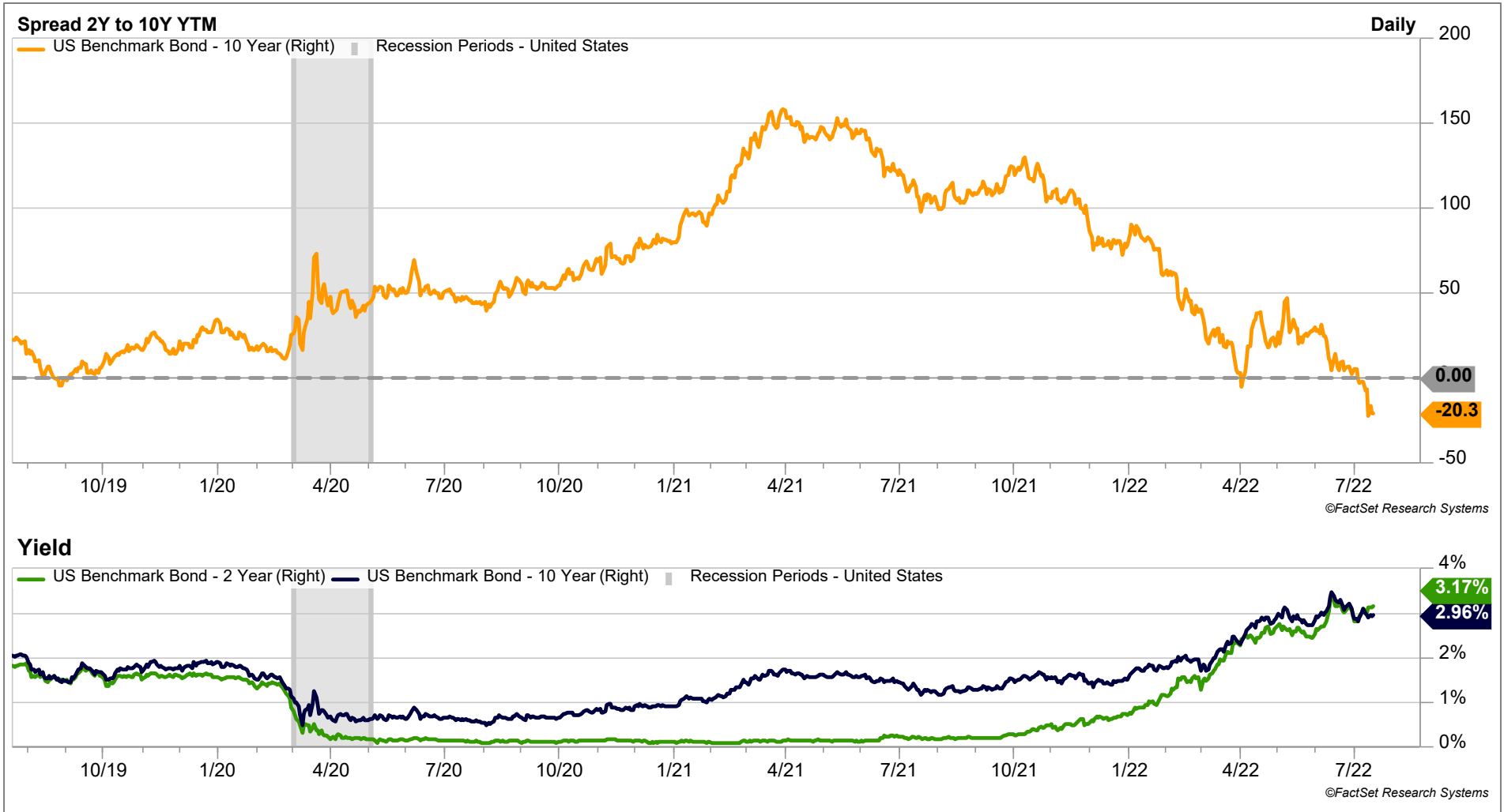
LTM = Last Twelve Months actual

RSI = Relative Strength Index

Red Shade may suggest relative warning signal

Green Shade may suggest relative opportunity

- The following chart compares the 10-year Treasury note yield (blue line) to the 2-year Treasury note yield (green line). The spread between the two rates (gold line) is a simple measure of steepness. Although the two rates tend to move somewhat together (parallel shifts), longer dated yields tend to lag the magnitude of shorter dated yields.
- When short rates rise, the spread between 10-year and 2-year yields tends to narrow, and when short rates fall, the spread tends to widen. A negative spread (inversion of the yield curve) is usually an indication of economic uncertainty and looming recession.



Disclosure

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