SJS Investment Services®

APRIL 2022

2022 OUTLOOK Q1

MARKET CORRECTIONS AND MARKET HIGHS

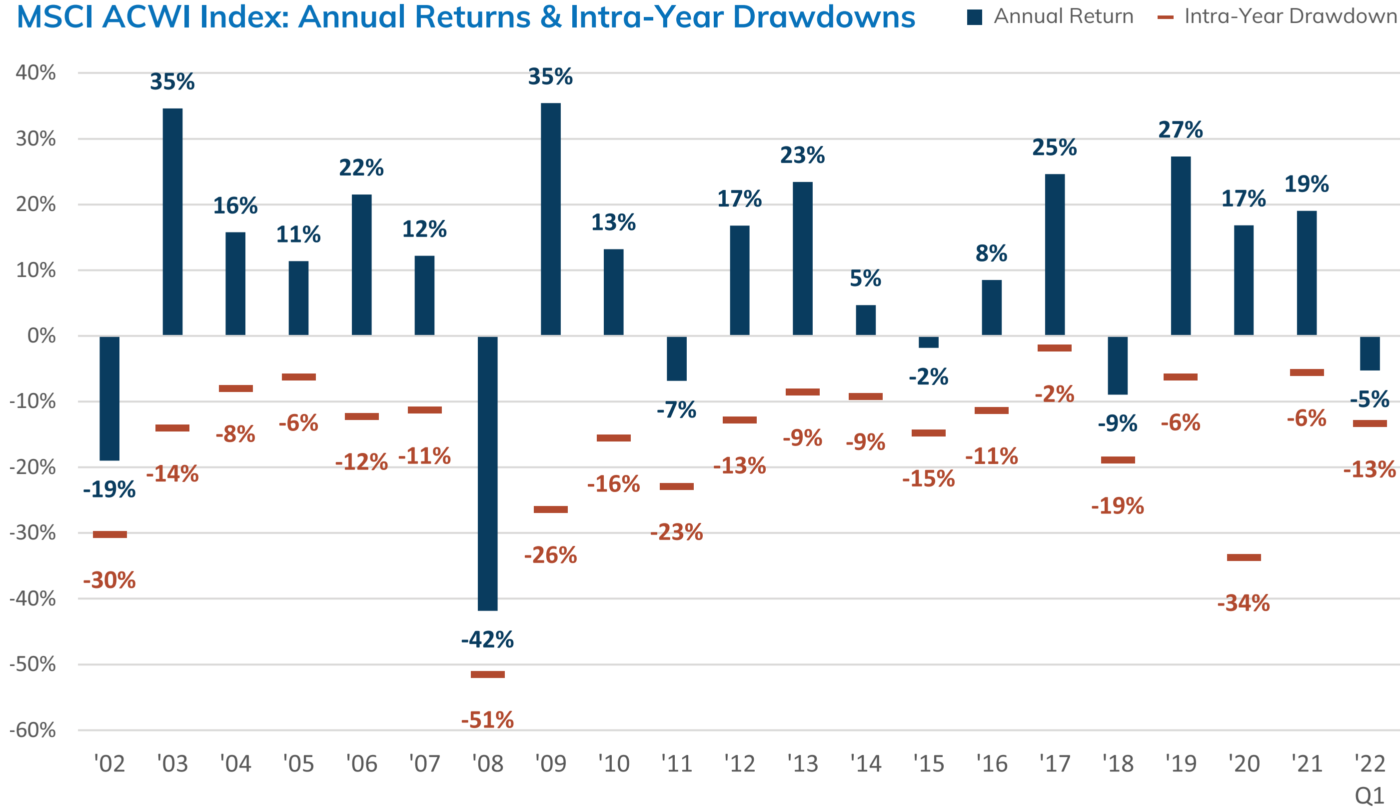
By Chief Investment Officer Tom Kelly, CFA

In 2021, the global stock market (as measured by the MSCI All Country World Index) continued to reach new high after new high, but this year is off to a different start.[1][2] After the slow and steady rise in 2021, the rather opposite slow and steady fall occurred throughout the first quarter of 2022.[1] Though some recovery happened in the last three weeks, market headlines continue to point out all the things to worry about, such as war, inflation, and recession.[1] Challenging times may be ahead, especially with the continued conflict between Russia and Ukraine.

While not diminishing those challenges and the people affected, it may be an opportune time to take a step back for a wider perspective. When looked at as a whole, the stock market can sometimes seem tame and uninteresting during times of lesser volatility, and all fraught with despair during periods of higher volatility and drawdowns. However, the drawdown of 13% so far this year for the global stock market is not uncommon at all, and we often see intra-year drawdowns well into the double digits even when the end-of-year returns end up positive.[2] Over the last 20 years in the global stock market, intra-year drawdowns averaged 16%, yet calendar year returns were positive in 15 out of 20 of those years.[2] A gentle reminder to stay the course.

INSIDE THIS ISSUE

MSCI ACWI Index: Annual Returns & Intra-Year Drawdowns



Source: Morningstar. See Important Disclosure Information.[2]

It is interesting to note that the "market" as a whole often masks the ups and downs of its individual stock components. Within the MSCI All Country World Index, 94% of the nearly 3,000 companies experienced a drawdown of at least -10% during 2021, and about half drew down 25% or more.[2] This in a year when there was lower volatility, limited geopolitical events, and the global stock market as a whole up 19%![2] This suggests the value of broad diversification.

When evaluating the underlying returns, there is often plenty to worry about and the temptation to tinker. We believe that trying to time when to get in and out, or what to buy and sell, represents little more than gambling. MarketPlus Investing®, on the other hand, is a disciplined process, centered around research and evidence, with diversification at the core.

Important Disclosure Information & Sources:

[1] "SJS Weekly Market Update." SJS Investment Services, 2021-2022, sjsinvest.com.

[2] Morningstar. The global stock market is represented by the MSCI ACWI Index (https://www.msci.com/our-solutions/indexes/acwi), which is a free float-adjusted market capitalization weighted index designed to measure the equity market performance of developed and emerging markets. The MSCI ACWI Index consists of 47 country indices comprising 23 developed and 24 emerging market country indices.

THE FED POKED THE BEAR

By Senior Advisor Kirk Ludwig, CFIP, AIF®

March 20th was the celebration of the vernal equinox, and the Earth's axis has once again shifted us into a new season. From the green pop of tulips sprouting to the warmth of the sunshine spilling through the windows, the United States began celebrating one of their most beloved seasons: the NCAA March Madness Basketball Tournament, or as many of us like to call it ... Spring! Along with spring comes the chirping of migrating birds and the waking of hungry bears. This spring the Fed gave the "bond bear" a bit of a poke to get the season rolling.

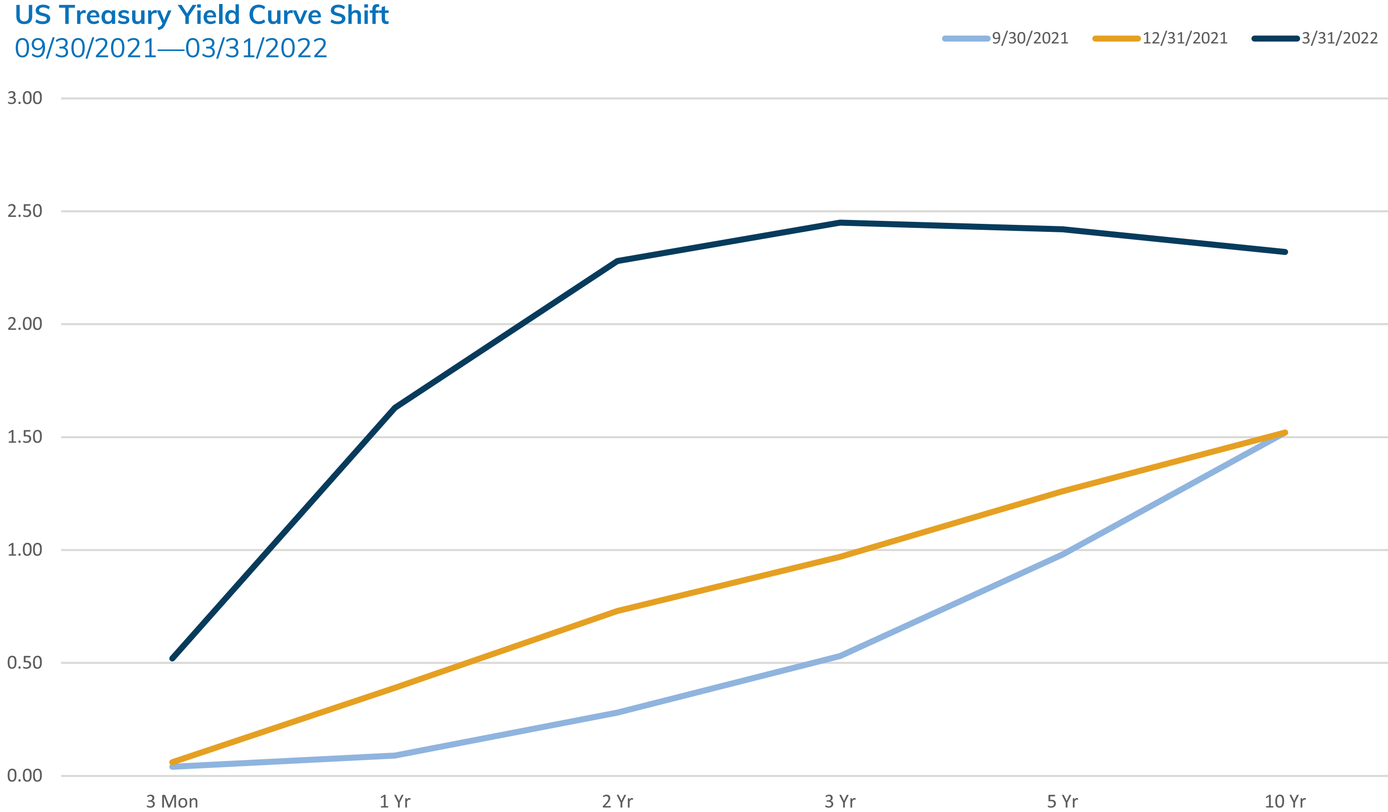
After a two-year hibernation of zero percent interest rates, the Fed has embarked on the challenging mission of hiking interest rates to combat elevated inflation levels while not inducing a recession at the same time.[1] By increasing short-term interest rates and reducing the size of their balance sheet, the Fed will attempt to orchestrate a soft economic landing.[1] So how many times will they need to raise interest rates to accomplish their goal?

Now for the bad news "bear." The Fed indicated their intent to continue raising rates into the near future.[1] As of the end of March, the market is expecting the Fed to raise rates eight to nine more times in 2022.[2] This number has changed multiple times in the past few weeks and will likely continue to adjust in the coming months.[2] As new information is presented to the market, bond yields will quickly reflect the possible changes that may occur as a result.

Why are rising rates viewed negatively by the market? Let's revisit how bond values can change based on the change in market interest rates. Like a teeter-totter, when rates rise, bond values fall and vice versa. Additionally, the sensitivity of the price change is primarily impacted by the term length (maturity) of the bond. The longer the maturity, the more sensitive the price of the bond will likely be. With this recent move higher in yields, the S&P U.S. Aggregate Bond Market Index dropped 5.57% in the first three months of 2022.[3] One of the worst starts of the year on record.[3]

However, rising rates are not always a bad thing. As interest rates move higher, the drop in value can be concerning, but in the longer term, higher rates mean higher expected returns for investors, as bonds begin to produce more income. This chart shows the change in yields for three different time periods: (1) 09/30/21—before the Fed indicated their plan on raising rates, (2) 12/31/21—early stage of the Fed's plan, and (3) 03/31/22—the market's interpretation of future rates as of the end of the quarter:[2]

US Treasury Yield Curve Shift
09/30/2021—03/31/2022



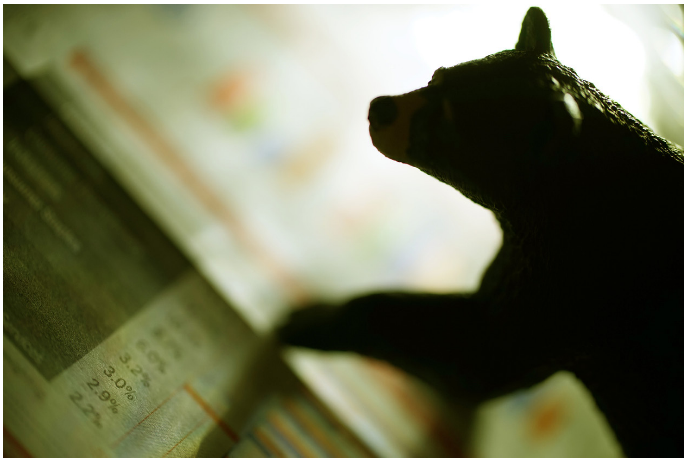
Source: "Daily Treasury Par Yield Curve Rates." U.S. Department of the Treasury, treasury.gov.

As illustrated in the graph, current interest rates have moved markedly higher since the start of the year. Short-term rates—inside three years—have had the most dramatic move as the market prepares for future rate hikes. The longer maturities, which often provide more information about future growth and inflation expectations, have experienced a parallel shift higher. The shape of the yield curve prices in the future expected events—i.e., rate hikes, inflation, and economic growth, to name a few.

With all the uncertainties surrounding today's markets, the day-to-day news can be distracting to investors. If you're worried about how many more times the Fed is going to raise rates, know that the market has already priced in that risk. Future inflation? Same answer. Possibility of future recessions—same! Therefore, trying to make long-term decisions on short-term news can often lead investors down the wrong path.

"OK, so what should we do now?" SJS does not react to the short-term noise, but we do evaluate the longer-term expected risk and return characteristics of each segment of the portfolio and manage to those risks. Some of the adjustments that we have made on your behalf:

- **Maintaining a shorter duration than the total bond market:** We believe this reduces interest rate risk relative to the total broader U.S. bond market while still maintaining broad diversification.
- **Investing in shorter-term inflation-protected securities:** We believe this hedges the portfolio against sharp increases in inflation while still maintaining a relatively short duration.
- **Adding diversified alternative investments:** We believe investing in diversified alternatives with a low correlation to U.S. stocks and bonds can help redistribute expected risk, broaden diversification, and increase expected returns compared to U.S. fixed income over the long term.



While you are enjoying the shift into this new season, be comforted in knowing that SJS is continuously monitoring the market and keeping your best interests top of mind. As markets experience higher levels of uncertainty, the best course of action is to maintain a strong discipline with broad diversification. Yes, the hungry bear may seem scary, and you will likely want to run, but the market will eventually find its balance so we can all get back to monitoring our college basketball brackets.

Important Disclosure Information & Sources:

[1] "Fed Raises Interest Rates for First Time Since 2018." Nick Timiraos, 17-Mar-2022, wsj.com.

[2] "Daily Treasury Par Yield Curve Rates." U.S. Department of the Treasury, treasury.gov.

[3] "S&P U.S. Aggregate Bond Index." S&P Dow Jones Indices, spglobal.com/spdji/en. The S&P U.S. Aggregate Bond Index is designed to measure the performance of publicly issued U.S. dollar denominated investment-grade debt.

There is no guarantee investment strategies will be successful. Past performance is no guarantee of future results. Diversification neither assures a profit nor guarantees against a loss in a declining market.

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SJS INVESTMENT SERVICES—"THE FASTEST COMPANY IN THE WORLD"

The SJS Team was recently named "The Fastest Company in the World" for the team's participation in the International Samaritan 5K in 2021. International Samaritan is an international nonprofit dedicated to raising the standard of living in garbage dump communities. Total proceeds from the 5K were used to buy food for one year for 100 families of four living in extreme poverty conditions. While "The Fastest Company in the World" may be an honorary title more than a statement of fact, we feel really grateful for the work that International Samaritan is doing, and we are happy to support this work.

LOOKING FORWARD TO Q2 2022

As we enter the second quarter of 2022, we want to highlight a few dates and events to keep in mind:

- **Friday, April 15:** SJS offices closed in observance of Good Friday.
- **Monday, April 18:** U.S. federal tax returns due for 2021.

- **Monday, May 30:** SJS offices closed in observance of Memorial Day.
- **Monday, June 20:** U.S. stock markets closed in observance of Juneteenth.
- **Tuesday, June 21:** First day of summer—wishing you a "Summertime, and the living is easy."
- **Monday, July 4:** SJS offices closed in observance of Independence Day.
  - We cheated a bit: This is technically Q3, but we are already excited to celebrate our nation's founding!

ABOUT SJS INVESTMENT SERVICES

SJS Investment Services has been serving as investment advisor and co-fiduciary for individuals, foundations, public entities, retirement plans, financial institutions and corporations since 1995 through our proprietary process called MarketPlus Investing.

With more than $2.6 billion* in assets under management, we bring you major money center investment experience and a team of people whose small-town values put you first, all the time, every time.

*As of 12/31/2021

You come first.
All the time. Every time.™

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