

Economic and Market Overview

June 2022



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WEALTH ADVISORS



WILBANKS SMITH & THOMAS
Asset Management, LLC

Surging Inflation, War in Ukraine, Fed Policy Shift Take Center Stage

- Strongest inflation in 40 years – April CPI 8.5%
- Fed takes aggressive tone with inflation stubbornly high
- Russian invasion of Ukraine opens wide range of scenarios
- Global growth still strong, but vulnerable – recession risk rising
- COVID still a factor

Equities: Resilient In First Quarter, Increasingly Volatile in April and May

- Buyers stepped in after double-digit declines in March
- Valuations are more attractive (assuming earnings hold up)
- U.S. value stocks hold up best

Bonds: Fixed Income Investors Endure Worst Quarter in 40 years

- Already stubborn inflation further fueled by commodity price surge
- Yield curve inverts as risk of policy error increases
- Short duration portfolio positioning protects capital as yields rise

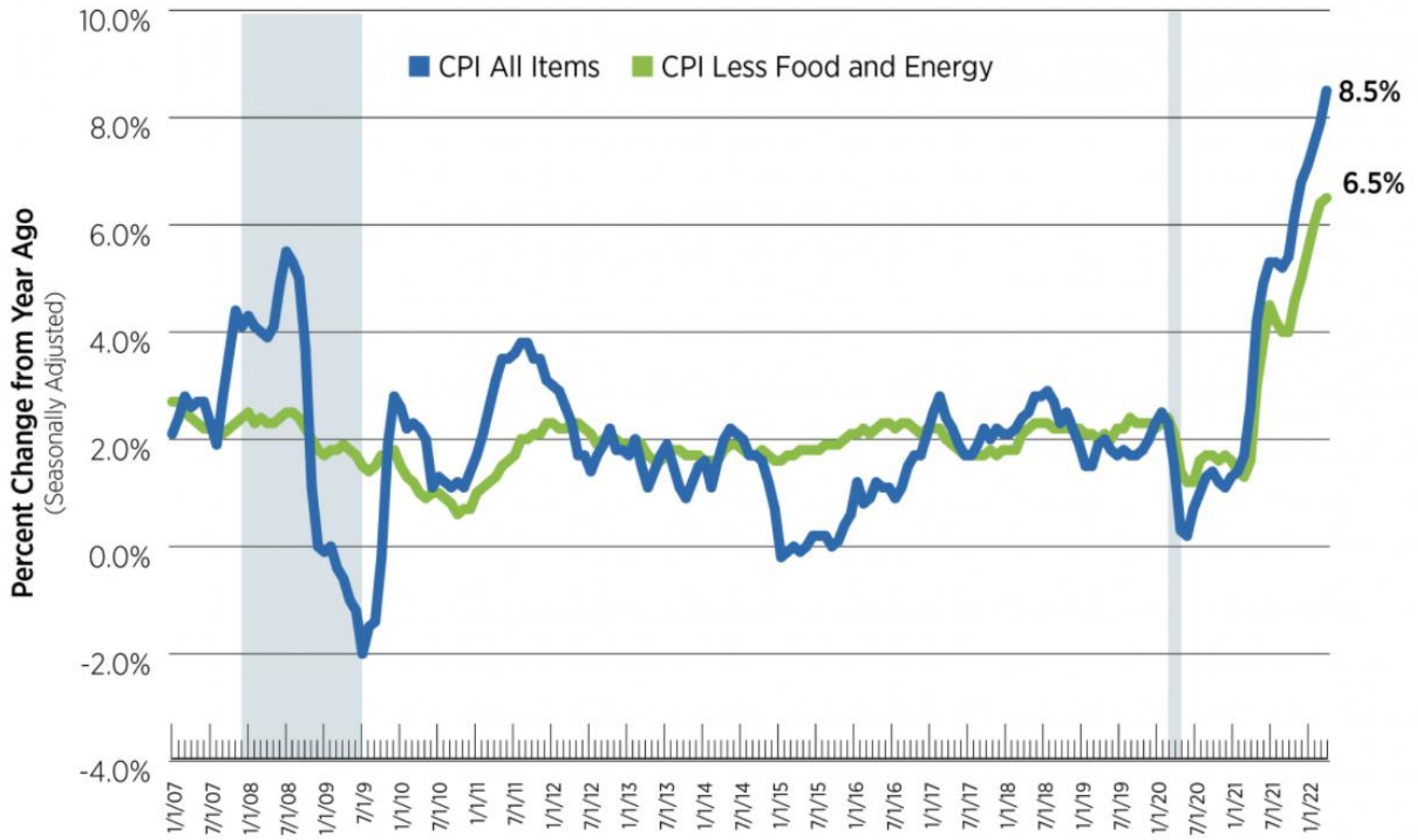
Market Returns Summary – March 31, 2022

Equity Index	1 Week	MTD	1 Month	QTD	YTD	1 Year	3 Year	5 Year
Dow Jones Industrial Average	0.9	2.5	2.5	-4.1	-4.1	7.1	12.5	13.4
S&P 500 Index	1.7	3.7	3.7	-4.6	-4.6	15.6	18.8	15.9
Large Cap Stocks (Russell 1000)	1.7	3.4	3.4	-5.1	-5.1	13.2	18.6	15.8
Growth	2.3	3.9	3.9	-9.0	-9.0	14.9	23.5	20.8
Value	1.0	2.8	2.8	-0.7	-0.7	11.6	13.0	10.3
Small Cap Stocks (Russell 2000)	0.9	1.2	1.2	-7.5	-7.5	-5.8	11.7	9.7
Growth	1.0	0.5	0.5	-12.6	-12.6	-14.3	9.8	10.3
Value	0.8	2.0	2.0	-2.4	-2.4	3.3	12.7	8.5
MSCI All Country World Index	1.3	2.2	2.2	-5.3	-5.3	7.7	14.2	12.2
International Stocks (MSCI EAFE)	1.0	0.8	0.8	-5.8	-5.8	1.6	8.2	7.2
Growth	1.0	0.7	0.7	-11.9	-11.9	-1.2	10.1	9.3
Value	1.0	0.8	0.8	0.5	0.5	4.2	5.8	4.8
Emerging Markets Stocks (MSCI EM)	0.2	-2.2	-2.2	-6.9	-6.9	-11.0	5.3	6.3
Fixed Income Index/ETF	1 Week	MTD	1 Month	QTD	YTD	1 Year	3 Year	5 Year
Barclays U.S. Aggregate Bond Index	-0.1	-2.8	-2.8	-5.9	-5.9	-4.1	1.7	2.1
iShares 1-3 Year Treasury Bond ETF	-0.3	-1.4	-1.4	-2.5	-2.5	-3.1	0.7	0.9
iShares 3-7 Year Treasury Bond ETF	-0.5	-3.2	-3.2	-5.0	-5.0	-5.3	0.9	1.3
iShares 20+ Year Treasury Bond ETF	0.4	-5.4	-5.4	-10.6	-10.6	-1.0	3.2	3.9
iShares TIPS Bond ETF	-1.6	-1.9	-1.9	-3.1	-3.1	4.2	6.0	4.2
iShares National AMT-Free Municipal Bond ETF	-0.4	-2.6	-2.6	-5.4	-5.4	-3.8	1.6	2.4
SPDR Barclays Intermediate Term Corporate Bond ETF	0.1	-2.5	-2.5	-5.3	-5.3	-4.3	2.2	2.5
SPDR Barclays High Yield Bond ETF	0.8	-1.3	-1.3	-4.9	-4.9	-1.7	3.3	3.7
PowerShares Senior Loan ETF	0.7	0.3	0.3	-0.7	-0.7	1.4	2.5	2.6
SPDR Barclays International Treasury Bond ETF	-0.3	-4.2	-4.2	-7.8	-7.8	-9.8	-1.3	0.5
iShares JPM USD Emerging Market Bond ETF	2.1	-1.1	-1.1	-9.7	-9.7	-6.6	0.2	1.5

Market Returns Summary – May 31, 2022

Equity Index	1 Week	MTD	1 Month	QTD	YTD	1 Year	3 Year	5 Year
Dow Jones Industrial Average	3.5	0.3	0.3	-4.5	-8.4	-2.6	12.3	11.8
S&P 500 Index	4.0	0.2	0.2	-8.6	-12.8	-0.3	16.4	13.3
Large Cap Stocks (Russell 1000)	4.0	-0.2	-0.2	-9.1	-13.7	-2.7	16.0	13.1
Growth	4.8	-2.3	-2.3	-14.1	-21.9	-6.2	18.3	16.1
Value	3.2	1.9	1.9	-3.8	-4.5	0.9	12.7	9.5
Small Cap Stocks (Russell 2000)	4.0	0.2	0.2	-9.8	-16.6	-16.9	9.7	7.7
Growth	3.8	-1.9	-1.9	-13.9	-24.8	-25.6	6.2	6.9
Value	4.2	1.9	1.9	-6.0	-8.2	-7.6	12.2	7.8
MSCI All Country World Index	3.4	0.2	0.2	-7.8	-12.6	-6.3	12.2	9.5
International Stocks (MSCI EAFE)	1.7	0.9	0.9	-5.5	-11.0	-9.9	6.9	4.7
Growth	2.2	-1.1	-1.1	-8.9	-19.7	-16.3	6.9	5.6
Value	1.3	2.7	2.7	-2.4	-1.9	-3.7	6.2	3.3
Emerging Markets Stocks (MSCI EM)	4.4	0.5	0.5	-5.1	-11.7	-19.5	5.3	4.2
Fixed Income Index/ETF	1 Week	MTD	1 Month	QTD	YTD	1 Year	3 Year	5 Year
Barclays U.S. Aggregate Bond Index	0.7	0.6	0.6	-3.2	-8.9	-8.2	0.0	1.2
iShares 1-3 Year Treasury Bond ETF	0.2	0.6	0.6	0.1	-2.4	-3.1	0.4	0.9
iShares 3-7 Year Treasury Bond ETF	0.3	0.7	0.7	-1.3	-6.2	-7.3	-0.1	0.8
iShares 20+ Year Treasury Bond ETF	0.0	-2.3	-2.3	-11.5	-20.9	-14.4	-2.4	0.8
iShares TIPS Bond ETF	0.6	-1.0	-1.0	-3.1	-6.1	-1.5	4.2	3.5
iShares National AMT-Free Municipal Bond ETF	2.1	1.5	1.5	-1.1	-6.5	-5.9	0.6	1.7
SPDR Barclays Intermediate Term Corporate Bond ETF	0.9	0.9	0.9	-2.0	-7.2	-7.3	1.0	1.8
SPDR Barclays High Yield Bond ETF	3.8	1.5	1.5	-3.0	-7.7	-5.4	2.5	2.6
PowerShares Senior Loan ETF	1.2	-2.0	-2.0	-2.7	-3.4	-2.1	1.3	1.9
SPDR Barclays International Treasury Bond ETF	0.1	0.5	0.5	-6.5	-13.7	-17.9	-3.6	-1.5
iShares JPM USD Emerging Market Bond ETF	1.7	0.8	0.8	-5.9	-15.1	-15.0	-2.0	-0.2

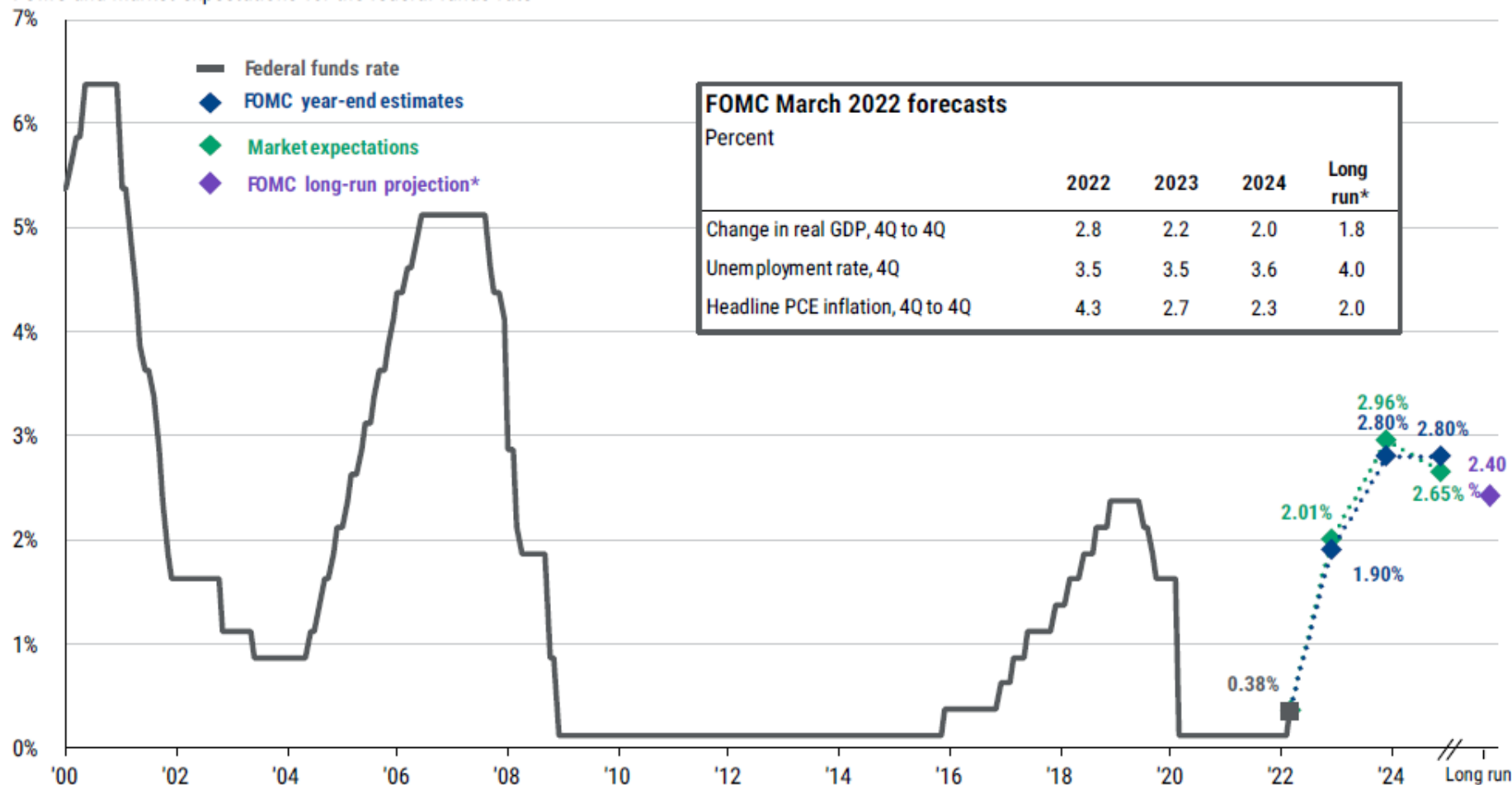
Inflation Is Key Variable – Not Looking Transitory



Fed Needs To Thread The Needle On Pace Of Tightening

Federal funds rate expectations

FOMC and market expectations for the federal funds rate



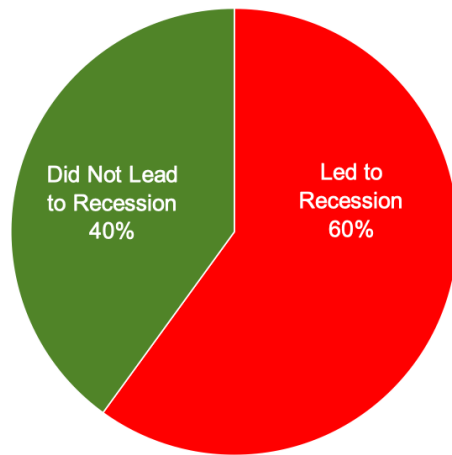
Source: Bloomberg, FactSet, Federal Reserve, J.P. Morgan Asset Management.

Market expectations are based off of the respective Federal Funds Futures contracts for December expiry. *Long-run projections are the rates of growth, unemployment and inflation to which a policymaker expects the economy to converge over the next five to six years in absence of further shocks and under appropriate monetary policy. Forecasts are not a reliable indicator of future performance. Forecasts, projections and other forward-looking statements are based upon current beliefs and expectations. They are for illustrative purposes only and serve as an indication of what may occur. Given the inherent uncertainties and risks associated with forecasts, projections or other forward-looking statements, actual events, results or performance may differ materially from those reflected or contemplated.

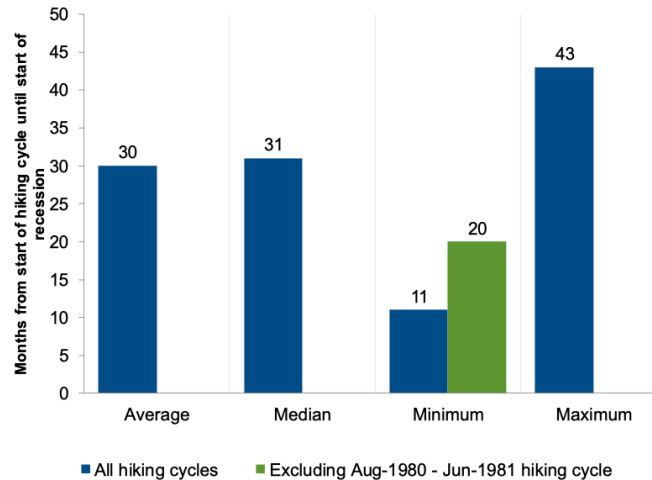
Guide to the Markets – U.S. Data areas of March 31, 2022.

Not Every Fed Tightening Cycle Ends In Recession

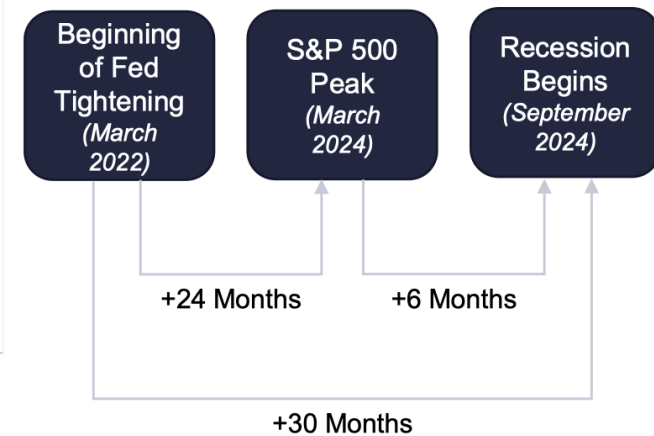
1. Percentages of Fed Tightening Cycles that Led to or Did not Lead to a Recession



2. Time From the Start of a Tightening Cycle to the Start of a Recession



3. Sequence of Federal Reserve Tightening, S&P 500 Peaks and Recessions¹



- **Not Every Hiking Cycle Leads to Recession:** The Federal Reserve began hiking interest rates in March. While investors are concerned this could lead to a recession, note that 6 (or 40%) of the past 15 tightening cycles in the post-WWII period did not lead to recession.
- **Even Hiking Cycles That Led to Recession Took Time:** For the 9 hiking cycles that led to a recession, it took about 30 months from the first hike to the onset of recession and 24 months until the peak of the S&P 500.

Diversification Was Not Rewarded In 1Q2022

QUARTERS WITH NEGATIVE STOCK RETURNS SINCE 1976

50

Negative
quarters for
stocks

47

Quarters
bonds
outperformed

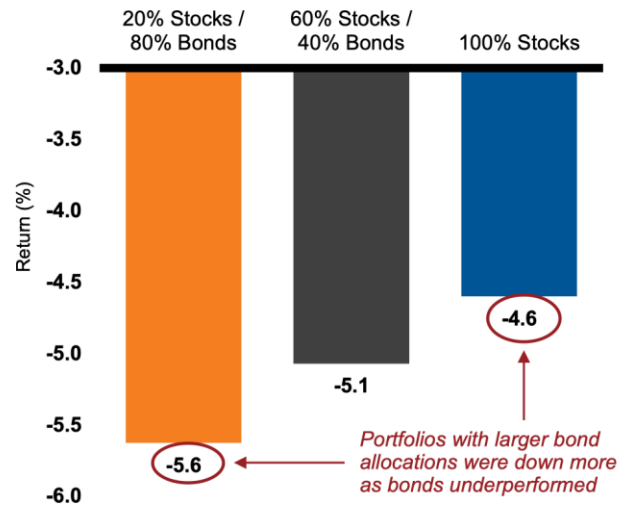
7.6%

Average
bond excess
return

-1.3%

Bond
underperformance
in 1Q

IMPLICATION FOR PORTFOLIOS 1Q 2022 RETURNS



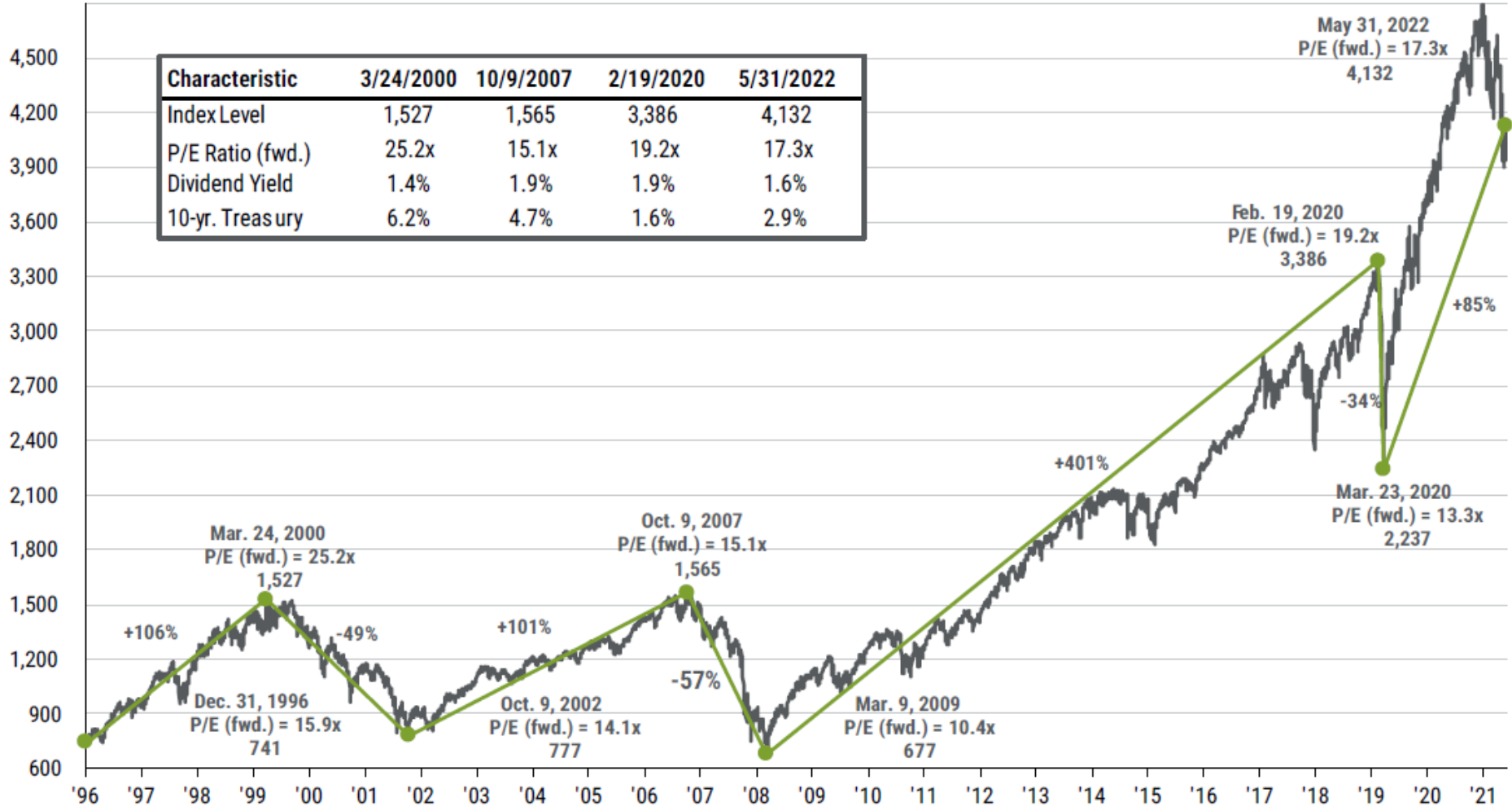
- Stocks and bonds historically have had complementary performance patterns
- For just the 3rd time since 1976 bonds declined more than stocks, uncharacteristically lowering portfolio returns
- Investors should not lose focus on the role of bonds in a portfolio to help protect from extreme market events

Source: Morningstar. Stocks: S&P 500 Index; Bonds: Bloomberg U.S. Aggregate Bond Index; Index returns represent past performance, are not a guarantee of future performance, and are not indicative of any specific investment. Indexes are unmanaged and cannot be invested in directly.

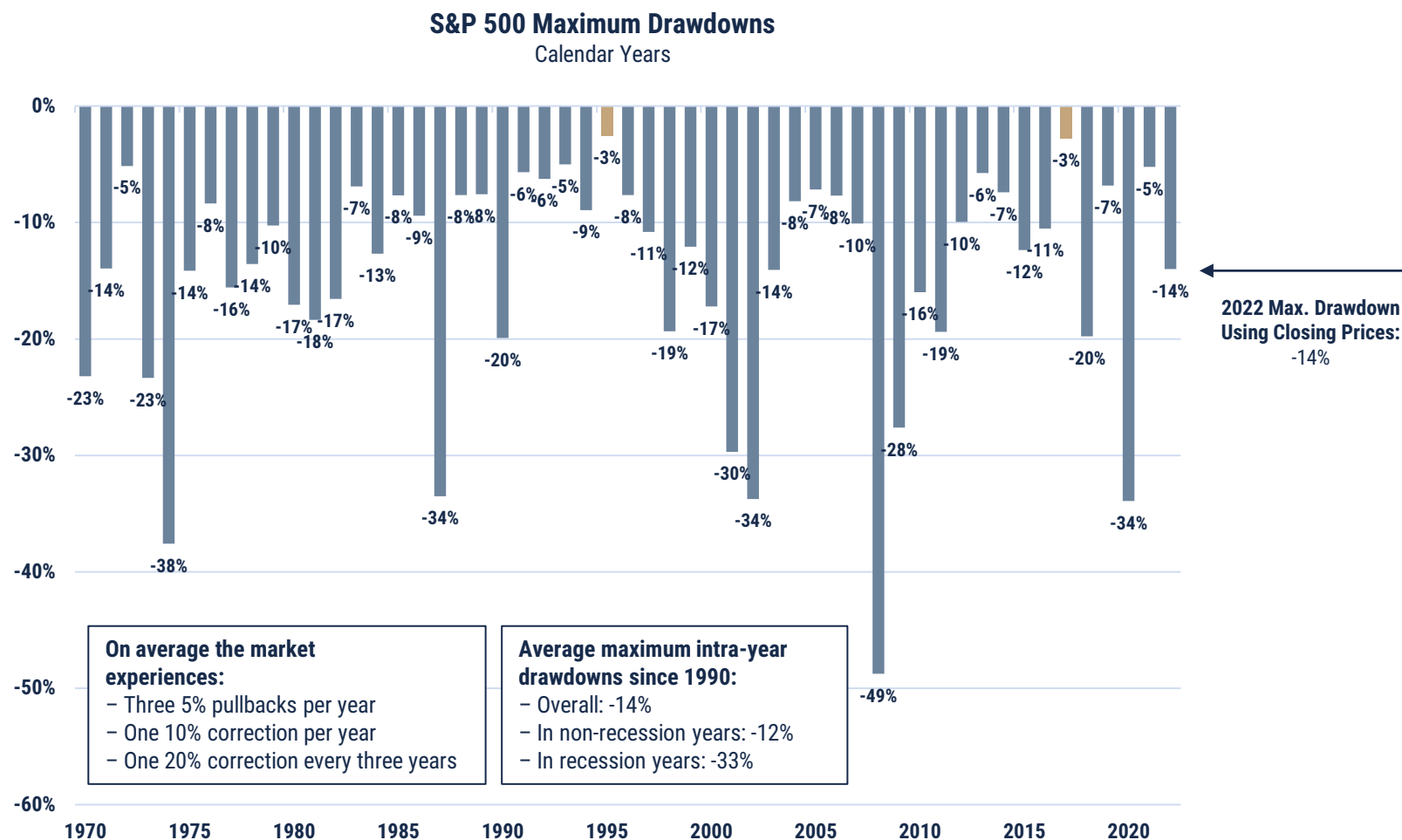
Stocks Are Facing Turbulence in 2022

S&P 500 Price Index

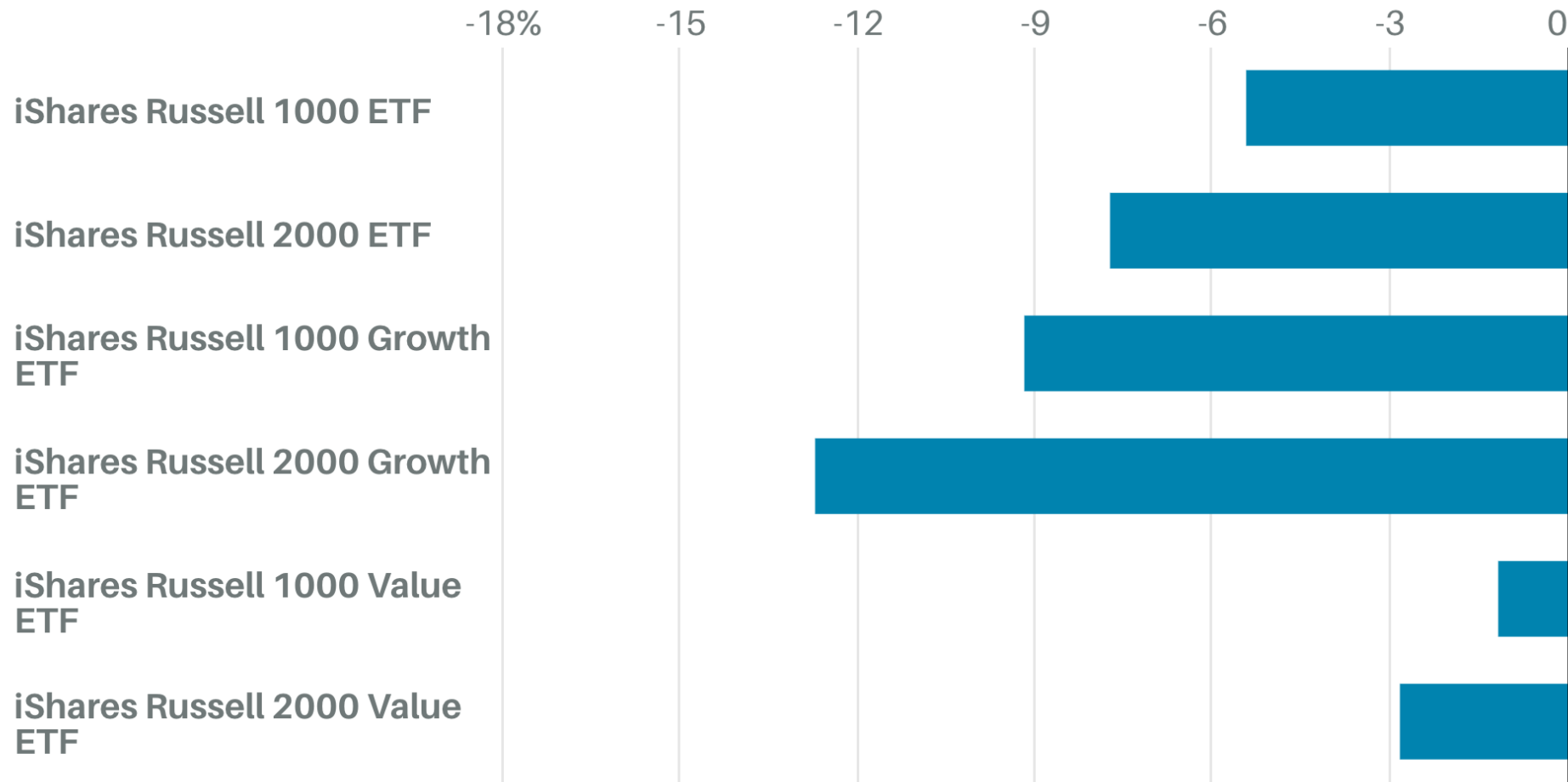
Characteristic	3/24/2000	10/9/2007	2/19/2020	5/31/2022
Index Level	1,527	1,565	3,386	4,132
P/E Ratio (fwd.)	25.2x	15.1x	19.2x	17.3x
Dividend Yield	1.4%	1.9%	1.9%	1.6%
10-yr. Treasury	6.2%	4.7%	1.6%	2.9%



2022 Drawdown Remains In The “Normal” Range



Q1 2022 performance



Style: Value Versus Growth Stocks – Reversal Continues In 1Q

Value vs Growth Relative Valuations

Rel. fwd. P/E ratio of Value vs Growth, 1997-present

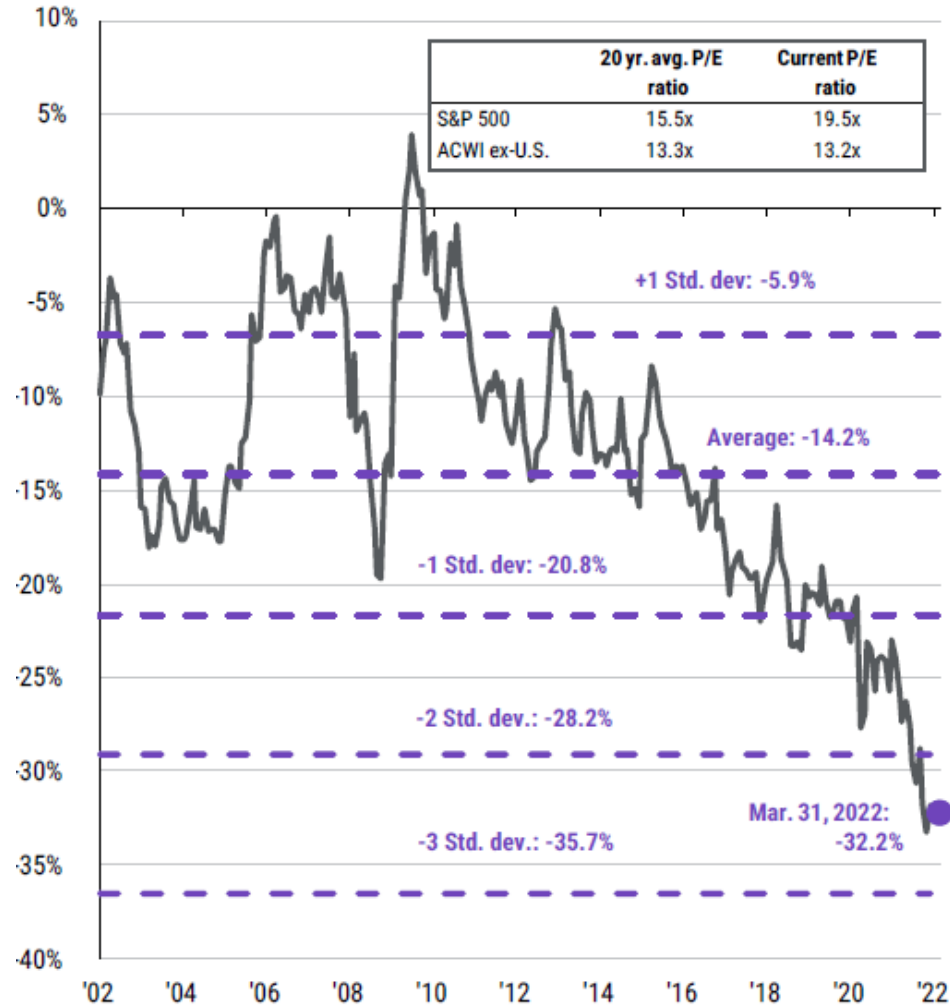


Source: Factset, FTSE Russell, NBER, JP Morgan Asset Management. Growth is represented by the Russell 1000 Growth Index and Value is represented by the Russell 1000 Value Index. *Long-term averages are calculated month since December 1997. **Dividend yield is calculated as the next 12-month consensus dividend divided by most recent price. As of March 31, 2022.

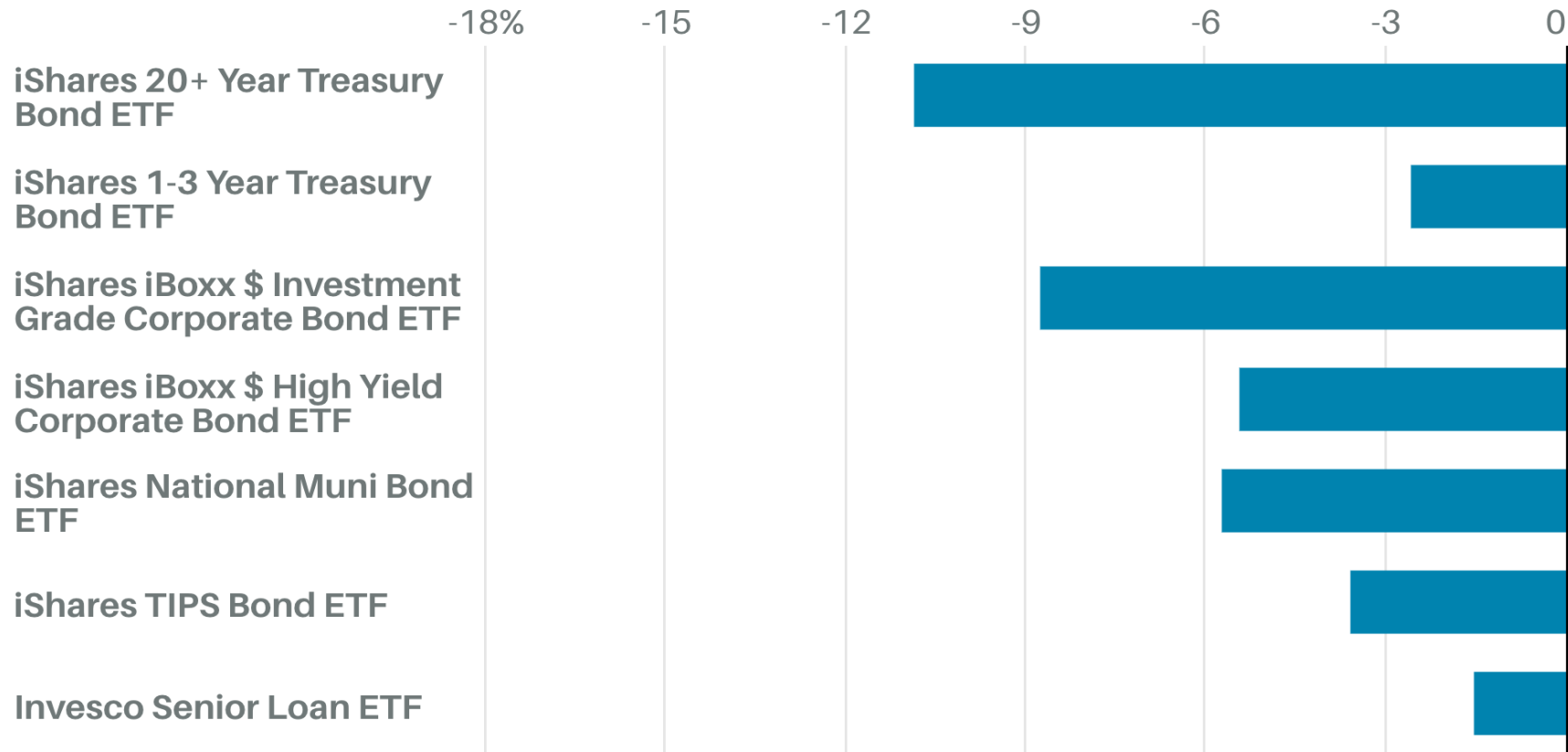
U.S. Stocks Have Enjoyed A Long Run Of Leadership

International: Price-to-earnings discount vs. U.S.

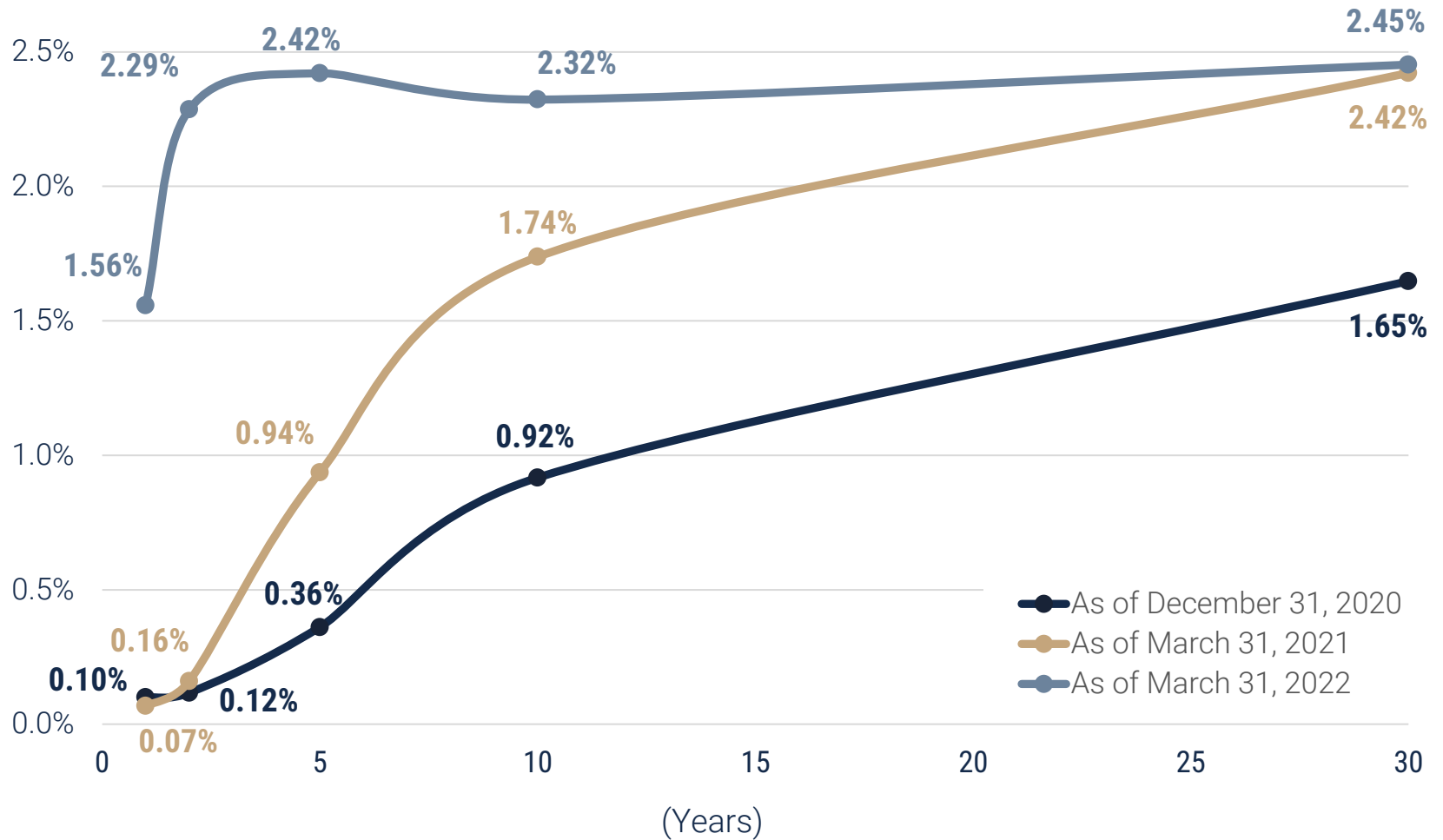
MSCI AC World ex-U.S. vs. S&P 500 Indices, next 12 months



Q1 2022 performance

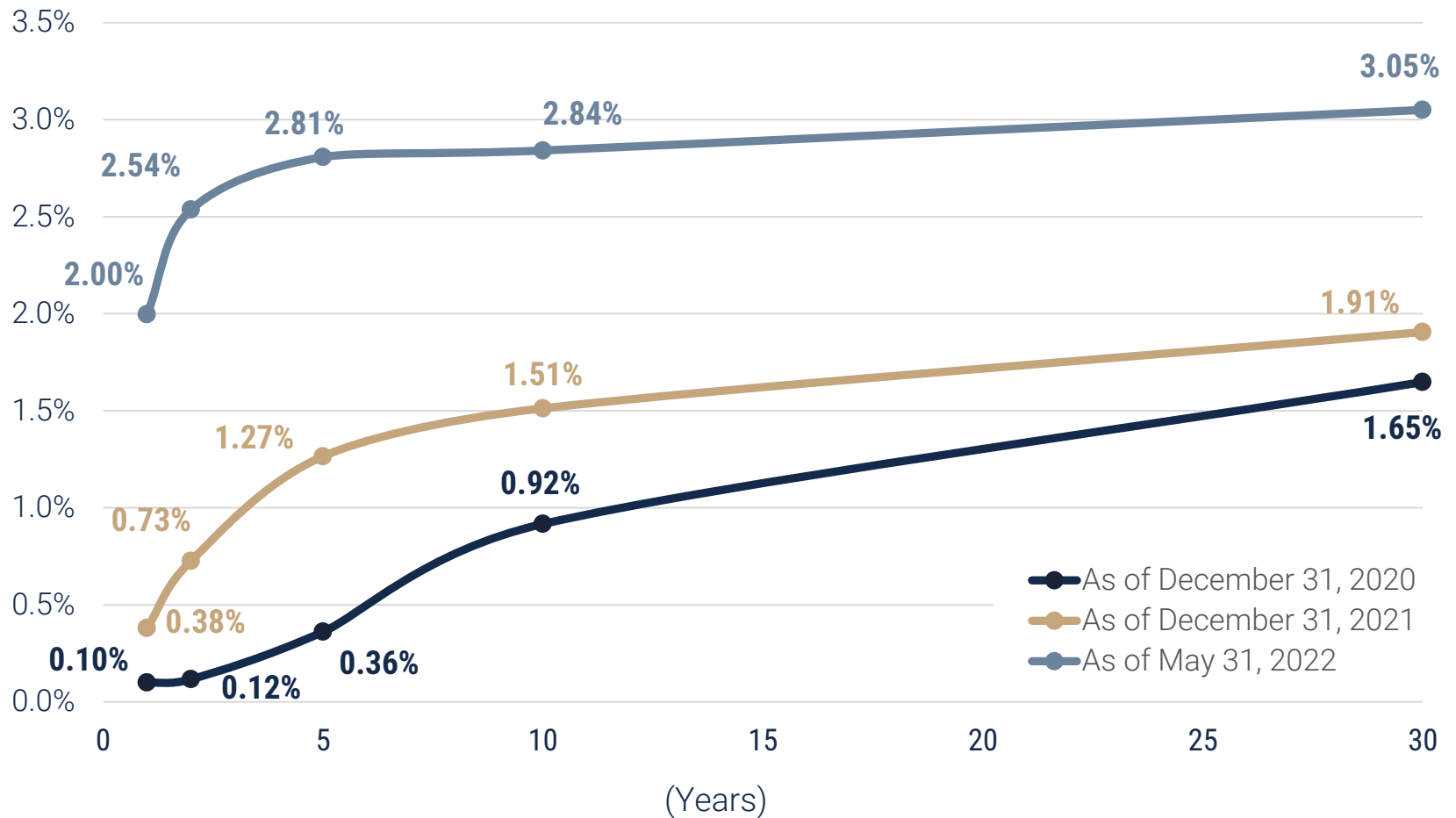


U.S. Treasury Yield Curves



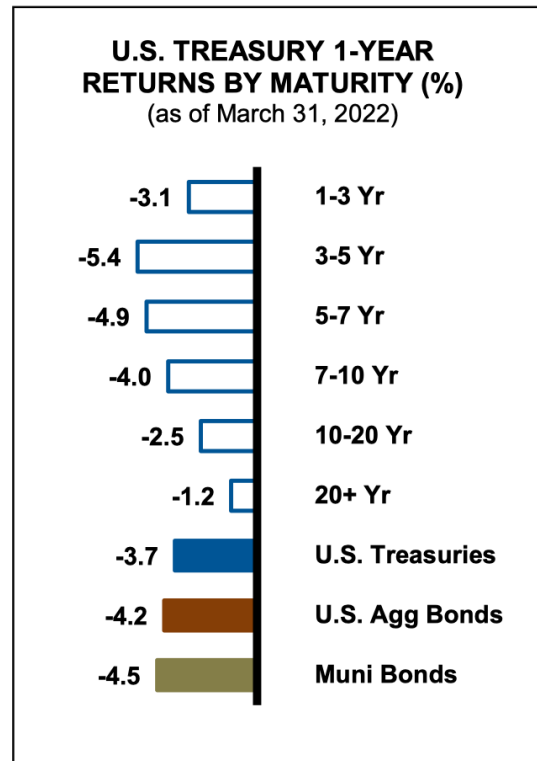
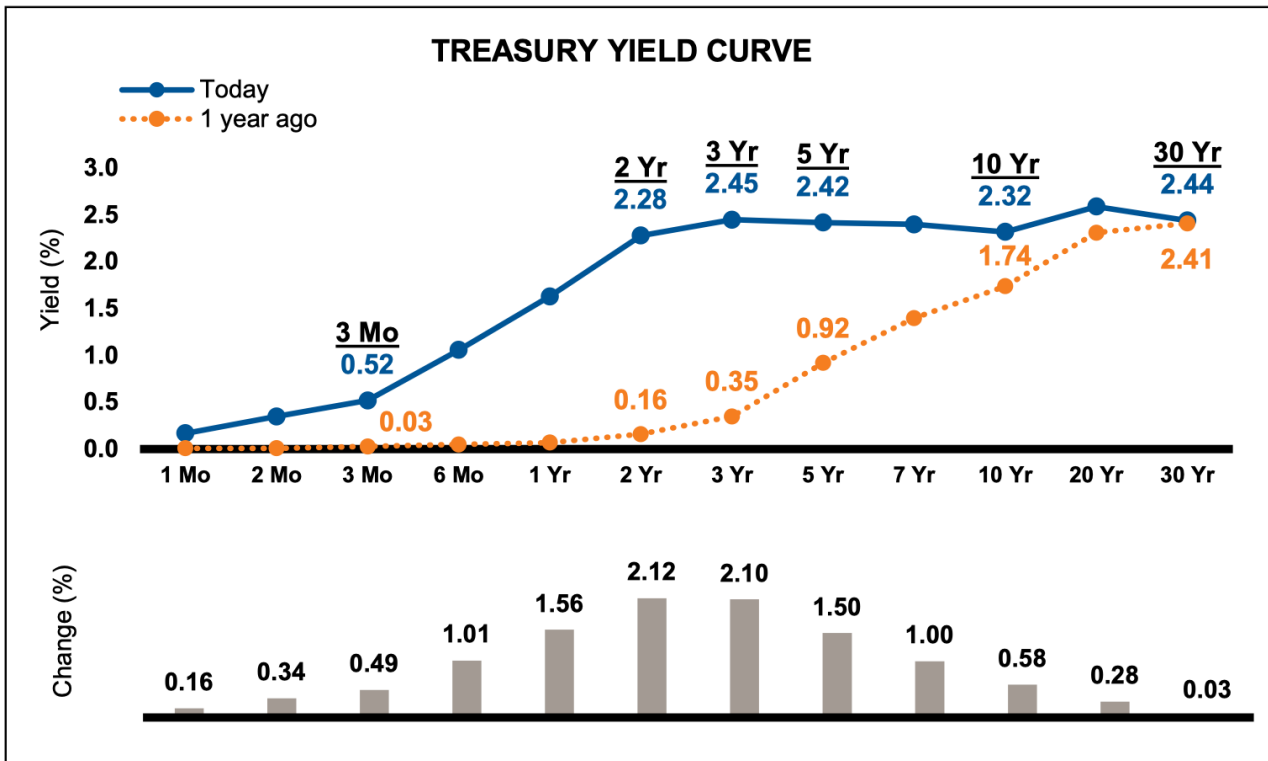
Source: Factset. US Treasury yield curves as of 12/31/2020, 3/31/2021, and 3/31/2022.

U.S. Treasury Yield Curves

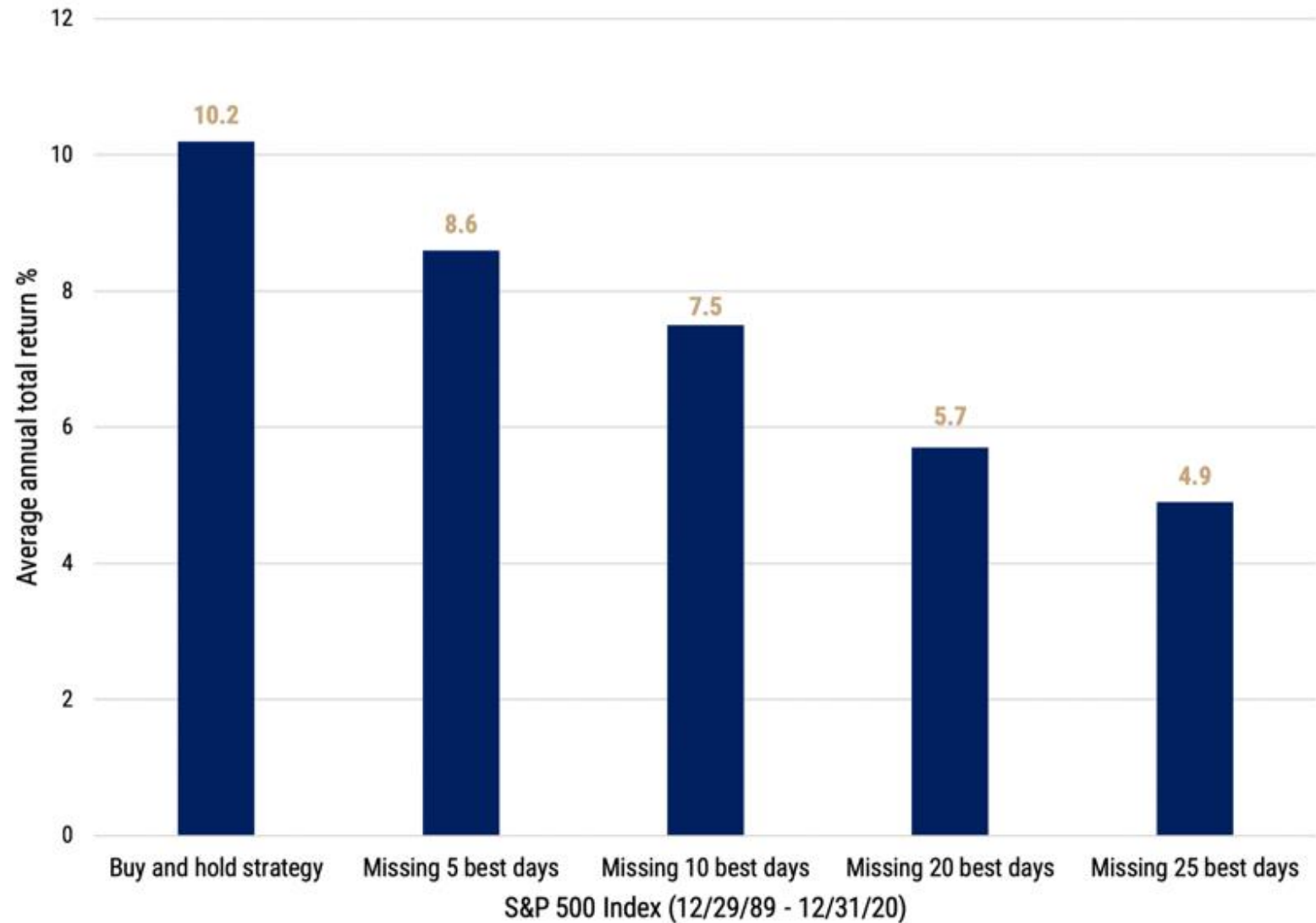


Source: Factset. US Treasury yield curves as of 12/31/2020, 12/31/2021, and 5/31/2022.

Rising Yields and Flat Curve Create Opportunity in 2 – 5 Year Range



As Tempting As it Seems...Market Timing Doesn't Work



Increasingly Cautious On Short-Term Outlook

- Russia/Ukraine war heightens risks
- Higher Inflation
- Fed policy risk
- New COVID variant

Equities Remain Asset Of Choice For Long-Term Growth

- Low yields = TINA
- Valuations still stretched, but improving
- International stocks are relatively inexpensive but subject to political risk

Bonds Still Play A Role In Portfolios, But Structure Matters

- Sell-off creates opportunity in 2-5 year range
- Keeping maturities short - no compensation for additional duration risk
- Continue to overweight credit exposure if economy is healthy

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Barclays US Aggregate Bond Index: Benchmark covering the USD-denominated, investment-grade, fixed-rate, taxable bond market of SEC-registered securities. The index includes bonds from the Treasury, Government-Related, Corporate, MBS, ABS, and CMBS sectors.

Yield to Call is the yield of a bond or note if you were to buy and hold the security until the call date. This yield is valid only if the security is called prior to maturity.

Yield to Maturity is the rate of return anticipated on a bond if it is held until the maturity date.

During the period(s) shown, there were no material market or economic conditions which affected the results portrayed. With the exception of several market corrections during the period(s), the overall market as measured by the S&P 500 was generally rising. If such trends are broken, the clients may experience real capital losses in their managed accounts.

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MSCI EAFE Index: A free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US & Canada. The MSCI EAFE Index consists of the following 22 developed market country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, and the United Kingdom.

MSCI Emerging Markets Index: A free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. The MSCI Emerging Markets Index consists of the following 21 emerging market country indices: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey.

S&P 500 Index: The S&P 500 Index is a market capitalization-weighted index, including reinvestment of dividends and capital gains distributions that is generally considered representative of the U.S. stock market.

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