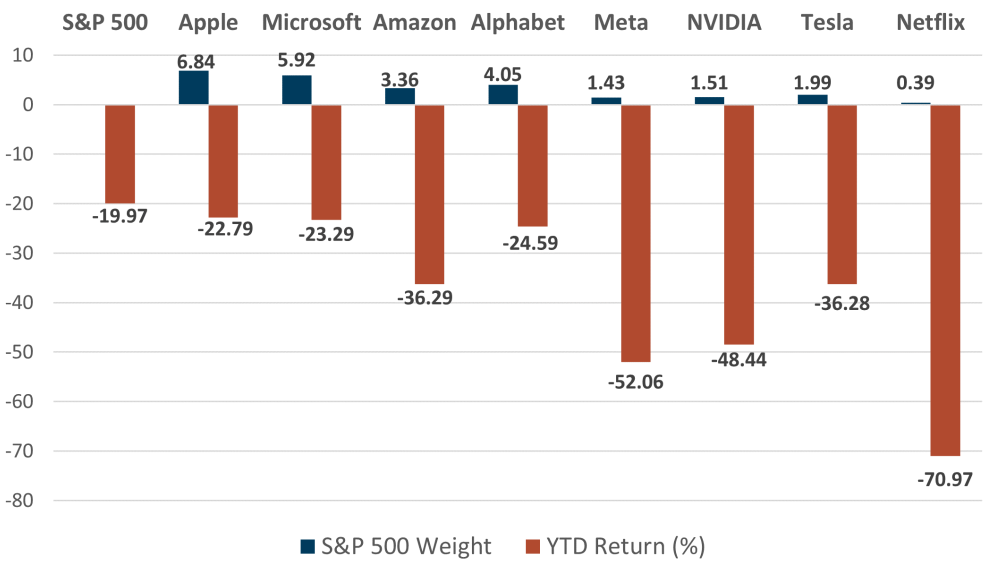
SJS Investment Services®

2022 OUTLOOK Q2

LARGE TECH COMPANIES ARE DRIVING STOCK MARKET RETURNS

By Chief Investment Officer Tom Kelly, CFA

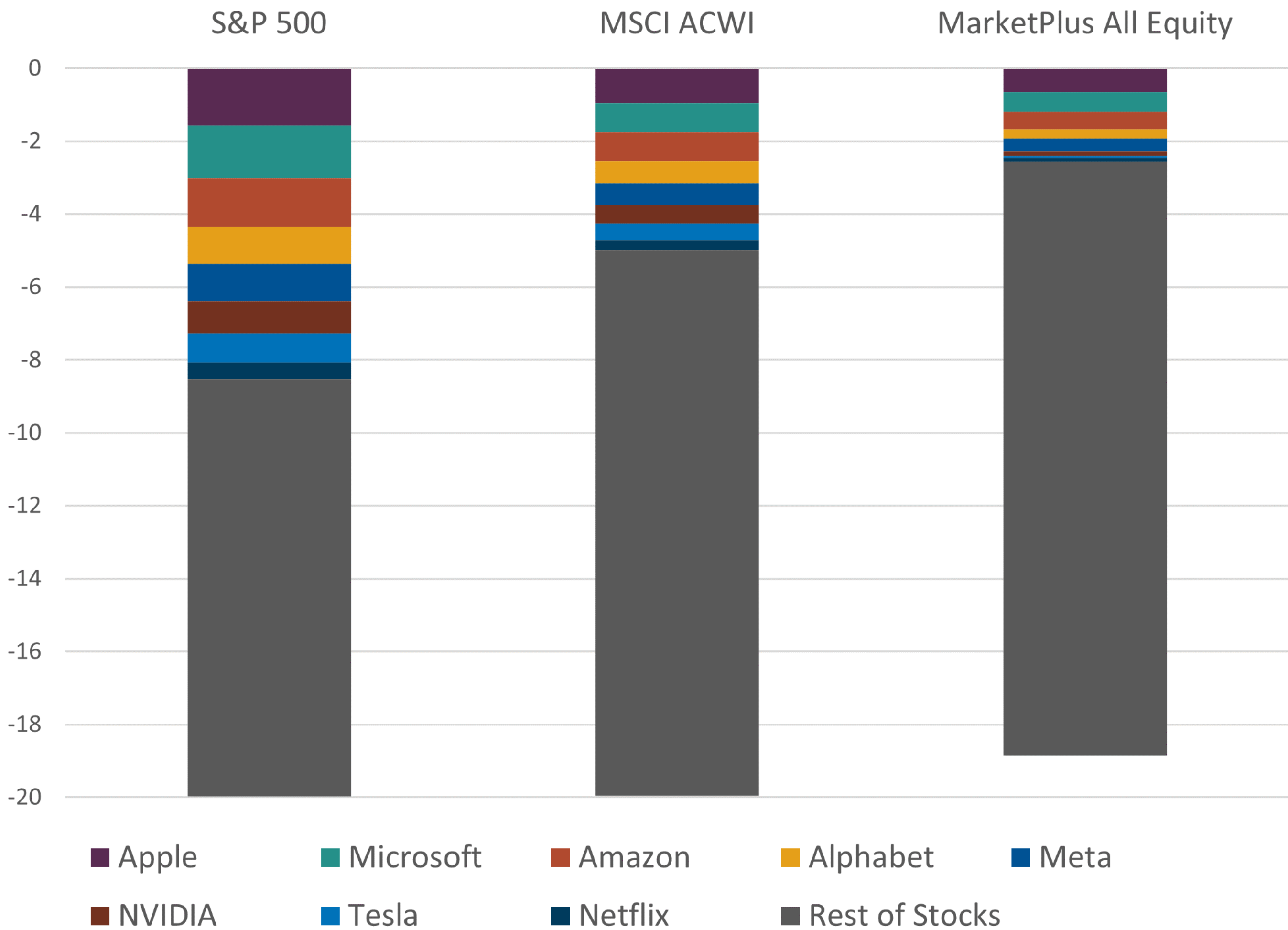
Halfway through 2022, the top tech companies are driving U.S. stock market returns. As of June 30th, the S&P 500 is down -19.97% for the year, the worst first half since 1970. While the declines have been widespread, eight of the largest stocks by market cap weighting are tech companies that have been hit particularly hard, all returning worse than the S&P 500 Index. These former high-flyers have been big detractors to the S&P 500 index.



Source: Morningstar, as of June 30, 2022.

INSIDE THIS ISSUE

The concentration at the top of the S&P 500 means these eight tech stocks are contributing nearly half of the index's decline this year. While the S&P 500 has returned similar to the global stock market (as measured by the MSCI All Country World Index (ACWI)), the eight tech stocks have made up only about a quarter of the decline in the global stock market. Looking further at the MarketPlus All Equity Model - which tilts towards smaller, value, and more profitable stocks - those eight stocks have had a smaller impact compared to both the S&P 500 and the MSCI ACWI indices.



Source: Morningstar, as of June 30, 2022. The MarketPlus All Equity Model is composed of the Dimensional US Core Equity II Fund (DFQTX: 54% weight), Dimensional International Core Equity Fund (DFIEX: 27% weight), Avantis Emerging Markets Equity Fund (AVEEX: 9% weight), Vanguard US Real Estate Fund (VGSLX: 5% weight), Dimensional International Real Estate Fund (DFITX: 5% weight). The MarketPlus All Equity Model is shown gross of advisory and transaction fees. Additional fees would reduce the performance results. See Important Disclosure Information.

While MarketPlus Investing® portfolios have not been impervious to negative market performance this year, diversification in MarketPlus Portfolios has been a benefit thus far this year! We believe this philosophy has helped over the short-term and will continue to help over the long-term.

Important Disclosure Information & Sources:

The S&P 500 Index is a free float-adjusted market-capitalization-weighted index of 500 of the largest publicly traded companies in the United States. The MSCI ACWI Index is a free float-adjusted market capitalization weighted index designed to measure the equity market performance of developed and emerging markets, consisting of 47 country indices comprising 23 developed and 24 emerging market country indices.

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.

Indices are not available for direct investment. Index performance does not reflect the expenses associated with management of an actual portfolio. Index performance is measured in US dollars. The index performance figures assume the reinvestment of all income, including dividends and capital gains. The performance of the indices was obtained from published sources believed to be reliable but which are not warranted as to accuracy or completeness.

MarketPlus Investing® models consist of institutional quality registered investment companies. Investment values will fluctuate, and shares, when redeemed, may be worth more or less than original cost.

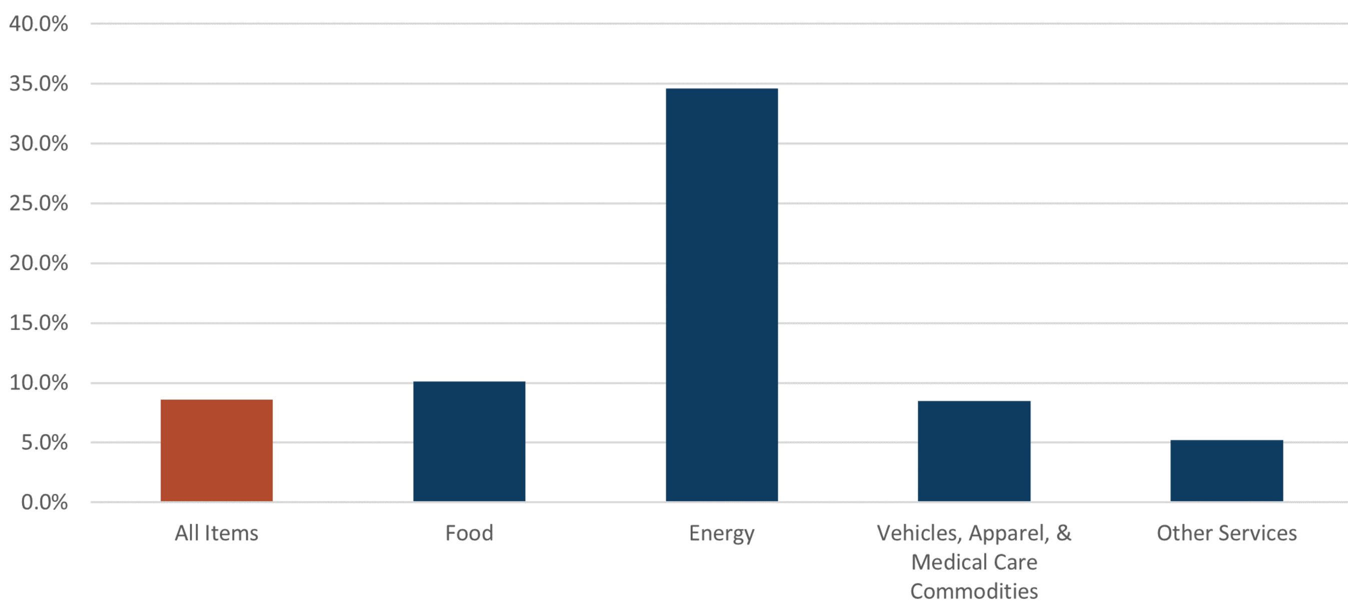
WHAT IS DRIVING INFLATION, AND WHAT CAN YOU DO ABOUT IT?

By Investment Associate Bobby Adusumilli, CFA

It's hard not to notice inflation these days - we see it in higher gas prices, higher grocery bills, and higher housing costs, among other areas. This is true beyond the U.S.: inflation rates in countries around the world are higher compared to recent history.[1]

For the one-year period ending May 31, 2022, the U.S. inflation rate (as measured by the CPI for All Urban Consumers Unadjusted Index) is 8.6%.[2] While most of the U.S. economy is experiencing some inflation, energy - which includes gasoline, oil, electricity, and other commodities - has experienced an outsized amount of inflation, approaching 35%.[2]

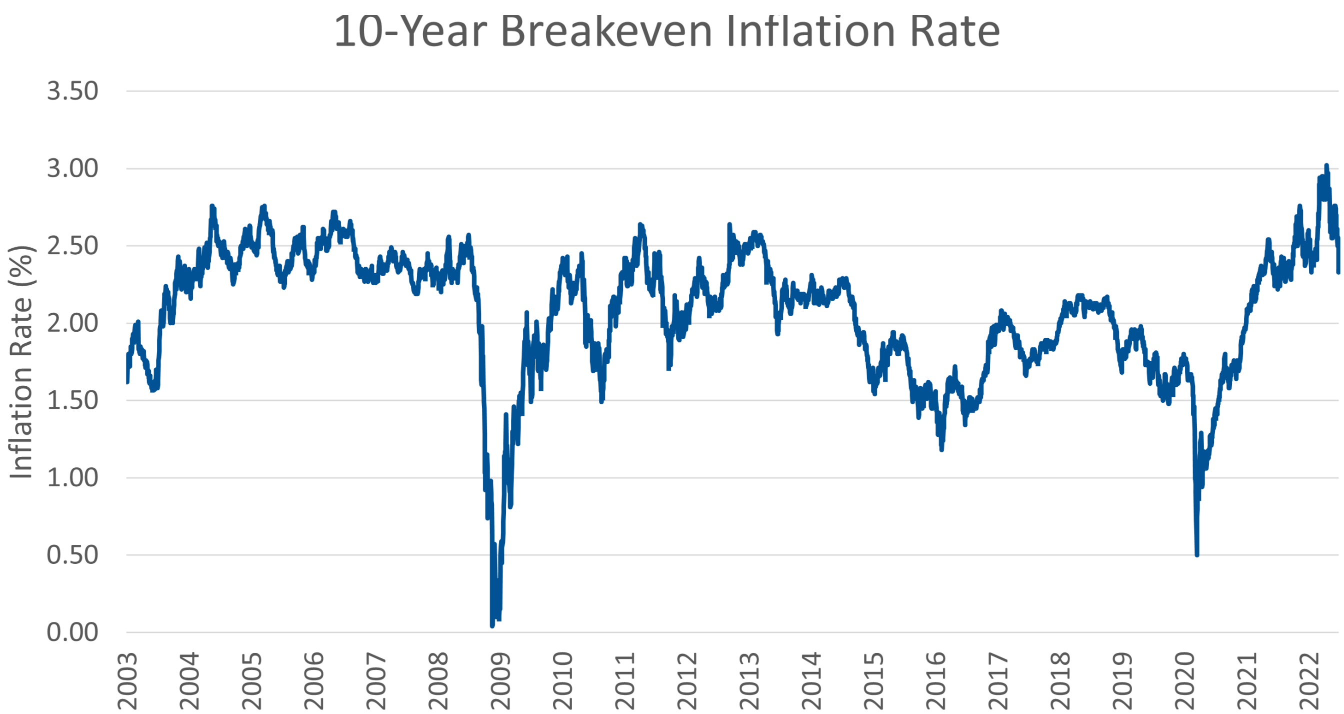
One-Year Inflation Rate: CPI for All Urban Consumers (Unadjusted)



Source: "Consumer Price Index Summary." U.S. Bureau of Labor Services, June 10, 2022, bls.gov. The Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services. See Important Disclosure Information.

While these higher prices are difficult to handle right now, we believe there are some reasons for optimism regarding inflation. Energy prices spiked largely in response to the effects of the COVID-19 pandemic as well as the war in Ukraine.[3] While we may experience elevated prices in the short term, companies and markets tend to respond when there is high demand for a product, creating more competition and thus more supply, which should help constrain energy prices over time. Additionally, the Federal Reserve has been aggressively raising interest rates to combat inflation.[4] While this has hurt stock and bond prices recently, we believe this will help decrease inflation over time.[4]

Global bond markets are also expressing optimism that the U.S. inflation rate will fall back to more normal levels. For example, the 10-year breakeven inflation rate - which is a measure of what bond investors expect U.S. inflation to be over the next 10 years on average - is 2.33% as of June 30th, 2022.[5] While this is higher than the Federal Reserve's goal of 2.00% inflation, bond markets do not expect medium- to long-term inflation to be anywhere close to the recent inflation rate.[5][6]



Source: FRED, as of June 30, 2022. The breakeven inflation rate represents a measure of expected inflation derived from 10-Year Treasury Constant Maturity Securities and 10-Year Treasury Inflation-Indexed Constant Maturity Securities. See Important Disclosure Information.

Given all this information, we have designed MarketPlus Investing portfolios to have some built-in inflation protection. For example, MarketPlus Investing model portfolios with fixed income allocations have exposure to U.S. Treasury Inflation-Protected Securities (TIPS) as well as short-duration (<5 years) bonds, which tend to provide some protection from inflation. And while global stocks can underperform inflation over the short term (< 5 years), research has demonstrated that global stocks tend to provide inflation protection over the intermediate (5-10 years) and long term (10+ years).[7]

Investors looking for additional inflation protection can also consider purchasing Series I Savings Bonds, which are 30-year savings bonds offered by the U.S. government designed to match the Consumer Price Index for All Urban Consumers inflation rate. Each individual can buy up to $10,000 worth of these bonds per year, and you can sell after one year, subject to some conditions.[8] While SJS cannot buy these bonds for you directly, we are supportive of Series I Savings Bonds as potential investments for inflation protection. You can find additional information on the treasurydirect.gov website.

Global stock and bond markets have been tested by inflation many times in the past, and these markets have historically demonstrated their resilience in providing returns higher than inflation over time.[7] While it may be difficult in the short term, we believe that staying invested is the key to getting through this market volatility and inflation.

Important Disclosure Information & Sources:

[1] "Inflation Rate - By Country." Trading Economics, June 2022, tradingeconomics.com.

[2] "Consumer Price Index Summary." U.S. Bureau of Labor Services, 10-Jun-2022, bls.gov.

[3] "How High Is Inflation and What Causes It? What to Know." Gabriel T. Rubin & David Harrison, 10-Jun-2022, wsj.com.

[4] "Fed Raises Rates by 0.75 Percentage Point, Largest Increase Since 1994." Nick Timiraos, 15-Jun-2022, wsj.com.

[5] "10-Year Breakeven Inflation Rate." Federal Reserve Bank of St. Louis, 30-Jun-2022, fred.stlouisfed.org.

[6] "Why does the Federal Reserve aim for inflation of 2 percent over the longer run?" Board of Governors of the Federal Reserve System, 27-Aug-2020, federalreserve.gov.

[7] Stocks for the Long Run. Jeremy Siegel, 2014, McGraw Hill.

[8] "Series I Savings Bonds." U.S. Department of the Treasury, June 2022, treasurydirect.gov.

MORE MEMBERS OF THE SJS FAMILY!

Over the last few months, the SJS Family has continued to grow! Gary Geiger is being kept busy with two new granddaughters: Olivia and Scarlett. Meredith Sleet welcomed her granddaughter Lennon (pictured above). And Kevin Kelly feels blessed for his grandson Sebastian. The parents are busy saving for their futures, and the grandparents couldn't be more delighted!

LOOKING FORWARD TO Q3 2022

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

- Monday, September 5: SJS offices closed in observance of Labor Day
- Federal Open Market Committee Meetings: July 26-27; September 20-21
- Hoping the dog days of summer lead to an abundant harvest this fall!

ABOUT SJS INVESTMENT SERVICES

SJS Investment Services has been serving as investment advisor and co-fiduciary for families, 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 December 31, 2021

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

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