



## ONE SMALL STEP, POSSIBLY FORWARD

In June 2020, the Department of Labor (DOL) provided a six-page information letter stating its views on the appropriate use of private equity in defined contribution plans. The letter noted many of private equity's idiosyncrasies which warrant examination but still concluded that its use in a diversified, professionally-managed portfolio is not automatically a fiduciary breach. To not conflate plausibility with encouragement, the DOL provided a supplemental statement in December 2021 cautiously narrowing, but not eliminating, the context within which a fiduciary could incorporate private equity into a defined contribution plan.

The DOL's Release No. 2022-01, 401(k) Plan Investments in "Cryptocurrencies" is nowhere near as equivocal. Rather than defining a context within which cryptocurrency might be used, the letter "cautions plan fiduciaries to exercise extreme care," describes fiduciary duty as "an exacting standard of professional care" (such language exists neither in ERISA nor the Uniform Prudent Investor Act), reminds fiduciaries of their personal liability, details areas of concern, and concludes by declaring its intention to investigate plans offering cryptocurrency and related products.

Why the contrasting approach and tone? After all, many of the letter's areas of concern, such as volatility, custodial challenges, and valuation ambiguity apply to private equity. Cryptocurrency also is arguably less exposed to private equity risks such as complexity, lock-ups, and multi-layered expenses. In contrast to the DOL's comments on private equity, much less the fiduciary imperative to consider an investment's risk and return profile on a portfolio level, the cryptocurrency letter gives no credit for its potential benefits, such as return enhancements and diversification; instead, only calling attention to its downside risks.

Timing likely has something to do with this new and preventative slant. The DOL indicated last July that it would be issuing guidance, at which time Assistant Secretary Ali Khawar stated that reports of cryptocurrency becoming an option in investment lineups were "very troubling." The White House may have expedited the DOL's plans however, as on March 9, 2022, the day before the DOL's letter, President Biden issued the executive order on "Ensuring Responsible Development of Digital Assets," calling for measures for consumer protection and other risk controls pertaining to digital currency. In such a policy-development interim, it is understandable that the DOL would want to discourage the diffusion of cryptocurrency. The legality of doing so is another matter that may make for informative court opinions.

A fiduciary's incentives here are clear at least; either refrain from offering cryptocurrency as an option or be prepared to answer to the DOL. Given the newfound legal and reputational downside risk of cryptocurrency and the plethora of other return-enhancing and diversifying investment strategies (e.g., private equity), a fiduciary's path of least resistance is simply to avoid it. Whether these events prove to be a pause on the path to sound regulation and consumer protection or an indication of a more aggressive and prescriptive DOL is yet to be determined. Extrapolating the DOL's statement on cryptocurrency to other asset classes is a disturbing exercise that implies increased arbitration and risk-aversion for fiduciaries while discouraging innovation. Hopefully this is simply a step on the path to prudent integration of a new product, and an easy one to wait out.

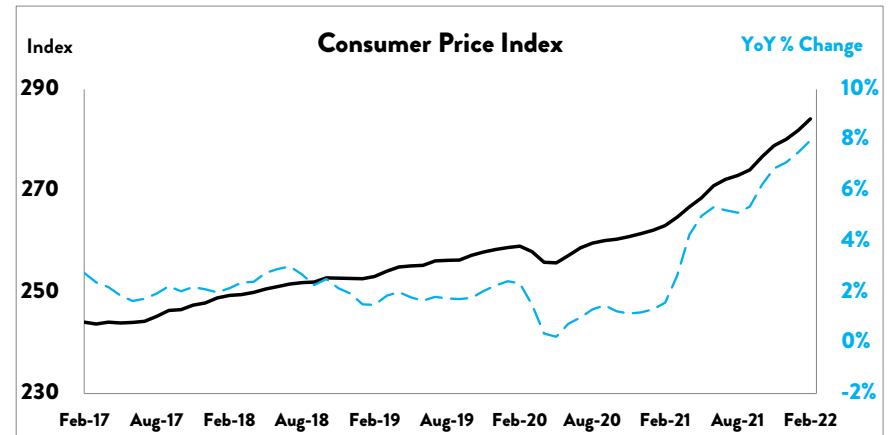
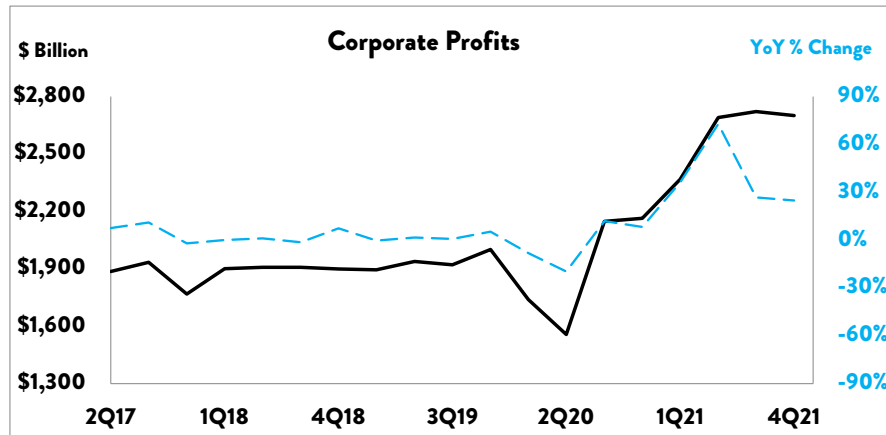
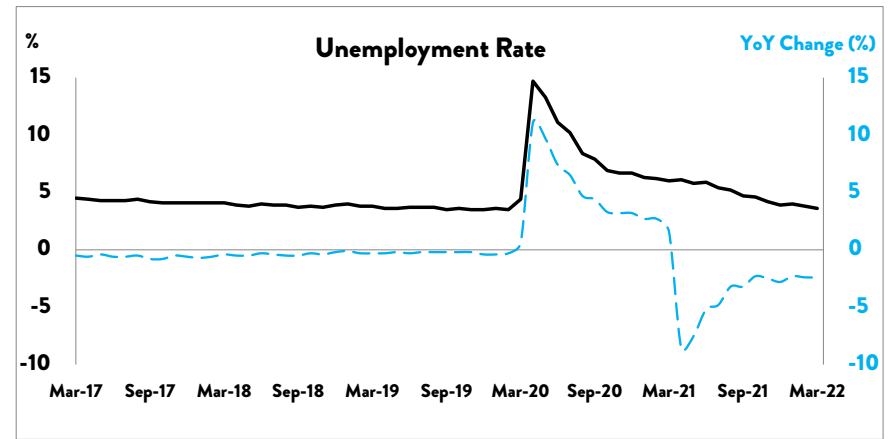
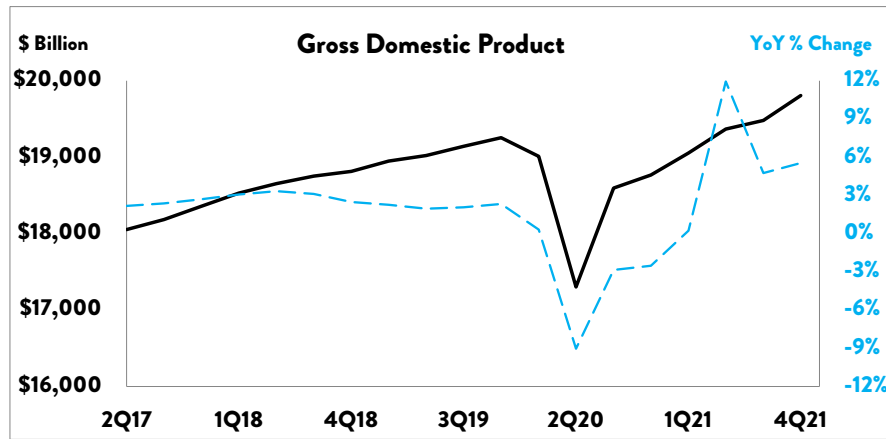
## GLOBAL ECONOMIC LANDSCAPE

- Minutes of the Federal Reserve's March 15-16, 2022 meeting indicated that monetary tightening may materialize relatively soon and at an elevated though metered pace. Meeting participants generally agreed that a tight labor market and elevated inflation may warrant a reduction in the Fed's balance sheet by as much as \$95 billion per month, equivalent to roughly 13% of the current balance sheet per year. Significant as this would be, at this pace it would take upwards of four years of continued tightening to fully unwind the COVID-era monetary support.
- Indicators from main street have grown increasingly negative over the past few months. The National Federation of Independent Businesses survey of firms expecting the economy to improve recently stood at its lowest figure in decades. Similarly, consumer confidence surveys, which tend to foreshadow consumption, have also turned downward. These pressures, along with higher interest rates may weigh against inflation and labor market tightness.
- Over the course of 1Q22, markets increased their expectation of the number of 25 basis point (0.25%) rate hikes from the Federal Reserve in 2022 from three to nine. Major foreign central banks indicated less, if any, such upward shifts, with central banks of England, the European Union, and Japan indicating seven, two, and zero hikes respectively. Such rate differentials may continue to support the US Dollar.
- Oil prices shot up in 1Q22 from \$75.33 at year-end to a peak of \$123.64 on March 8, 2022 (a 64% increase!) before ending the quarter at \$100.53. Taxing as this may be to the consumer, it is worth noting that energy is smaller as a portion of the consumption basket than it has been in decades. Furthermore, net oil importation as a percentage of US Gross Domestic Product stood at 0% at year-end versus ranging between 0.5% to 3.0% for the past two decades. These generational changes indicate that higher oil prices may not be as punitive as history suggests.

## GLOBAL FINANCIAL MARKETS

- The S&P 500's -4.6% decline in 1Q22 may have taken some of the air out of its valuation. As of quarter-end, the index's forward price-to-earnings ratio stood at 19.5, 19% over its long-term average. However, many of the inputs feeding into this valuation, such as earnings estimates, profit margins, and sales growth appear high relative to history. A roll-over of these factors during an economic slowdown might not leave stocks priced any more attractively. In advance of this, corporate executive officers could guide earnings expectations down.
- The Bloomberg US Aggregate Bond Index's 1Q22 performance of -5.93% was the third worst on record since its 1976 inception! Bond yields rose over the quarter (the ten-year Treasury increasing from 1.52% to 2.32%) but remain at the bottom of their historical ranges, both before and after inflation, indicating that a return to "normal" rates is likely still far from complete.
- Yields of United States investment-grade bonds rose more than their developed and emerging market counterparts in 1Q22. The Bloomberg US Aggregate Bond Index's yield, for example, increased by 117 basis points versus an increase of 64 basis points for International Bond markets. Credit risk continued to tick upwards over the quarter as credit spreads in US and Emerging Market high yield bonds increased by 33 and 38 basis points respectively, though the latter had substantially higher intra-quarter volatility.

# 1Q2022 Economic Data



Key: — Economic Series

- - - Year-Over-Year Change

Labor Market Statistics (Monthly)					
Category	Recent	5-Yr High	5-Yr Low	5-Yr Avg.	Date
Jobs Added/Lost Monthly	431,000	4,846,000	-20,679,000	83,283	Mar-22
Unemployment Rate	3.6%	14.7%	3.5%	5.0%	Mar-22
Median Unemployment Length (Weeks)	10.0	22.2	4.0	11.4	Mar-22
Average Hourly Earnings	\$31.73	\$31.73	\$26.17	\$28.55	Mar-22

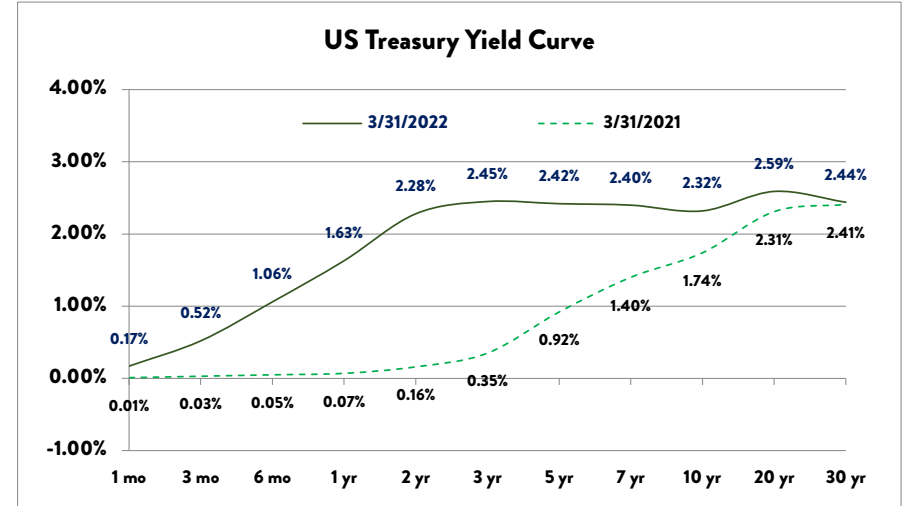
Source: Federal Reserve Bank of St. Louis and Bureau of Labor Statistics

Other Prices and Indexes (Monthly)					
Category	Recent	5-Yr High	5-Yr Low	% Off Peak	Date
Gas: Price per Gallon	\$4.15	\$4.15	\$1.80	0.0%	Mar-22
Spot Oil	\$108.50	\$108.50	\$16.55	0.0%	Mar-22
Case-Shiller Home Price Index	292.2	292.2	195.9	49.2%*	Jan-22
Medical Care CPI	535.7	535.7	472.8	13.3%*	Feb-22

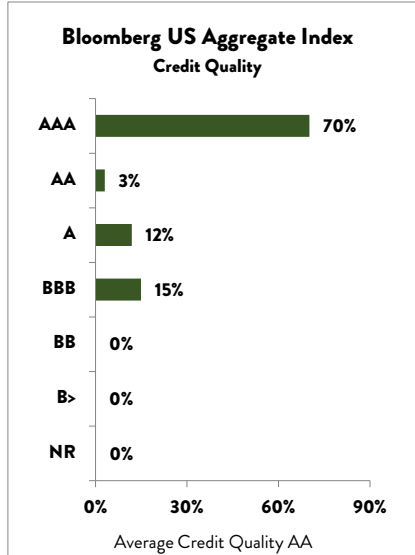
\*% Off Low

# 1Q2022 Bond Market Data

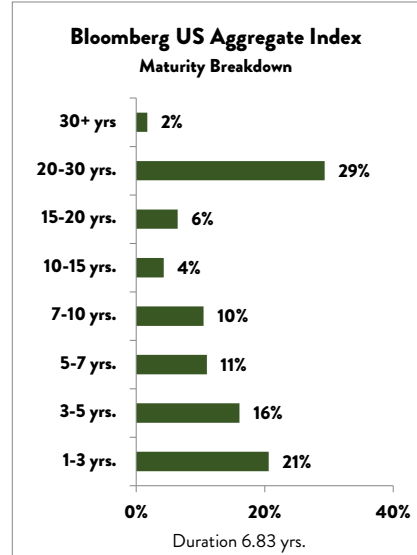
Index	QTR	YTD	1 yr.	3 yrs.	5 yrs.	10 yrs.
90-Day T-Bill	0.08%	0.08%	0.11%	0.66%	1.07%	0.60%
Bloomberg US Aggregate	-5.93%	-5.93%	-4.15%	1.69%	2.14%	2.24%
Bloomberg Short US Treasury	-0.13%	-0.13%	-0.13%	0.88%	1.17%	0.70%
Bloomberg Int. US Treasury	-4.21%	-4.21%	-4.17%	1.04%	1.34%	1.29%
Bloomberg Long US Treasury	-10.58%	-10.58%	-1.42%	3.26%	3.90%	3.97%
Bloomberg US TIPS	-3.02%	-3.02%	4.29%	6.22%	4.43%	2.69%
Bloomberg US Credit	-7.42%	-7.42%	-4.16%	2.81%	3.18%	3.44%
Bloomberg US Mortgage-Backed	-4.97%	-4.97%	-4.92%	0.56%	1.36%	1.70%
Bloomberg US Asset-Backed	-2.88%	-2.88%	-3.06%	1.38%	1.68%	1.66%
Bloomberg US 20-Yr Municipal	-7.21%	-7.21%	-4.57%	2.18%	3.40%	3.76%
Bloomberg US High Yield	-4.84%	-4.84%	-0.66%	4.58%	4.69%	5.75%
Bloomberg Global	-6.16%	-6.16%	-6.40%	0.69%	1.70%	1.04%
Bloomberg International	-6.15%	-6.15%	-7.89%	-0.19%	1.27%	0.06%
Bloomberg Emerging Market	-9.23%	-9.23%	-7.51%	0.67%	1.90%	3.56%



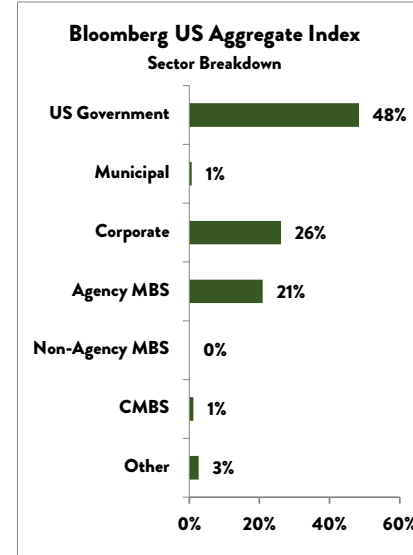
Source: Department of US Treasury



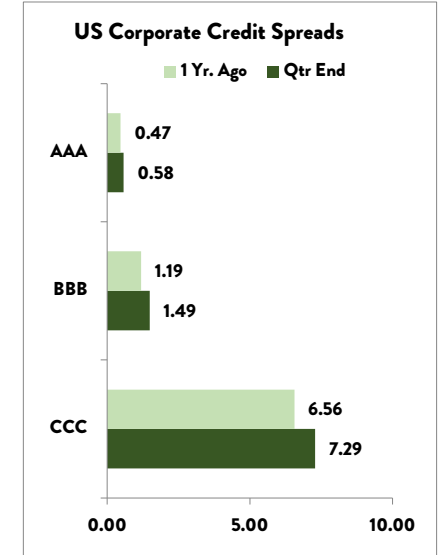
Source: Morningstar



Source: Morningstar



Source: Morningstar



Source: Federal Reserve / Bank of America

# 1Q2022 US Equity Market Data

## Sectors Weights/Returns (ranked by quarter performance)

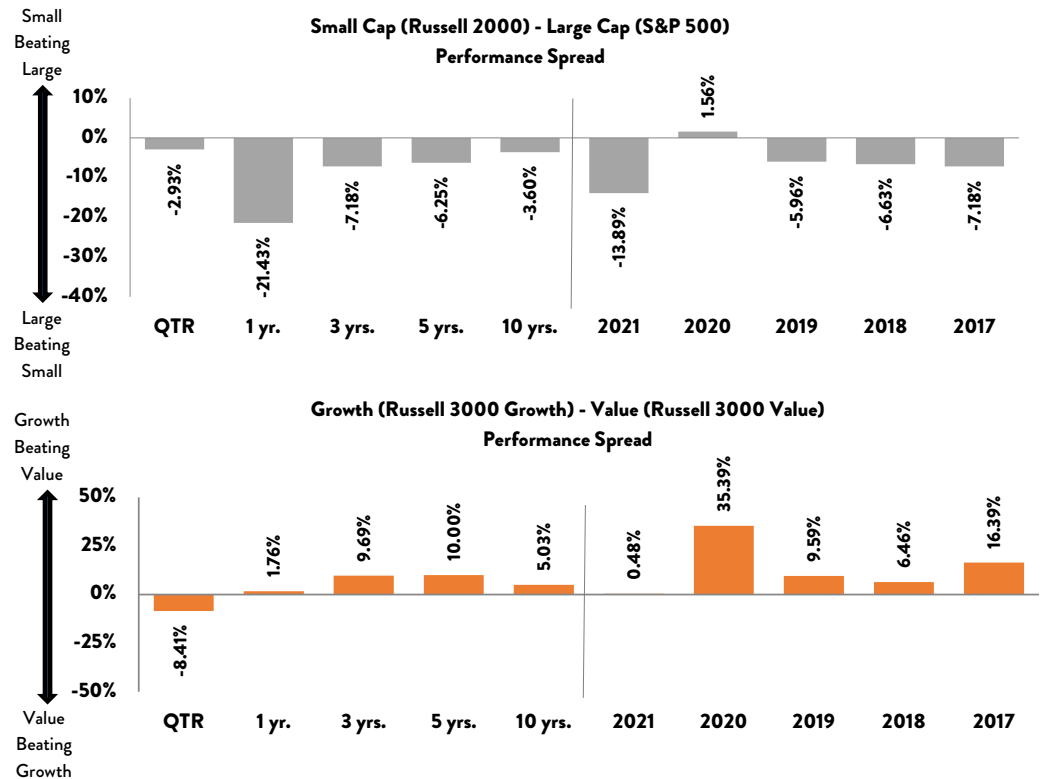
S&P 500 Index	Wgt.	Sector	QTR	YTD	1 yr.
	4%	Energy	39.03%	39.03%	64.30%
	3%	Utilities	4.77%	4.77%	19.93%
	6%	Consumer Staples	-1.01%	-1.01%	16.10%
	11%	Financials	-1.48%	-1.48%	14.69%
	8%	Industrials	-2.36%	-2.36%	6.14%
	3%	Materials	-2.37%	-2.37%	13.92%
	14%	Health Care	-2.58%	-2.58%	19.10%
	3%	Real Estate	-6.22%	-6.22%	25.75%
	28%	Information Technology	-8.36%	-8.36%	20.90%

S&P Midcap 400 Index	Wgt.	Sector	QTR	YTD	1 yr.
	4%	Energy	35.49%	35.49%	67.63%
	7%	Materials	8.01%	8.01%	17.98%
	3%	Utilities	1.60%	1.60%	10.81%
	14%	Financials	-1.05%	-1.05%	10.99%
	4%	Consumer Staples	-2.45%	-2.45%	-6.94%
	10%	Real Estate	-2.80%	-2.80%	21.93%
	2%	Communication Services	-3.75%	-3.75%	-12.53%
	19%	Industrials	-7.70%	-7.70%	4.34%
	9%	Health Care	-7.77%	-7.77%	-1.80%

S&P Smallcap 600 Index	Wgt.	Sector	QTR	YTD	1 yr.
	6%	Energy	43.52%	43.52%	60.64%
	5%	Materials	0.93%	0.93%	8.65%
	2%	Utilities	-0.86%	-0.86%	15.83%
	9%	Real Estate	-3.53%	-3.53%	14.25%
	18%	Financials	-5.18%	-5.18%	1.63%
	16%	Industrials	-6.75%	-6.75%	0.00%
	2%	Communication Services	-8.26%	-8.26%	-0.62%
	5%	Consumer Staples	-8.61%	-8.61%	1.76%
	13%	Information Technology	-9.91%	-9.91%	2.49%

## Index Performance Data

Index	QTR	YTD	1 yr.	Annualized		
				3 yrs.	5 yrs.	10 yrs.
S&P 500	-4.60%	-4.60%	15.65%	18.92%	15.99%	14.64%
Russell 1000 Value	-0.74%	-0.74%	11.67%	13.02%	10.29%	11.70%
Russell 1000 Growth	-9.04%	-9.04%	14.98%	23.60%	20.88%	17.04%
Russell Mid Cap	-5.68%	-5.68%	6.92%	14.89%	12.62%	12.85%
Russell Mid Cap Value	-1.82%	-1.82%	11.45%	13.69%	9.99%	12.01%
Russell Mid Cap Growth	-12.58%	-12.58%	-0.89%	14.81%	15.10%	13.52%
Russell 2000	-7.53%	-7.53%	-5.79%	11.74%	9.74%	11.04%
Russell 2000 Value	-2.40%	-2.40%	3.32%	12.73%	8.57%	10.54%
Russell 2000 Growth	-12.63%	-12.63%	-14.33%	9.88%	10.33%	11.21%
Russell 3000	-5.28%	-5.28%	11.92%	18.24%	15.40%	14.28%
DJ US Select REIT	-3.71%	-3.71%	27.72%	9.90%	8.89%	9.17%



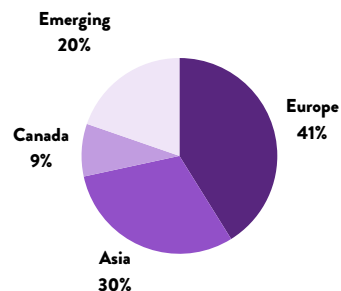
# 1Q2022 International Market Data

## Index Performance Data (net)

Index (US\$)	QTR	YTD	1 yr.	3 yrs.	5 yrs.	10 yrs.
<b>MSCI ACWI ex-US</b>	<b>-5.44%</b>	<b>-5.44%</b>	<b>-1.48%</b>	<b>7.51%</b>	<b>6.76%</b>	<b>5.55%</b>
<b>MSCI EAFE</b>	<b>-5.91%</b>	<b>-5.91%</b>	<b>1.16%</b>	<b>7.78%</b>	<b>6.72%</b>	<b>6.27%</b>
<b>Europe</b>	<b>-7.37%</b>	<b>-7.37%</b>	<b>3.51%</b>	<b>8.23%</b>	<b>6.92%</b>	<b>6.27%</b>
United Kingdom	1.83%	1.83%	13.63%	5.34%	5.50%	4.48%
Germany	-12.89%	-12.89%	-11.96%	4.96%	2.54%	4.67%
France	-8.69%	-8.69%	4.51%	8.85%	8.37%	7.53%
<b>Pacific</b>	<b>-3.11%</b>	<b>-3.11%</b>	<b>-3.01%</b>	<b>6.94%</b>	<b>6.36%</b>	<b>6.33%</b>
Japan	-6.61%	-6.61%	-6.47%	6.84%	6.10%	6.46%
Hong Kong	-1.82%	-1.82%	-12.04%	-1.59%	4.04%	6.38%
Australia	7.25%	7.25%	13.48%	12.08%	8.33%	6.47%
<b>Canada</b>	<b>4.58%</b>	<b>4.58%</b>	<b>20.22%</b>	<b>15.31%</b>	<b>10.65%</b>	<b>5.85%</b>
<b>MSCI EM</b>	<b>-6.97%</b>	<b>-6.97%</b>	<b>-11.37%</b>	<b>4.94%</b>	<b>5.98%</b>	<b>3.36%</b>
<b>MSCI EM Latin America</b>	<b>27.26%</b>	<b>27.26%</b>	<b>23.54%</b>	<b>3.17%</b>	<b>4.09%</b>	<b>-1.14%</b>
<b>MSCI EM Asia</b>	<b>-8.69%</b>	<b>-8.69%</b>	<b>-15.17%</b>	<b>6.09%</b>	<b>7.16%</b>	<b>5.76%</b>
<b>MSCI EM Eur/Mid East</b>	<b>-23.39%</b>	<b>-23.39%</b>	<b>-10.88%</b>	<b>-0.52%</b>	<b>1.90%</b>	<b>-1.98%</b>
<b>MSCI ACWI Value ex-US</b>	<b>0.13%</b>	<b>0.13%</b>	<b>3.31%</b>	<b>5.44%</b>	<b>4.67%</b>	<b>4.24%</b>
<b>MSCI ACWI Growth ex-US</b>	<b>-10.78%</b>	<b>-10.78%</b>	<b>-6.16%</b>	<b>9.12%</b>	<b>8.60%</b>	<b>6.70%</b>
<b>MSCI ACWI Sm Cap ex-US</b>	<b>-6.52%</b>	<b>-6.52%</b>	<b>0.03%</b>	<b>10.22%</b>	<b>7.89%</b>	<b>7.28%</b>

## Regional Exposure

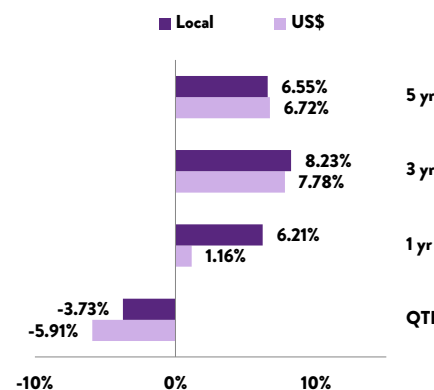
MSCI ACWI ex-USA



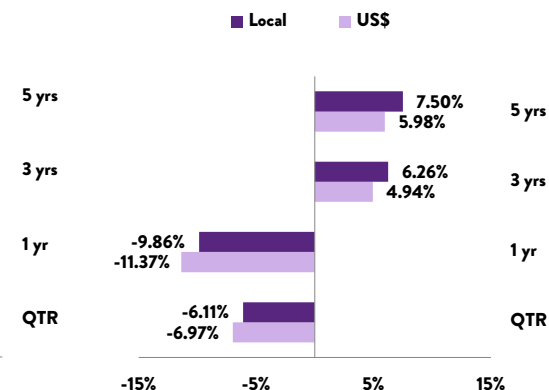
## Top 10 Countries (MSCI AC World ex-USA)

Japan	14%
UK	10%
China	9%
Canada	8%
France	7%
Switzerland	7%
Australia	5%
Germany	5%
Taiwan	5%
India	4%

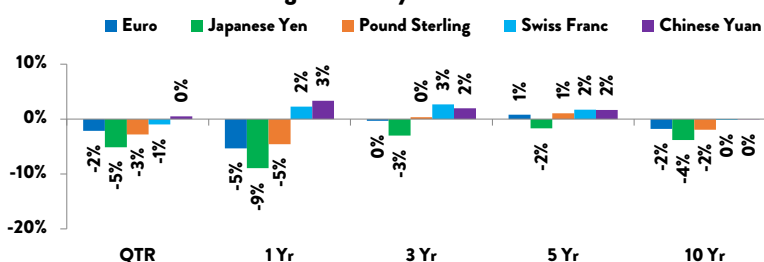
## MSCI EAFE Index Return



## MSCI Emerging Index Return

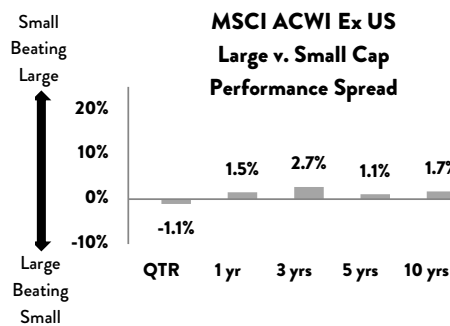


## Foreign Currency v. US\$ Returns

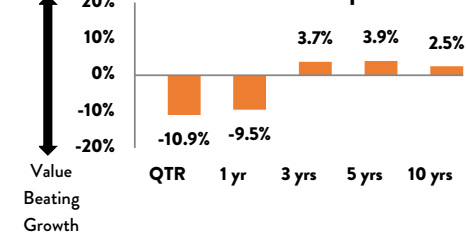


Exchange Rates	QTR	4Q21	3Q21	2Q21	1Q21	4Q20
Japanese Yen	121.44	115.17	111.50	111.05	110.67	103.19
Euro	0.90	0.88	0.86	0.84	0.85	0.82
British Pound	0.76	0.74	0.74	0.72	0.72	0.73
Swiss Franc	0.92	0.91	0.93	0.93	0.94	0.88
Chinese Yuan	6.34	6.37	6.44	6.46	6.55	6.53

## MSCI ACWI Ex US Large v. Small Cap Performance Spread



## MSCI ACWI Ex US Value v. Growth Performance Spread



## Historical Market Returns

Ranked by Performance

2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	1Q22
Emerging Markets 32.14%	Emerging Markets 39.42%	US Bonds 5.24%	Emerging Markets 78.51%	Small Cap 26.85%	Core Real Estate 14.96%	Emerging Markets 18.22%	Small Cap 38.82%	Large Cap 13.68%	Core Real Estate 13.95%	Small Cap 21.30%	Emerging Markets 37.28%	Core Real Estate 7.36%	Large Cap 31.49%	Small Cap 19.96%	Large Cap 28.71%	Commod. 25.55%
Intl 26.65%	Intl 16.65%	Global Bonds 4.79%	High Yield 58.21%	Mid Cap 25.48%	TIPS 13.56%	Mid Cap 17.28%	Mid Cap 34.76%	Mid Cap 13.21%	Large Cap 1.38%	High Yield 17.12%	Intl 27.19%	Cash 1.69%	Mid Cap 30.54%	Large Cap 18.40%	Commod. 27.11%	Core Real Estate 7.17%
Small Cap 18.37%	Commod. 16.23%	Cash 1.39%	Intl 41.45%	Emerging Markets 18.88%	US Bonds 7.84%	Intl 16.83%	Large Cap 32.39%	Core Real Estate 11.44%	US Bonds 0.55%	Mid Cap 13.79%	Large Cap 21.83%	US Bonds 0.01%	Small Cap 25.52%	Emerging Markets 18.31%	Mid Cap 22.58%	Cash 0.08%
Large Cap 15.79%	Core Real Estate 14.84%	TIPS -2.35%	Mid Cap 40.48%	Commod. 16.83%	Global Bonds 5.64%	Small Cap 16.35%	Intl 15.29%	US Bonds 5.97%	Cash 0.03%	Large Cap 11.95%	Mid Cap 18.52%	Global Bonds -1.20%	Intl 21.51%	Mid Cap 17.10%	Core Real Estate 21.06%	TIPS -3.02%
Core Real Estate 15.27%	TIPS 11.64%	Core Real Estate -10.70%	Small Cap 27.17%	Core Real Estate 15.26%	High Yield 4.98%	Large Cap 16.00%	Global Balanced 14.46%	Small Cap 4.89%	TIPS -1.43%	Commod. 11.76	Global Balanced 15.87%	TIPS -1.26%	Global Balanced 18.86%	Global Balanced 13.93%	Small Cap 14.82%	Large Cap -4.60%
Mid Cap 15.26%	Global Bonds 9.48%	Global Balanced -24.51%	Large Cap 26.46%	High Yield 15.12%	Large Cap 2.11%	High Yield 15.81%	Core Real Estate 12.95%	TIPS 3.64%	Global Balanced -1.45%	Emerging Markets 11.18%	Small Cap 14.65%	High Yield -2.08%	Emerging Markets 18.42%	TIPS 10.99%	Global Balanced 10.94%	High Yield -4.84%
Global Balanced 14.53%	Global Balanced 9.07%	High Yield -26.16%	Global Balanced 20.49%	Large Cap 15.06%	Cash 0.06%	Global Balanced 11.06%	High Yield 7.44%	Global Balanced 3.17%	Mid Cap -2.43%	Core Real Estate 7.76%	High Yield 7.50%	Large Cap -4.38%	High Yield 14.32%	Intl 10.65%	Intl 7.82%	Global Balanced -5.24%
High Yield 11.85%	US Bonds 6.97%	Small Cap -33.79%	Commod. 18.91%	Intl 11.15%	Global Balanced -0.97%	Core Real Estate 9.76%	Cash 0.07%	High Yield 2.45%	Global Bonds -3.15%	Global Balanced 5.38%	Global Bonds 7.39%	Global Balanced -5.30%	US Bonds 8.72%	Global Bonds 9.20%	TIPS 5.96%	Intl -5.44%
Global Bonds 6.64%	Mid Cap 5.60%	Commod. -35.65%	TIPS 11.41%	Global Balanced 9.40%	Mid Cap -1.55%	TIPS 6.98%	US Bonds -2.02%	Global Bonds 0.59%	Small Cap -4.41%	TIPS 4.68%	Core Real Estate 6.66%	Mid Cap -9.06%	TIPS 8.43%	US Bonds 7.51%	High Yield 5.28%	Mid Cap -5.68%
Cash 4.85%	Large Cap 5.49%	Large Cap -37.00%	Global Bonds 6.93%	US Bonds 6.54%	Small Cap -4.18%	Global Bonds 4.32%	Global Bonds -2.60%	Cash 0.04%	High Yield -4.46%	Intl 4.50%	US Bonds 3.54%	Small Cap -11.01%	Commod. 7.69%	High Yield 7.11%	Cash 0.05%	US Bonds -5.93%
US Bonds 4.33%	Cash 4.44%	Mid Cap -41.46%	US Bonds 5.93%	TIPS 6.31%	Commod. -13.32%	US Bonds 4.21%	Emerging Markets -2.60%	Emerging Markets -2.18%	Intl -5.66%	US Bonds 2.65%	TIPS 3.01%	Commod. -11.25%	Global Bonds 6.84%	Cash 0.37%	US Bonds -1.54%	Global Bonds -6.16%
Commod. 2.07%	High Yield 1.87%	Intl -45.53%	Cash 0.16%	Global Bonds 5.54%	Intl -13.71%	Cash 0.08%	TIPS -8.61%	Intl -3.86%	Emerging Markets -14.90%	Global Bonds 2.09%	Commod. 1.70%	Intl -14.20%	Core Real Estate 4.41%	Core Real Estate 0.35%	Emerging Markets -2.54%	Emerging Markets -6.97%
TIPS 0.41%	Small Cap -1.57%	Emerging Markets -53.33%	Core Real Estate -30.40%	Cash 0.15%	Emerging Markets -18.42%	Commod. -1.06%	Commod. -9.52%	Commod. -17.00%	Commod. -24.60%	Cash 0.25%	Cash 0.71%	Emerging Markets -14.58%	Cash 2.30%	Commod. -3.12%	Global Bonds -4.71%	Small Cap -7.53%

Global Balanced is composed of 60% MSCI World Stock Index, 35% BBgBarc Global Aggregate Bond Index, and 5% US 90-Day T-Bills.