

Market Update and Outlook

TFA Investment Committee
June 22, 2022

Investment Committee members:

- Geoff Blyth, SVP & Chief Investment Officer (WNY PM)
- Tamer Elshourbagy, VP & Senior Portfolio Manager (CNY)
- Allen Margolius, VP & Portfolio Manager (HV & PA)
- Victor Hugo Marin, AVP & Senior Research Analyst
- Eric Fitzpatrick – Trader & Junior Research Analyst

The Noise Never Quiets Down



Current Market Influences

Continuing Pandemic Concerns



Higher Interest Rates



Higher Inflation

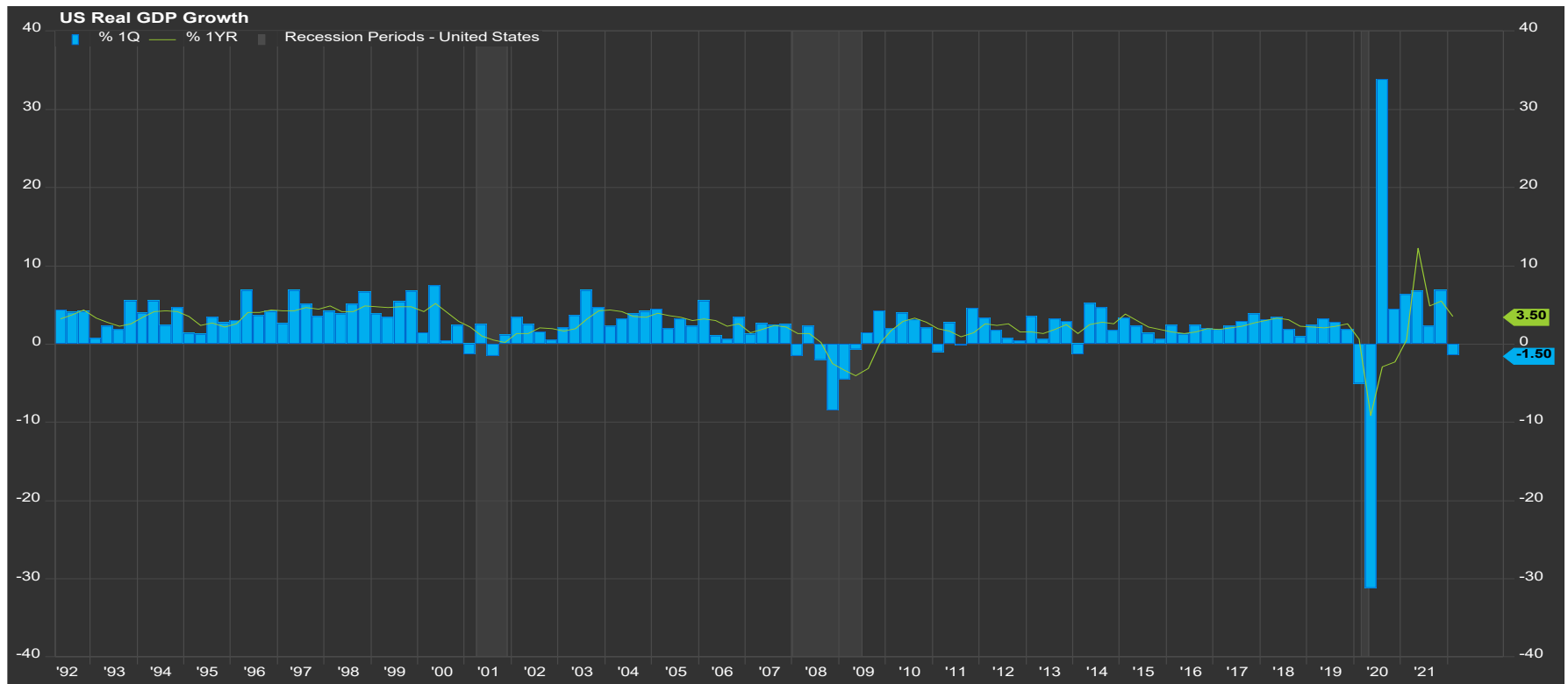


Armed Conflict



Economy

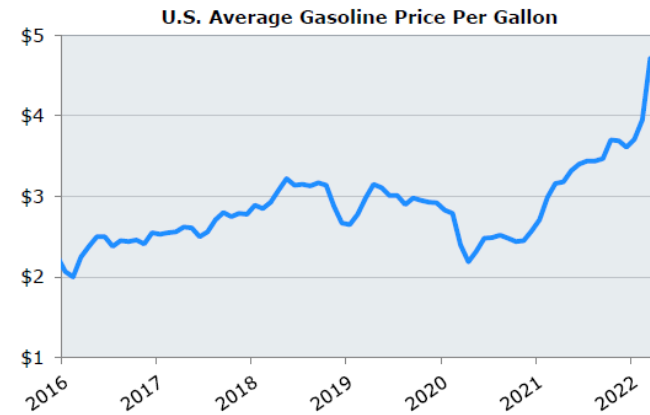
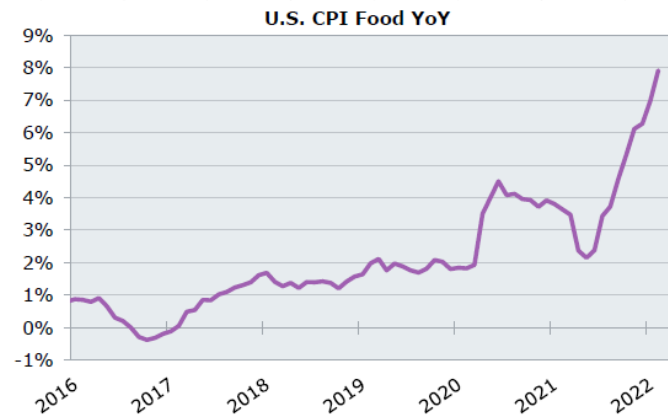
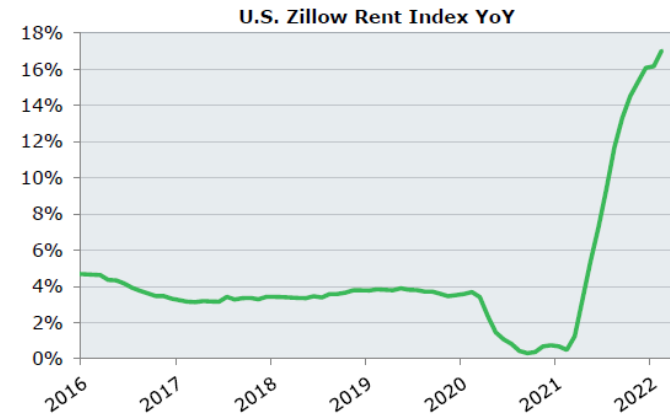
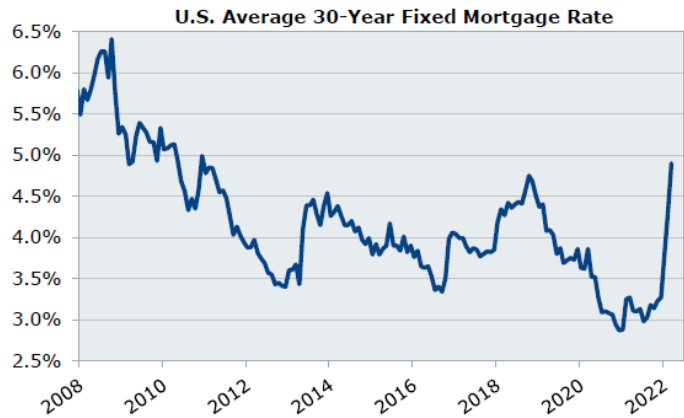
Historical US GDP Growth



* Source: Factset

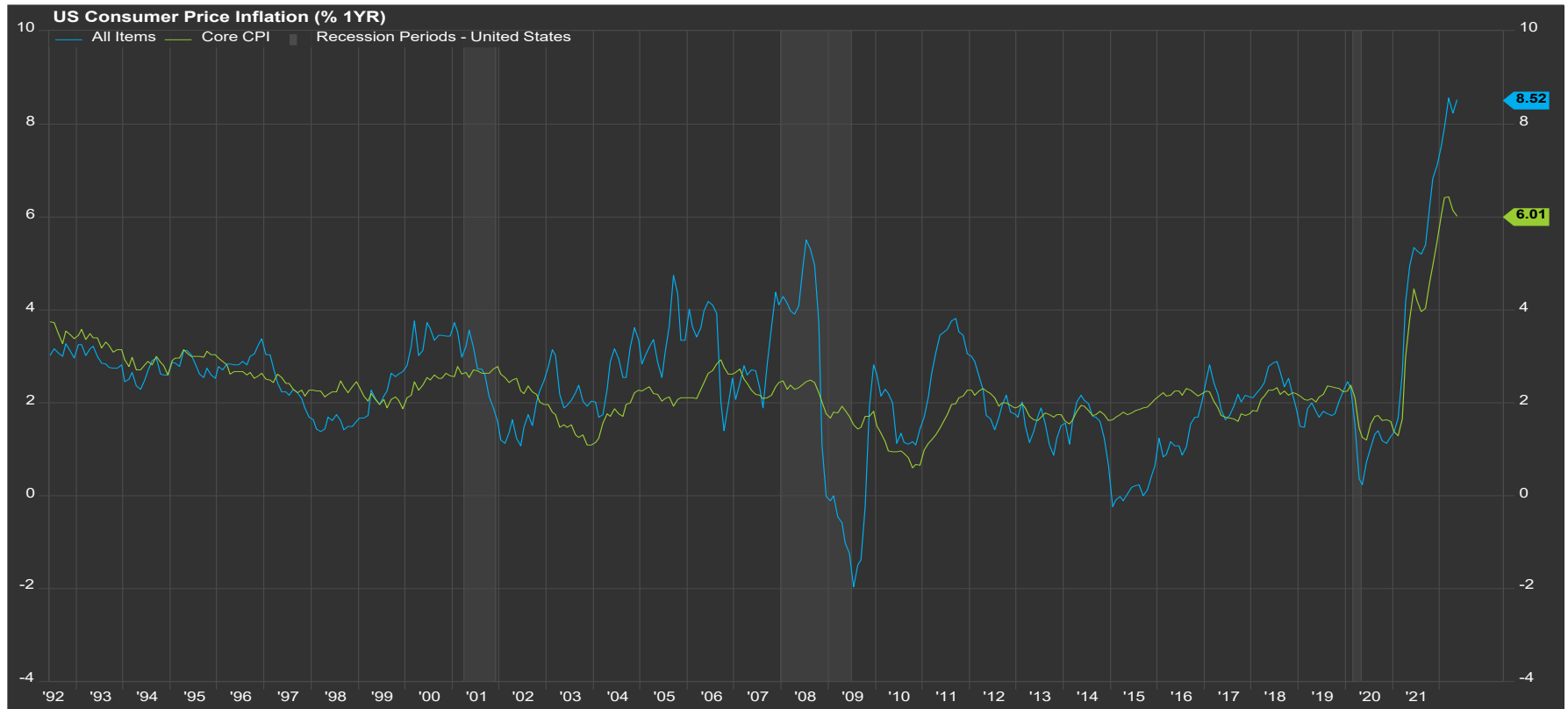
Inflation Spiking

Rising Costs a Drag on Growth



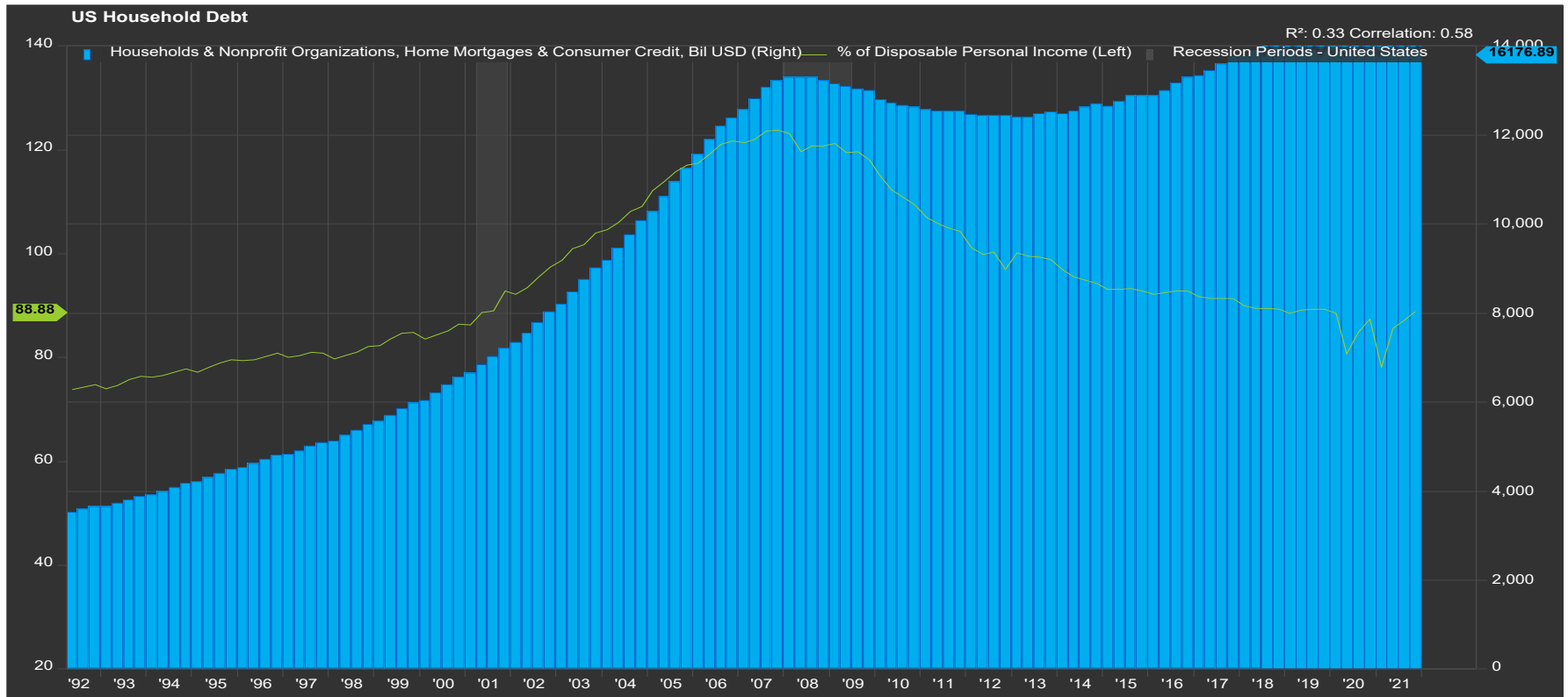
Source: Bloomberg
Data as of: 3/31/22

Historical CPI



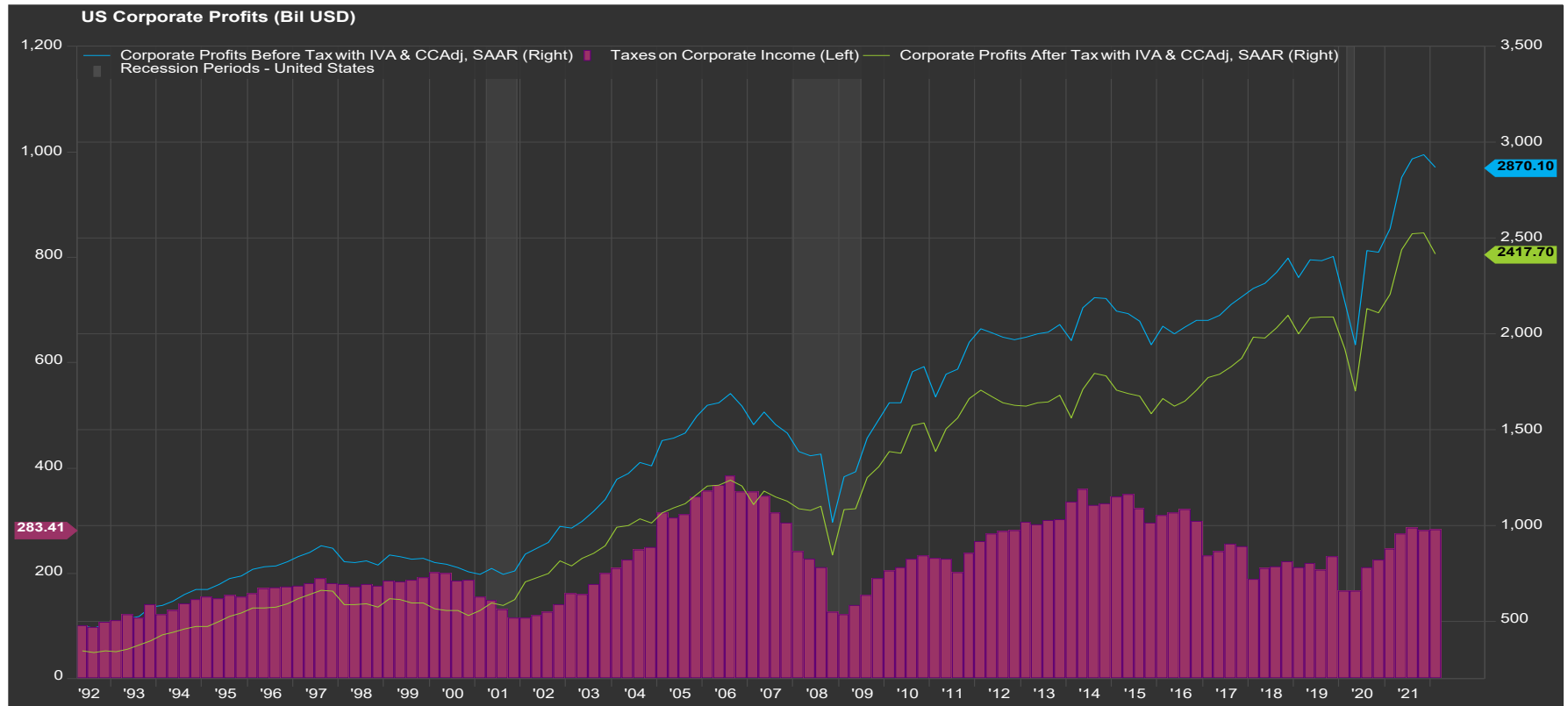
* Source: Factset

Consumer Balance Sheet



* Source: Factset

US Corporate Profits



* Source: Factset

Fixed Income

YTD Fixed Income Highlights

Two largest drivers of fixed income performance in 2022 have been **rising inflation** and the Fed's adoption of more **hawkish monetary policies**.

Accelerated pace of inflation has caused the Fed to: i) increase interest rates earlier and more aggressively; and ii) begin unwinding their balance sheet sooner than expected (June 2022).

Target range for the Fed Funds rate went from 0-0.25% in January to 1.50-1.75% in June. The most recent rate hike of 0.75% on June 15th was the largest rate hike since 1994.

Bond prices and prevailing interest rates are negatively related. As the expectation for rate hikes increased, it caused strong outflows and selling, which caused interest rates to rise at breakneck pace, as a result we witnessed immense negative pressure on all bond prices (regardless of quality or maturity).

Its important to note the unprecedented nature of exogenous factors that have led to the underperformance we have seen in fixed income markets:

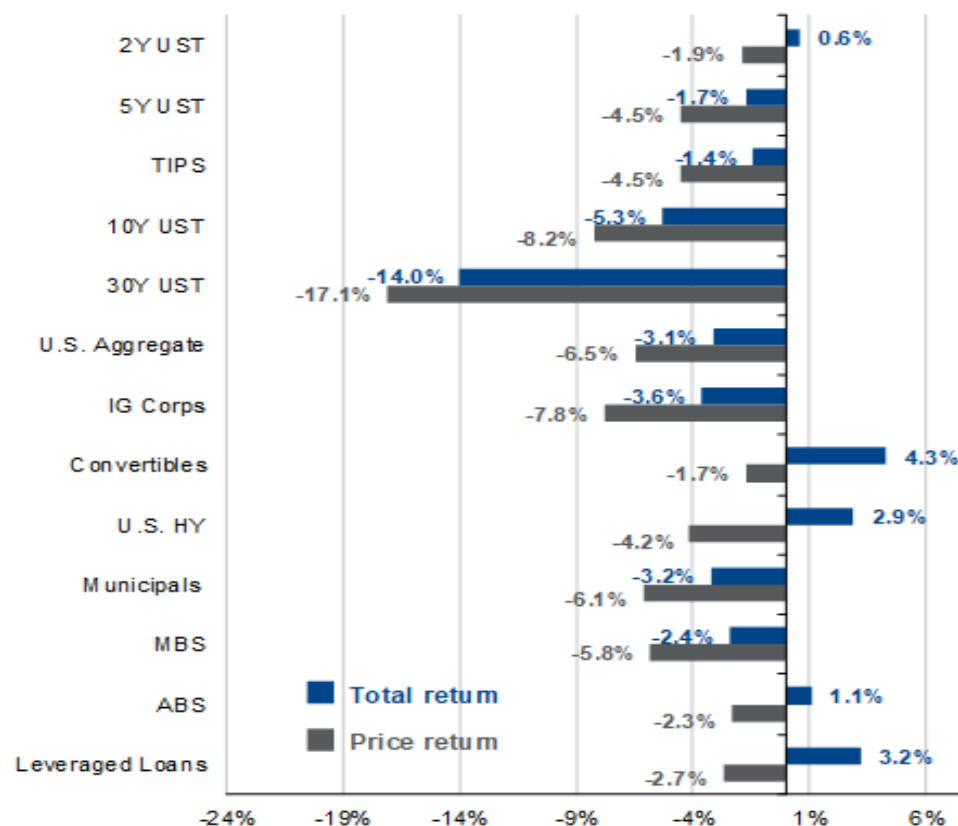
- i) Inflection point, we have reached what appears to be the end of a 40 year bull market in bonds;
- ii) We are coming out of zero fed funds rate and historically low interest rates (at the lowest point the 10 YR yield fell below 50bps), on a relative basis we have seen yields increase immensely: 2YR yields increased by 247% and 10YR yields by 88%;
- iii) Historically high levels of inflation are forcing the Fed to raise rates faster than they have before (with the exception of Volcker and his draconian monetary policy in the early 1980s, Fed Funds was set at 20%).

These factors in combination have had the effect of a perfect storm. Every single fixed income asset class from AAA rated treasuries to high yield to structured products has lost significant value due to the upward pressure we have seen in interest rates. The sell-off in bonds is NOT tied to weakening company dynamics (corporate fundamentals remain near cycle highs).

Bond Price Sensitivity

Impact of a 1% rise in interest rates

Assumes a parallel shift in the yield curve

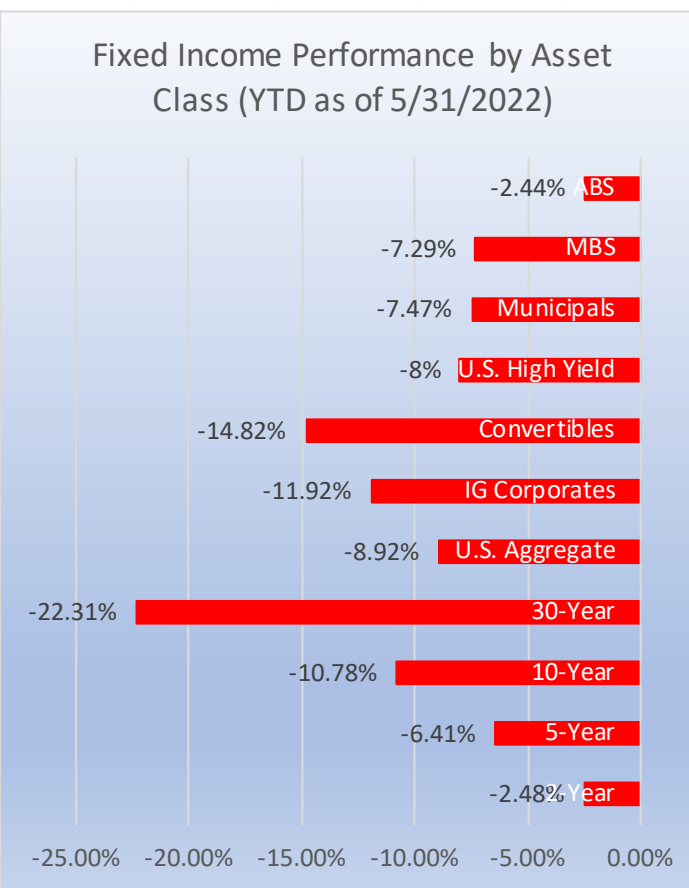


Source: Bloomberg, FactSet, Standard & Poor's, U.S. Treasury, J.P. Morgan Asset Management. Sectors shown above are provided by Bloomberg unless otherwise noted and are represented by – U.S. Aggregate; MBS: U.S. Aggregate Securitized – MBS; ABS: J.P. Morgan ABS Index; Corporates: U.S. Corporates; Municipals: Muni Bond; High Yield: Corporate High Yield; Leveraged Loans: J.P. Morgan Leveraged Loan Index; TIPS: Treasury Inflation-Protected Securities; Convertibles: U.S. Convertibles Composite. Convertibles yield is as of most recent month end and is based on U.S. portion of Bloomberg Global Convertibles Index. Yield and return information based on bellwethers for Treasury securities. Sector yields reflect yield-to-worst. Convertibles yield is based on U.S. portion of Bloomberg Global Convertibles. Correlations are based on 15-years of monthly returns for all sectors. Past performance is not indicative of future results.

Guide to the Markets – U.S. Data are as of May 31, 2022.

Fixed Income Performance

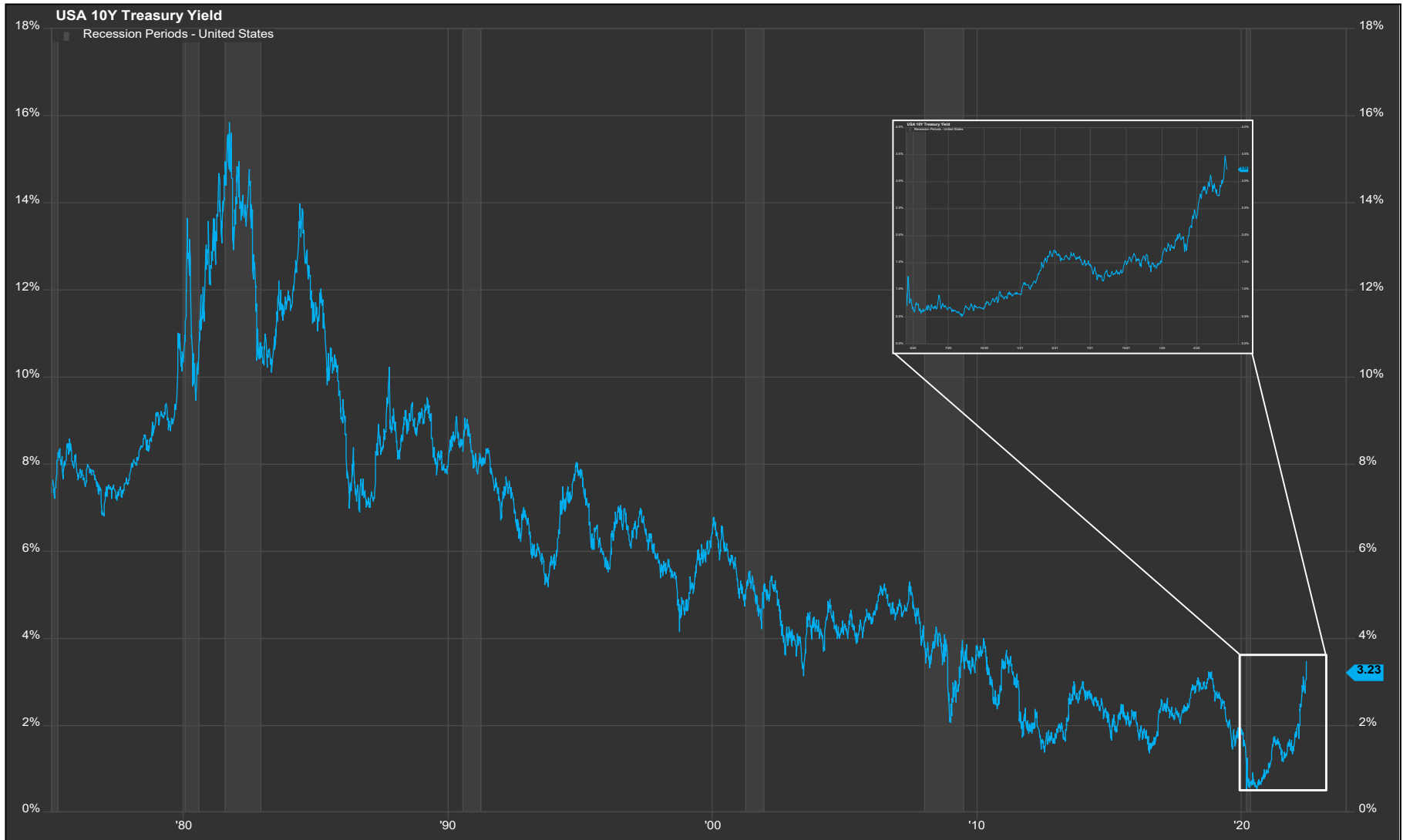
	Yield		% Change
U.S. Treasuries	05/31/2022	12/31/2021	
2-Year	2.53%	0.73%	247%
5-Year	2.81%	1.26%	123%
10-Year	2.85%	1.52%	88%
30-Year	3.07%	1.90%	62%
Sector			
U.S. Aggregate	3.38%	1.75%	93%
IG Corporates	4.21%	2.33%	81%
Convertibles	5.99%	3.66%	64%
U.S. High Yield	7.09%	4.21%	68%
Municipals	2.92%	1.11%	163%
MBS	3.46%	1.98%	75%
ABS	3.98%	1.96%	103%



Source: Bloomberg, FactSet, Standard & Poor's, U.S. Treasury, J.P. Morgan Asset Management. Sectors shown above are provided by Bloomberg unless otherwise noted and are represented by – U.S. Aggregate; MBS: U.S. Aggregate Securitized – MBS; ABS: J.P. Morgan ABS Index; Corporates: U.S. Corporates; Municipals: Muni Bond; High Yield: Corporate High Yield; Leveraged Loans: J.P. Morgan Leveraged Loan Index; TIPS: Treasury Inflation-Protected Securities; Convertibles: U.S. Convertibles Composite. Convertibles yield is as of most recent month end and is based on U.S. portion of Bloomberg Global Convertibles Index. Yield and return information based on bellwethers for Treasury securities. Sector yields reflect yield-to-worst. Convertibles yield is based on U.S. portion of Bloomberg Global Convertibles. Correlations are based on 15-years of monthly returns for all sectors. Past performance is not indicative of future results.

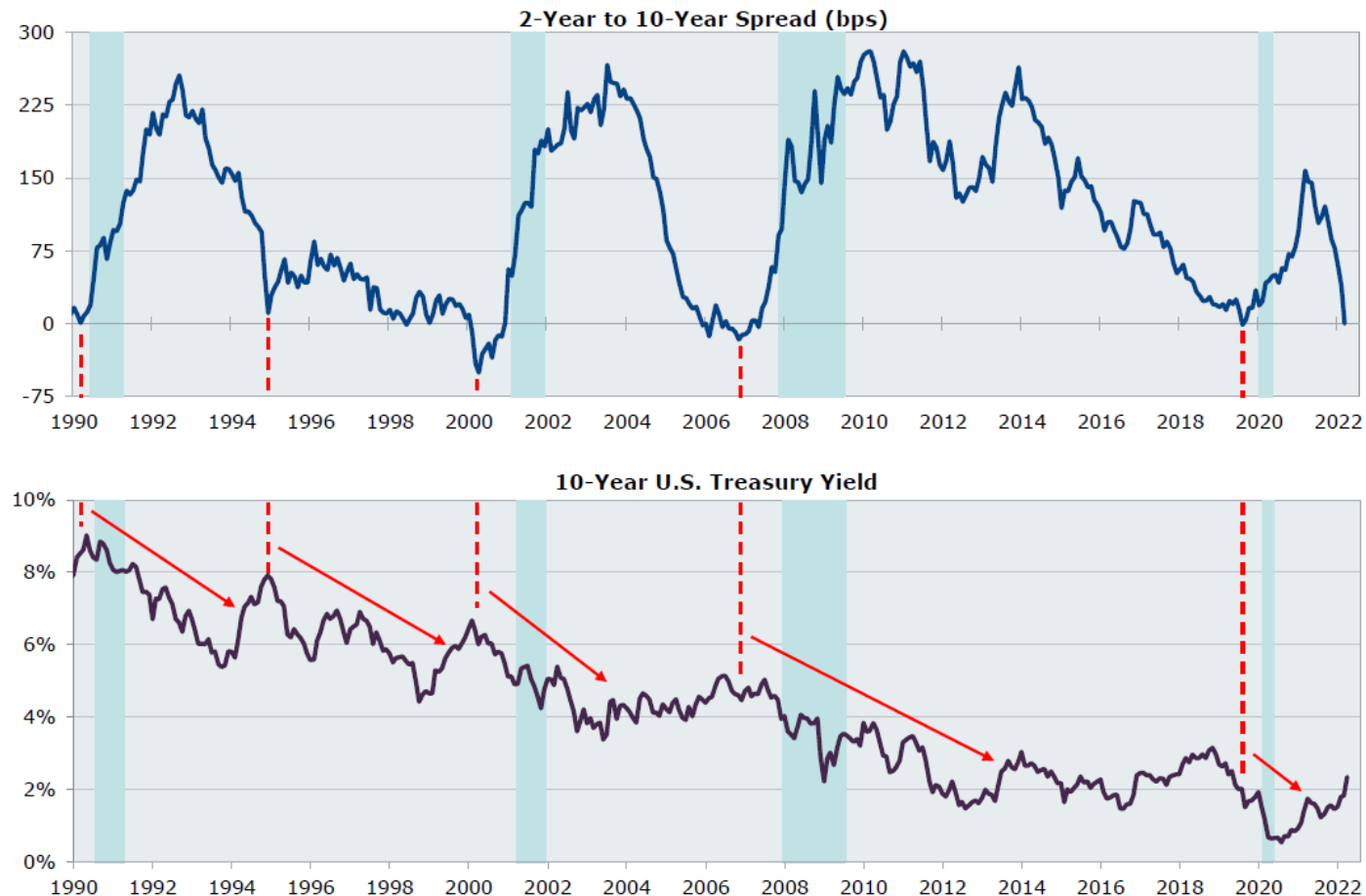
Guide to the Markets – U.S. Data are as of May 31, 2022.

Interest Rate Trends (10 YR Treasury)



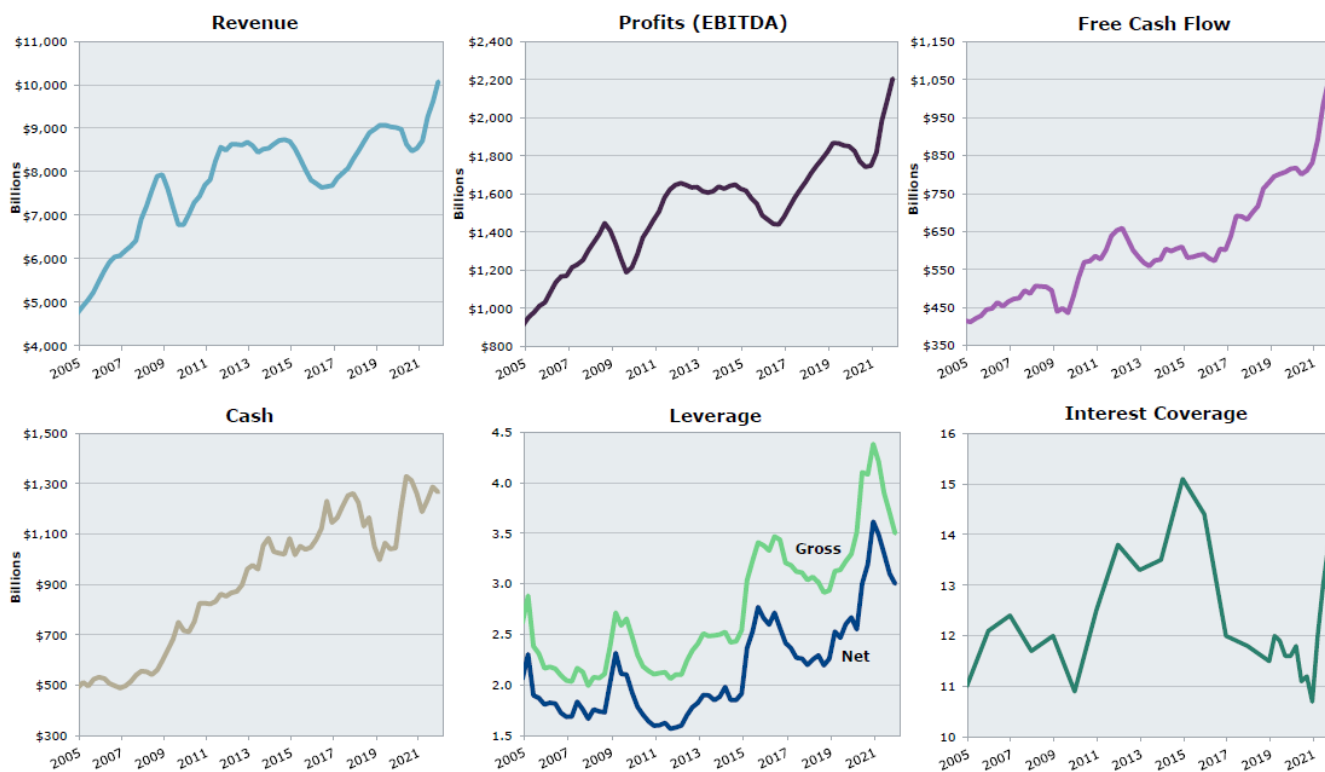
Previous Curve Inversions

Inversions Generally Signal Yields Have Peaked



Strong Corporate Fundamentals

Corporate Credit Fundamentals Strengthen Revenue, Profits and Free Cash Flow At Or Near Cycle Highs

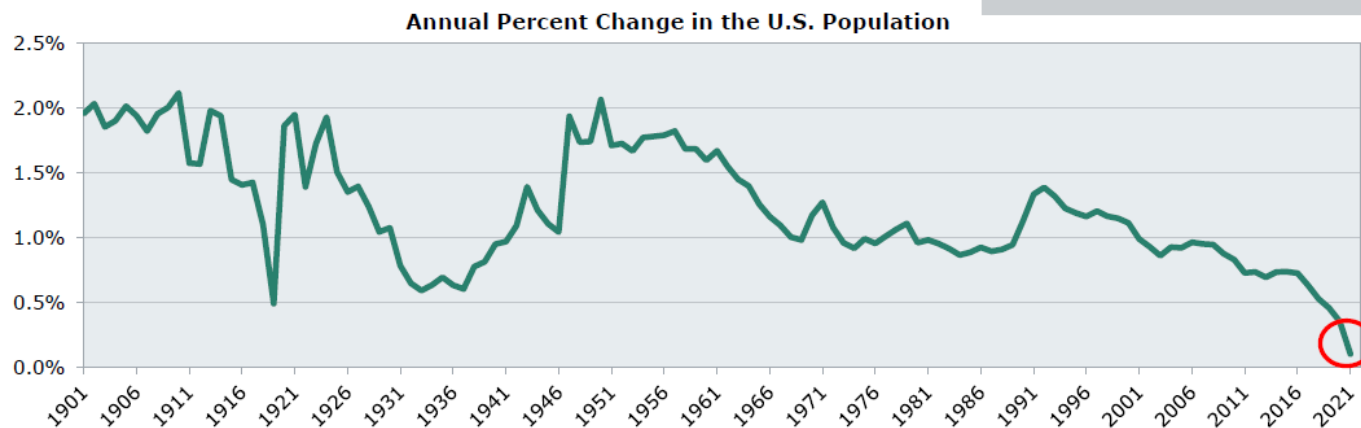
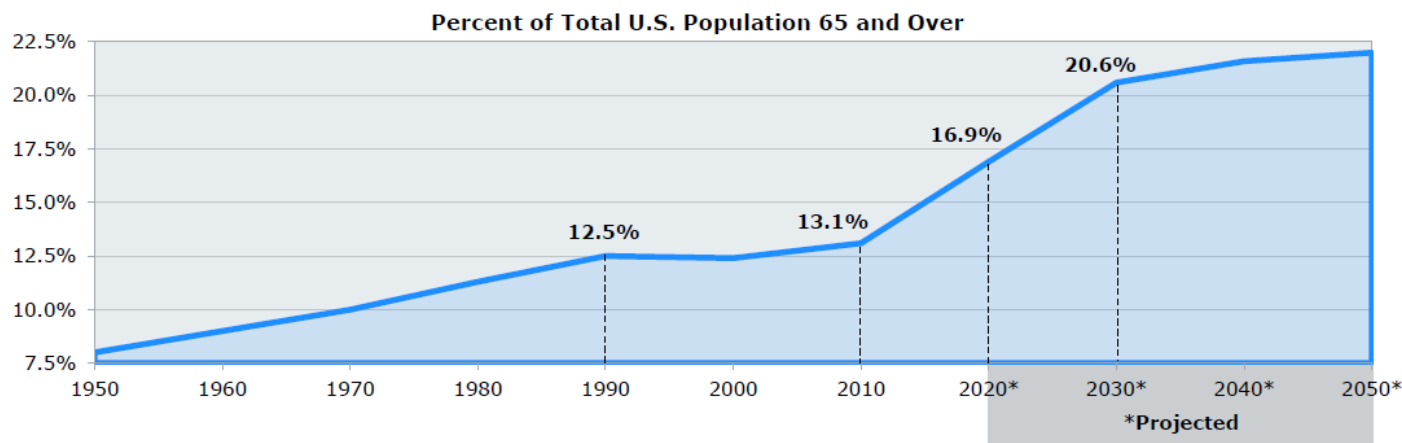


Source: J.P. Morgan, Barclays
Data as of: 12/31/21 (Next Release: 6/30/22)

Secular Forces Still at Play

Our Population Is Aging; Growth Has Stalled

By 2030, One in Five Americans Will be At Least 65 Years Old



Note: 1917-1919 population includes U.S. Armed Forces overseas.
Source: Statista, U.S. Census Bureau, Federal Reserve Bank of St. Louis
Data as of: 12/31/21

Equities

Market returns YTD

WEEK ENDING 6/17/2022 (CUMULATIVE TOTAL RETURNS)

Equities ¹		Week		YTD		1-Year
S&P 500	▼	-5.75%	▼	-22.3%	▼	-11.7%
DJIA	▼	-4.73%	▼	-16.9%	▼	-9.9%
NASDAQ	▼	-4.76%	▼	-30.7%	▼	-23.2%
Russell 2000	▼	-7.43%	▼	-25.4%	▼	-26.3%
Foreign Stocks	▼	-5.73%	▼	-20.3%	▼	-19.9%
Emerging Markets	▼	-4.65%	▼	-17.5%	▼	-24.3%

Top Three S&P 500 Equity Sectors¹

YTD

Energy	▲	34.0%
Utilities	▼	-8.7%
Consumer Staples	▼	-10.5%

Bottom Three S&P 500 Equity Sectors¹

YTD

Consumer Discretionary	▼	-33.6%
Communication Services	▼	-31.2%
Information Technology	▼	-28.5%

Market headlines

Mortgage rates rise, topping 6%

Freddie Mac says that rates on 30 year fixed mortgages are up on growing concerns about inflation.

 CNN Money

Global Fears of a Recession Grow

The New York Times

Oil Prices Take a Nerve-Rattling Jump Past \$138

The New York Times

Gas price hits record high

DAILY TIMES

US Food Inflation at Highest Level in 17 Years

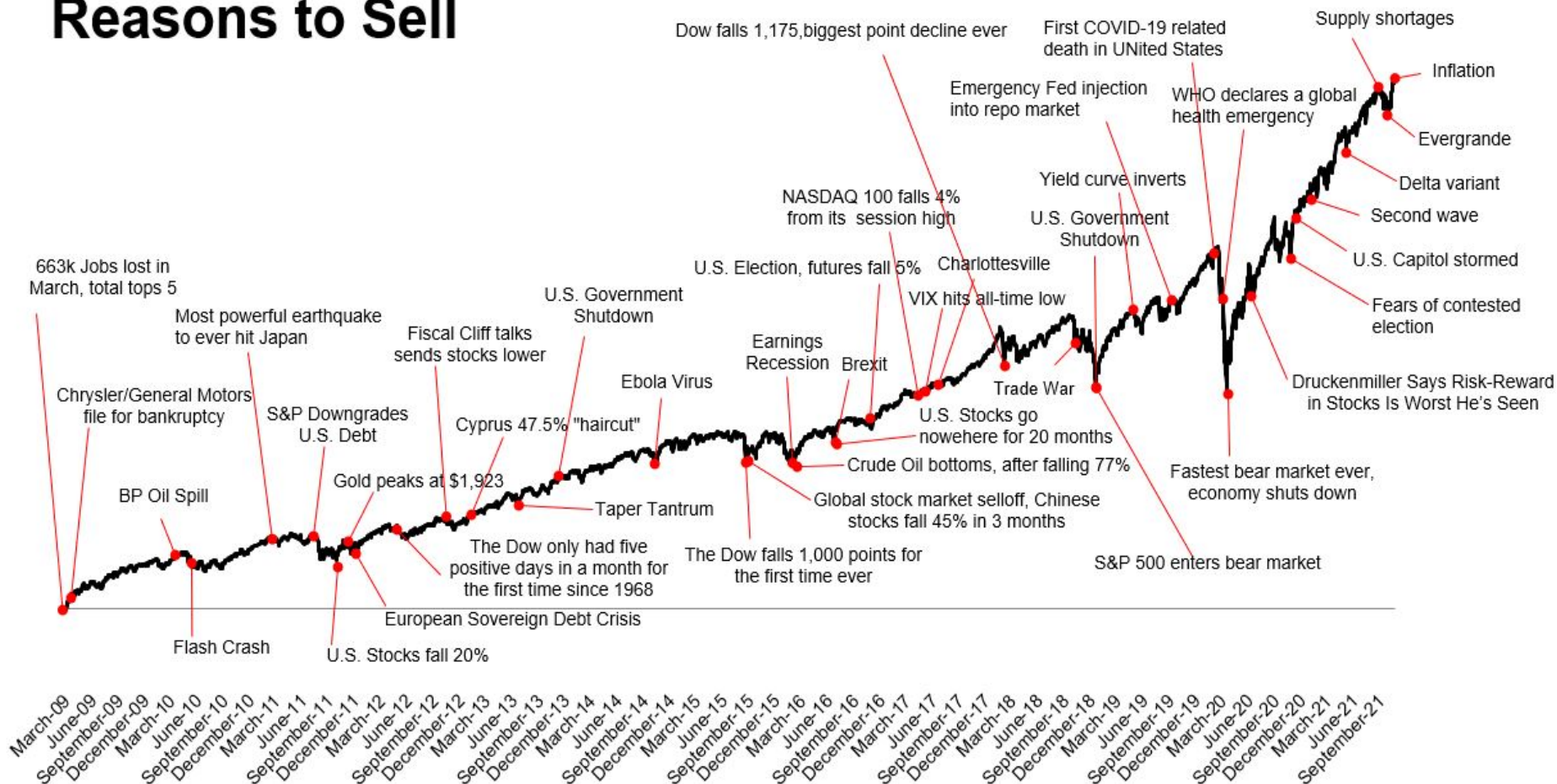
INDEPENDENT GLOBAL NEWS

Wheat prices hit record high

 The Christian Science
MONITOR

S&P 500 performance ('09 – '21)

Reasons to Sell

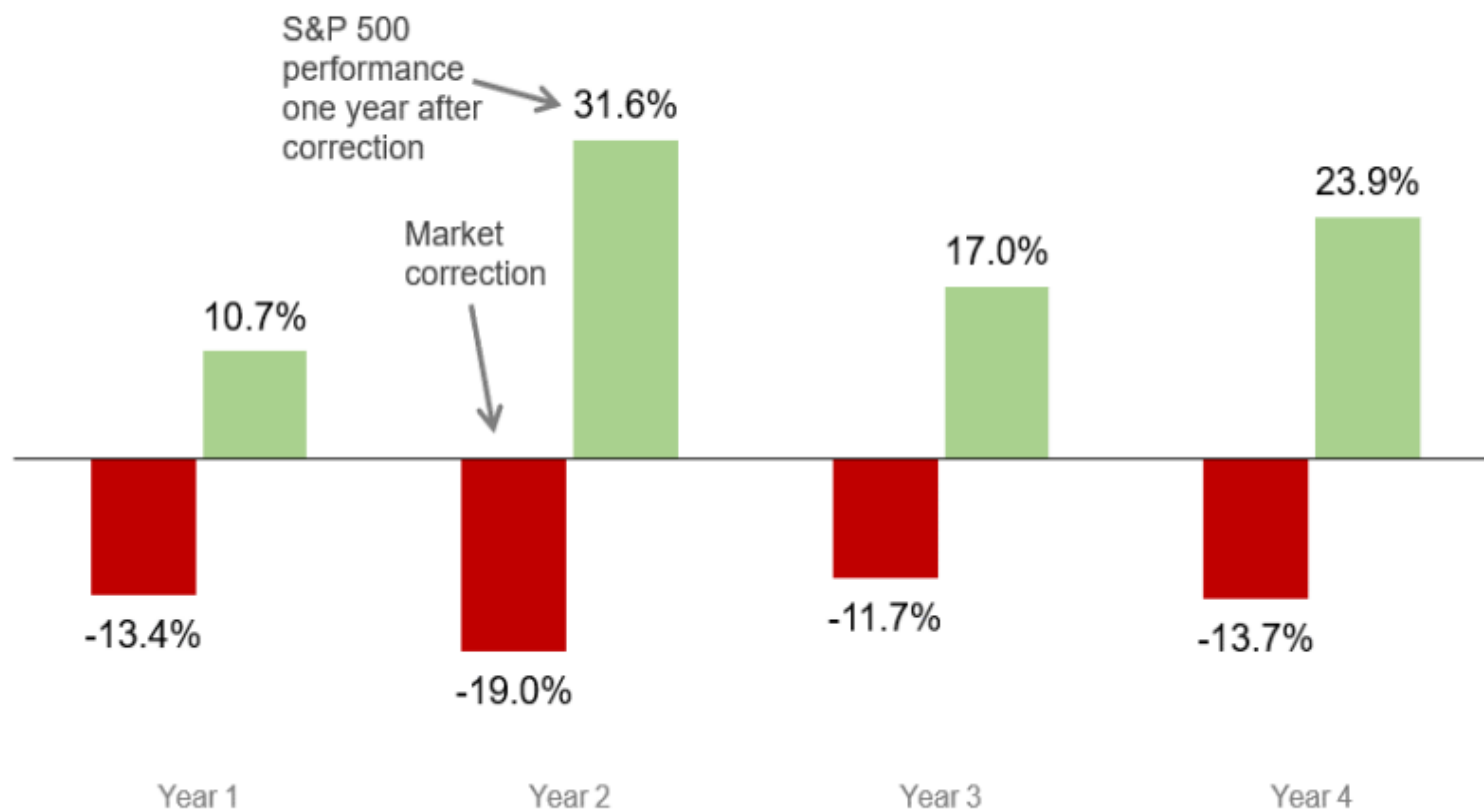


Data Source: S&P 500 Total Return, YCharts, Ritholtz Wealth Management

Midterm elections

The market has always bounced back

By presidential cycle
(1962-2020)



Bear markets are normal

Bear Markets Have Been Common

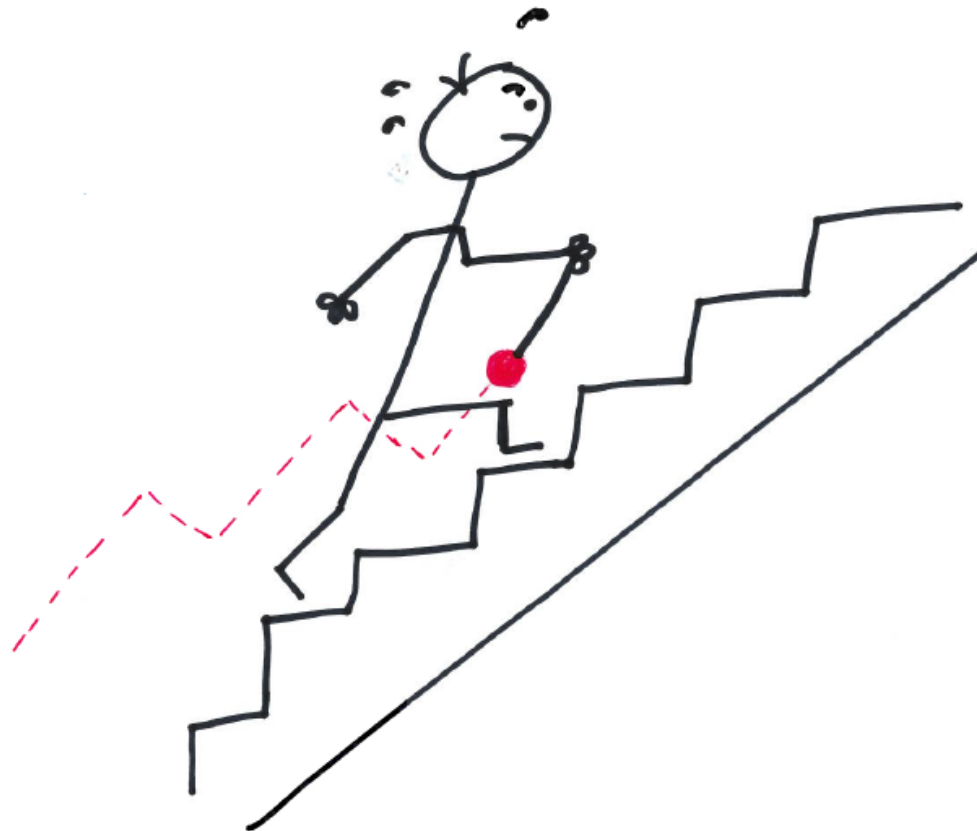
S&P 500 Index declines of 20% or more, 1929–2021

Start and End Date	% Price Decline	Length in Days
9/7/1929 - 11/13/1929	-44.67	67
4/10/1930 - 12/16/1930	-44.29	250
2/24/1931 - 6/2/1931	-32.86	98
6/27/1931 - 10/5/1931	-43.10	100
11/9/1931 - 6/1/1932	-61.81	205
9/7/1932 - 2/27/1933	-40.60	173
7/18/1933 - 10/21/1933	-29.75	95
2/6/1934 - 3/14/1935	-31.81	401
3/6/1937 - 3/31/1938	-54.50	390
11/9/1938 - 4/8/1939	-26.18	150
10/25/1939 - 6/10/1940	-31.95	229
11/9/1940 - 4/28/1942	-34.47	535
5/29/1946 - 5/17/1947	-28.78	353
6/15/1948 - 6/13/1949	-20.57	363
8/2/1956 - 10/22/1957	-21.63	446
12/12/1961 - 6/26/1962	-27.97	196
2/9/1966 - 10/7/1966	-22.18	240
11/29/1968 - 5/26/1970	-36.06	543
1/11/1973 - 10/3/1974	-48.20	630
11/28/1980 - 8/12/1982	-27.11	622
8/25/1987 - 12/4/1987	-33.51	101
3/24/2000 - 9/21/2001	-36.77	546
1/4/2002 - 10/9/2002	-33.75	278
10/9/2007 - 11/20/2008	-51.93	408
1/6/2009 - 3/9/2009	-27.62	62
2/19/2020 - 3/23/2020	-33.92	33
Average	-35.62	289

Past performance does not guarantee future results. Investors cannot directly invest in an index. As of 12/15/21. Source: Ned Davis Research, 12/21.

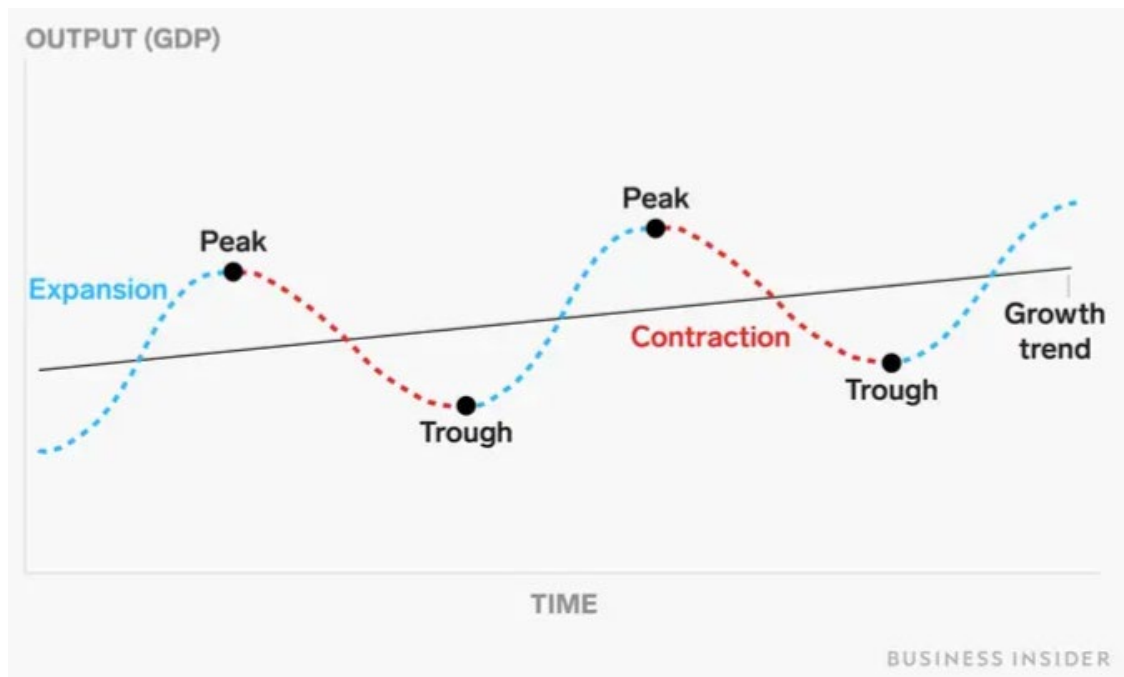
Outlook

The Yo-Yo and the Stairs



Despite various drawdowns, the long-term stock market trend has historically been upward

Business Cycle Patterns



Expansions: business production & profit growth, unemployment low, consumer demand high, inflationary pressures low, stock market strong

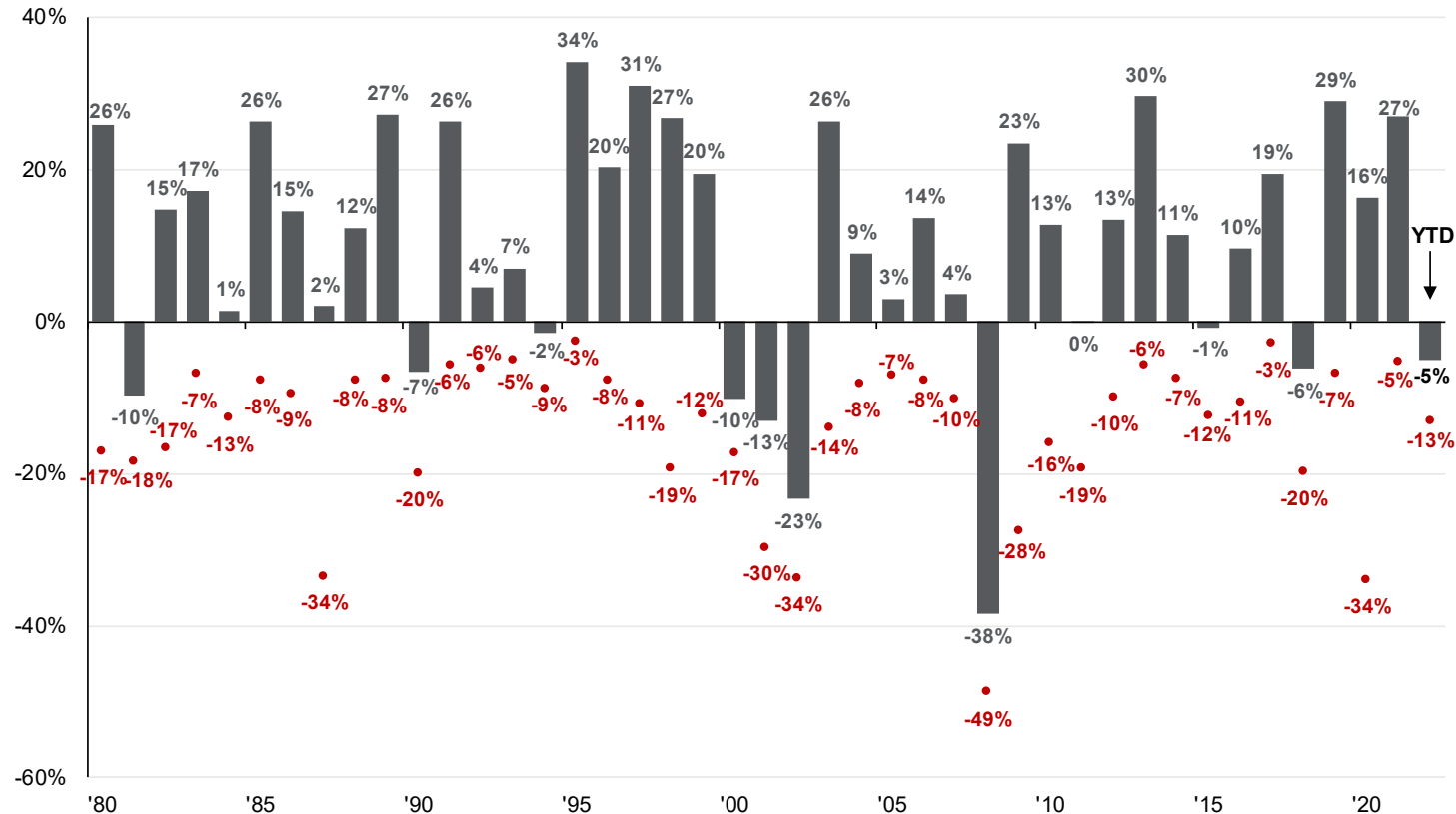
Contractions: businesses cut back activities, GDP growth slows, investor sentiment sours, cost of goods have risen

Long-term trends are a series of excesses & corrections producing a consistent growth trajectory

Real-life Yo-Yoing of the Markets

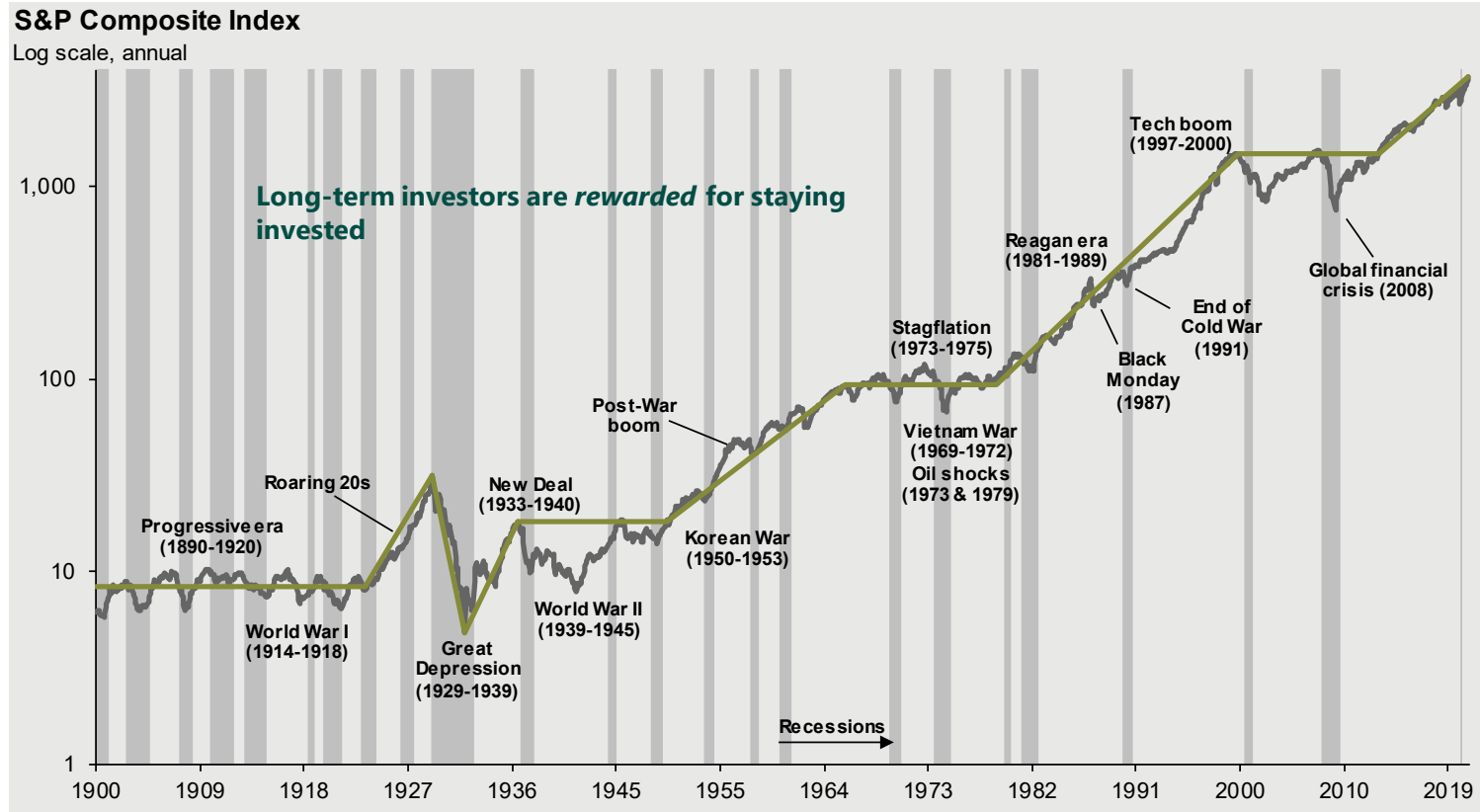
S&P intra-year declines vs. calendar year returns

Despite average intra-year drops of 14.0%, annual returns were positive 32 of 42 years



Sources: Factset, Standard & Poors, J.P. Morgan Asset Management. Returns based on price index only, dividends not included. Intra-year drops refer to the largest drops from peak to trough during the year. Average annual return from 1980-2020 was 9.0%. Data as of 3/31/22.

Ascending the Real-life Stairs



Sources: FactSet, NBER, Robert Shiller, J.P. Morgan Asset Management. Data shown in log scale to illustrate long-term index patterns. Data as of 12/31/20.

Q&A