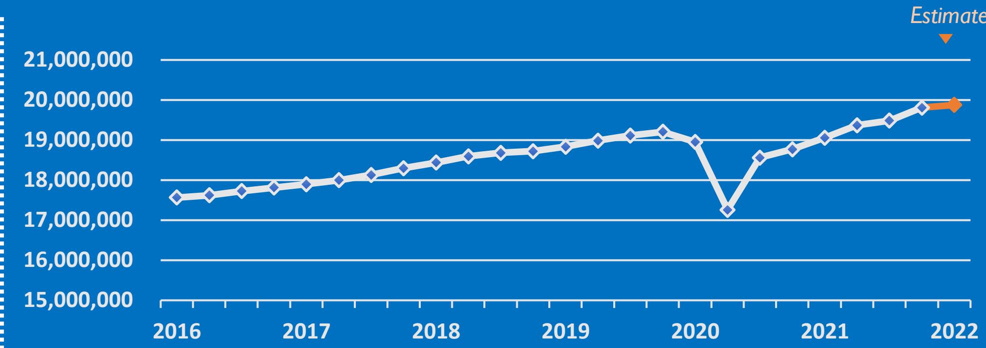
Economic Commentary

As of March 31, 2022

Other Indicators

	CPI	Unemployment	Sentiment	Crude Oil
Q1: 2021	2.7%	6.0%	84.9	$64
Q4: 2021	7.1%	4.7%	72.8	$78
Q1: 2022	8.6%	3.6%	59.4	$107

Real GDP in Dollars*



*Billions

INFLATION

The Consumer Price Index ("CPI") increased 8.6% over the last 12 months. The last time the Unites States saw the level of inflation this high was in 1981. The CPI measures the average prices over time that consumers pay for a basket of goods and services and **includes** energy and food sectors. The energy and food sectors can be volatile as demand doesn't change much even as prices rise. The CPI is a well-known economic indicator and is what consumers see in the media, and what they feel in terms of purchasing power. The Federal Reserve ("Fed") makes monetary policy with a focus on core inflation. Core inflation is the change in the costs of goods and services, but it **does not include** those from the food and energy sectors. Core inflation is considered an indicator of underlying long-term inflation.

The Fed is projecting core inflation to be below 3% in the near future and is increasing interest rates to support those projections. The rise in interest rates is intended to reduce the money supply, and in-turn reduce demand. While this may help reduce inflation, it has a direct impact on investors. As bond prices and interest rates have an inverse relationship, the price of bonds has declined, producing negative returns for bond investors.

WAGE GROWTH

The U.S. economy has been enjoying the fastest job growth in almost four decades. In fact, the Bureau of Labor Statistics ("BLS") states that nominal wages, those unadjusted for inflation, have risen at the fastest pace since 1983. Unfortunately, inflation-adjusted wages, real wages, are falling faster than they have in 40 years. Year-over-year CPI grew by 8.6%, while nominal wages grew only 5.6%. This represents a decline in inflation-adjusted wages of 2.7%; real average hourly earnings declined from $11.34 in March of 2021 to $11.03 in March of 2022.

Recent experience presents a challenge to the theory that tighter labor markets lead to rising real wages. While a lower unemployment rate strengthens the bargaining power of workers, enabling them to obtain larger nominal wage gains, higher demand for products increases the pricing power of businesses. With so many eager customers, businesses can charge higher prices. The big question is: "Which goes up more—the bargaining power of workers or the pricing power of businesses?" While steady and predictable inflation does not generally impact real wages, the latest evidence favors the idea that businesses are able to mark up prices over costs, including wages.

First Quarter Market Review

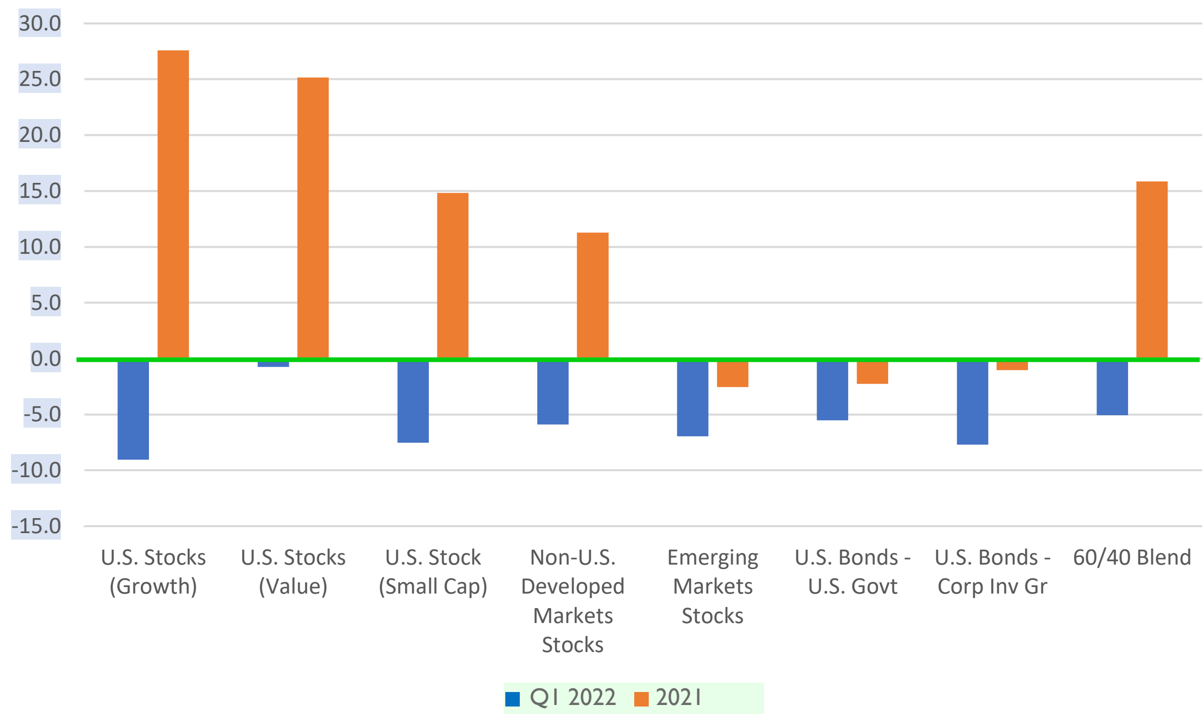
U.S. stocks declined in the first quarter, with the S&P 500 closing at 4530, down from 4766 on December 31. The index fell 5.3% in January, and 3.1% in February, but rose 3.6% in March.

In the U.S., value significantly outperformed growth, and larger capitalizations outperformed smaller.

The only sectors in the S&P 500 with positive returns were Energy and Utilities. The largest detractors from the index return were Technology and Communications.

Among stocks, the top contributors to the index return were Berkshire Hathaway, Exxon Mobil, and Chevron. The largest detractors were Meta Platforms (Facebook) and Microsoft (contribution incorporates the effects of both price change and weight).

- In the U.S., stocks had a negative returns; large cap value was the best preforming segment
- Outside the U.S., both developed and emerging markets declined. Within the emerging markets, the Hong Kong-based China 50 Index fell 10.4%.
- Within U.S. fixed income markets, interest rates on U.S. Treasury bonds rose across the yield curve. The US Aggregate Index had its largest decline since 1980.



Asset class returns are represented by the following indexes: Russell 1000 Growth and Value, and Russell 2000 Index (U.S. Stocks), MSCI EAFE Index (Non-U.S. Developed Stocks), MSCI Emerging Markets Index (Emerging Market Stocks), Bloomberg Barclays U.S. Government Index (U.S. Bonds - Govt), and Bloomberg Barclays US Corporate Bond Index (U.S. Bonds – Corp IG). The Blend is 60% S&P 500/40% US Aggregate.

Drivers of Capital Markets Returns

- Fixed income investments are debt instruments typically issued by governments and corporations. They generally pay a periodic fixed amount of interest until maturity, at which time the principal is repaid. Investors in fixed-income instruments are **lenders**.
- Corporations can also raise capital by selling shares, also known as equity. Equity investors share in a company's success or failures over time. Investors in equity are **owners**.

The price of the S&P 500 Index as of March 31, 2022, was 4,530.41.

Returns to Lenders

Inflation ⬆ 8.6%

- March's CPI was 8.6% above the month a year ago. Energy prices contributed 2.4% of the increase; the core rate was 6.4%.

Interest Rates ⬆ 0.81%

- The yield of a 10-year U.S. Treasury bond rose from 1.51% on December 31 to 2.32% on March 31. Rates for 2-5 year notes rose over 200 bps.

Credit Spreads ⬆ 0.36%

- The yield spread of a generic A/BBB-rated corporate bond rose 36 basis points to 176 basis points. The yield spread measures the yield of 10 – 15-year corporate debt compared to U.S. Treasury Bonds of equivalent maturity.

Returns to Owners

Growth (GDP)

4Q: 2021	1Q: 2022
6.9%	1.3%*

- Annualized real growth of GDP is estimated to have decelerated from the high rate in the prior quarter, based on lower rates of investment and inventory, while consumer spending growth remains below mid-2021.

Profitability

2022E	2023E	%Change23E
$227.88	$250.05	9.7%

- The consensus estimate of 2022 earnings for the S&P 500 rose 2.0% during the first quarter. The estimate for 2023 was 9.7% above 2022.

Valuation

2022E P/E	2023E P/E
19.9	18.1

- On March 31, the price of the S&P 500 was 19.9x its estimated 2022 earnings. The multiple declined as the price declined and earnings estimates rose modestly.

**April 19, 2022 – Atlanta Fed GDPNow estimate*