



HYAS GROUP

SECOND QUARTER 2022 MARKETS AND ECONOMIC UPDATE

DIVERSIFICATION CIRCA 2022

Diversification is known for adding value in investing. To wit, from 1976 through 2021, a moderate risk 60/40 allocation to the S&P 500 and Bloomberg Aggregate Bond Index, rebalanced monthly, returned 10.4% per year, though the weighted average performance of each index summed to 10.1%. On top of that, returns of the rebalanced portfolio were 13% less volatile than the sum of the parts. Higher average returns and less risk? Vive la diversification! Diversification's benefits technically continued into 2022 but this time around did not rival historical averages. From January through June of this year the rebalanced portfolio's return was identical to the sum of the parts, -16.1%, and included some of its worst months on record. Volatility was a smidge lower but with losses like these who is counting? Are the benefits of diversification, at least from two of the world's most fundamental asset classes, a thing of the past?¹

We would not say so. In 2022 and in certain prior markets, Treasury yield volatility has been to blame for diversification not living up to its name. The most extreme cases of stocks and bonds moving closer in lockstep, both to the downside and upside, have tended to occur when Treasury yields (which are factored into the valuations of stocks, bonds, and virtually all other asset classes) were rising (or falling) sharply. In many preceding market cycles, sharp moves in Treasury yields – which tended to accompany the dulling of diversification – were fairly uncommon. Using 2012-2021 as an example of a milder rate climate, the yield of the ten-year Treasury moved an average of 0.12% per month versus a longer-term average of 0.21% much less versus 2022's first-half average of a whopping 0.28%. In those periods of more contained interest rate movements, bonds have tended to come to the rescue and produce a positive return when stocks have been falling; which when combined into a single portfolio has smoothed out performance, staved off negative compounding, and given diversification its good reputation. Given the placid yield environment of the prior decade, it is no wonder some investors may have come to view the gains from diversification as a constant rather than a conditional element.²

But why should investors assume diversification becomes more helpful in the future than it has been of late? Couldn't bond prices slide further and Treasury yields gyrate wildly along the way? After all, a more tumultuous bond market than recent (e.g. the early 1980s) is not unprecedented. Even if it were, future Federal Reserve policies that spur rate-volatility will always be a possibility, however remote. History provides some comfort against these negative scenarios, as the bulk of it consists of environments in which diversification has added meaningful value, such as periods of falling stocks in the context of more well-behaved interest rates. As for the nearer term, financial markets and investment professionals are forecasting a gradual return to inflation and interest rate normalcy in the quarters to come. Even if these expectations are not met and the Federal Reserve perpetually fails at its job, investment returns show that diversification, if nothing else, does not tend to increase risk relative to the sum of its parts. Investors should continue to value diversification and appreciate its potential. However marginal or meaningful the benefits of diversification prove to be over the market cycles to come, in aggregate they may sum up to an improved investment experience.³

¹ Sources: Morningstar

² Sources: Morningstar, Federal Reserve Bank of St. Louis

³ Sources: Morningstar, Federal Reserve Bank of St. Louis, Federal Reserve Bank of Philadelphia Survey of Professional Forecasters as of May 13, 2022

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GLOBAL ECONOMIC LANDSCAPE

- After reducing its expectations for global growth in April, the International Monetary Fund (IMF) warned in early July that it will likely do so again, citing a broad list of reasons including elevated commodity prices, tightening monetary policy in most countries, pandemic disruptions in China, and an increase in supply chain difficulties. Beyond these nearer-term concerns, the IMF cautioned that emerging markets with higher debt levels are becoming increasingly financially vulnerable, noting that government bond yields (an indication of borrowing costs) exceed 10% in roughly one-third of these economies.⁴
- Main street indicators continue to bode poorly for the United States economy. Surveys of small business confidence (themselves at their lowest level on record), CEO and CFO optimism, and consumer sentiment continued to deteriorate into the second quarter of 2022. These decreasing expectations come in tandem with already-high business inventory levels. This concatenation of falling demand and high supply has the potential to blunt both economic growth and inflationary pressures.⁵
- Despite inflation continuing to rise into the second quarter and standing at levels not seen since the 1980s, inflation expectations continue to be surprisingly well-contained. Five-year inflation expectations implied by the US Treasury market dropped from a peak of 3.59% on March 25 to end the quarter at 2.58%. Though multi-year inflation forecasts of professionals were not correspondingly reduced as of quarter-end, they still stood at levels well below recent trends.⁶

GLOBAL FINANCIAL MARKETS

- Valuations of forward earnings multiples declined during the second quarter with the S&P 500's forward P/E dropping from 19.5 to 15.9. While lower valuations have portended higher future returns, the earnings expectations they are predicated on had barely started to drop and stood, at quarter-end, highly above longer-term levels.⁷
- Two-year Treasury yields tend to precede the federal funds rate by roughly twenty weeks with a surprising degree of accuracy. Currently the two-year Treasury is suggesting the federal funds rate will peak at approximately 3% (versus the target established on June 15, 2022 of 1.50% to 1.75%) whereas the market and Federal Reserve are currently expecting them to peak between 3.25% to 3.50%.⁸
- The United States dollar capped off yet another quarter of relative strength, appreciating versus baskets of developed and emerging market currencies by 6.7% and 3.4% respectively. The Japanese yen was a notable decliner for the three-month period at -11%. Despite this lowering the relative cost of foreign labor and the United States' chronic staffing shortages, manufacturers are hinting at having increased interest in investing domestically as this may provide a way to mitigate the risk of supply chain disruptions across the globe.⁹

⁴ Sources: July 13, 2022 IMF Blog post: "Facing a Darkening Economic Outlook: How the G20 Can Respond"

⁵ Sources: Bloomberg, Morgan Stanley & Co. Research as of July 12, 2022.

⁶ Sources: JP Morgan as of June 30, 2022, Federal Reserve Bank of St. Louis, Federal Reserve Bank of Philadelphia Survey of Professional Forecasters as of May 13, 2022

⁷ Source: JP Morgan as of June 30, 2022

⁸ Sources: JP Morgan as of June 30, 2022, Bloomberg, Morgan Stanley & Co. Research as of July 12, 2022.

⁹ Sources: Morningstar, Business Insider as of July 9, 2022

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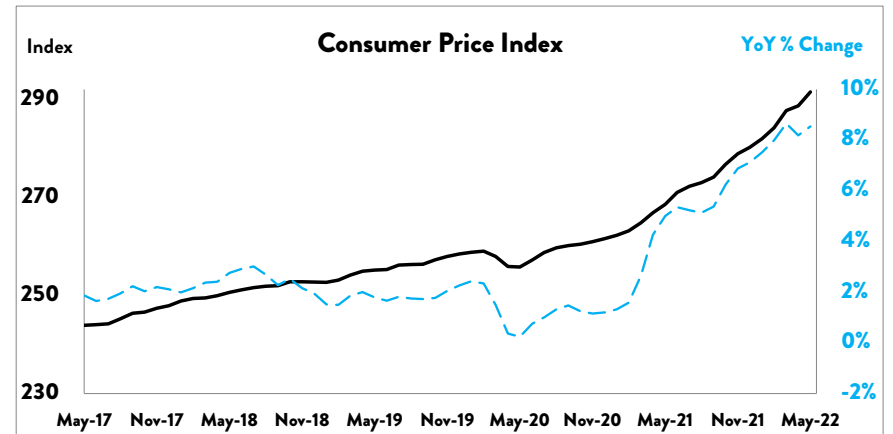
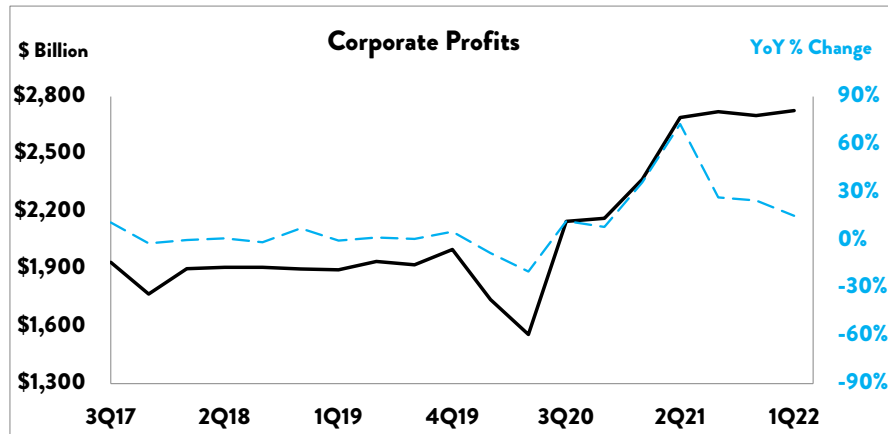
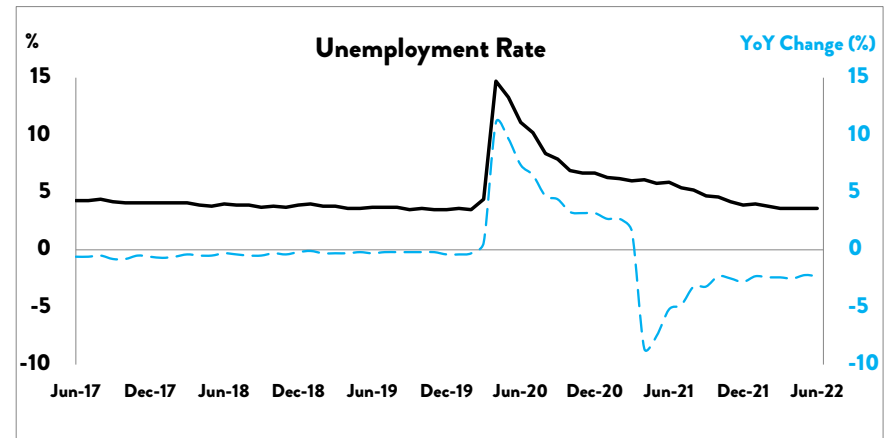
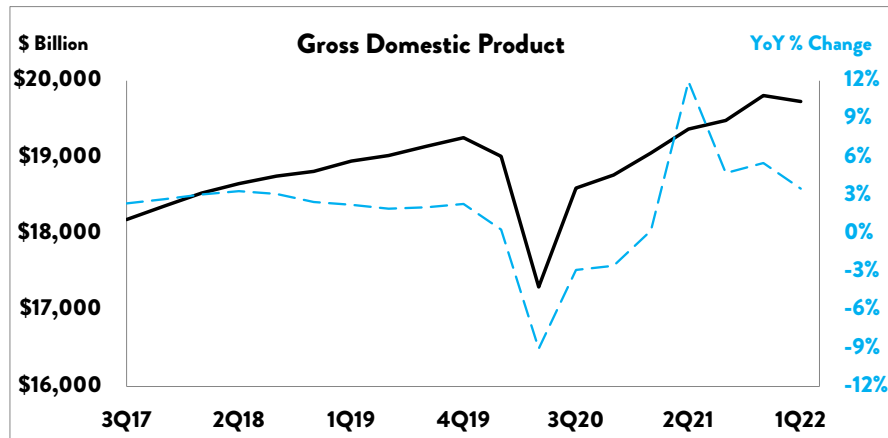
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2Q2022 Economic Data



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	372,000	4,846,000	-20,679,000	91,333	Jun-22
Unemployment Rate	3.6%	14.7%	3.5%	5.0%	Jun-22
Median Unemployment Length (Weeks)	5.8	22.2	4.0	11.3	Jun-22
Average Hourly Earnings	\$32.08	\$32.08	\$26.34	\$28.84	Jun-22

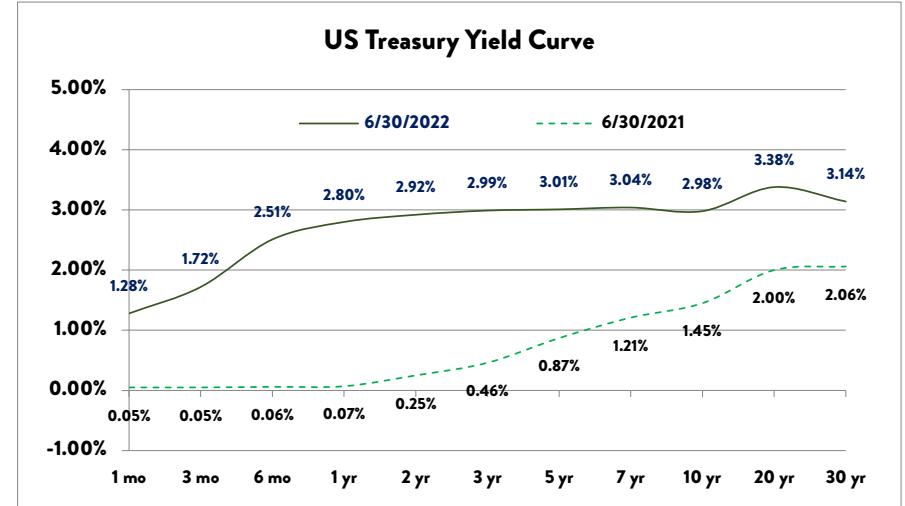
Source: Federal Reserve Bank of St. Louis and Bureau of Labor Statistics

Other Prices and Indexes (Monthly)					
Category	Recent	5-Yr High	5-Yr Low	% Off Peak	Date
Gas: Price per Gallon	\$4.84	\$4.84	\$1.80	0.0%	Jun-22
Spot Oil	\$114.84	\$114.84	\$16.55	0.0%	Jun-22
Case-Shiller Home Price Index	311.8	311.8	198.1	57.4%*	Apr-22
Medical Care CPI	543.2	543.2	474.6	14.4%*	May-22

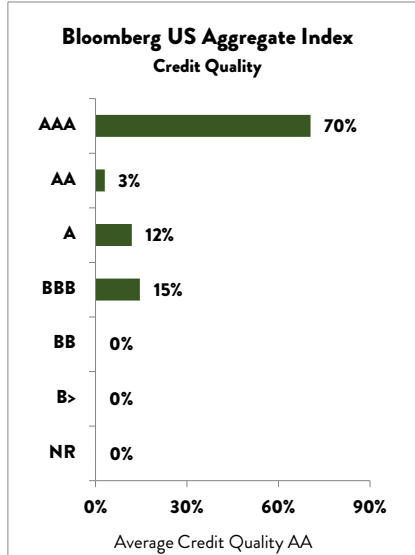
*% Off Low

2Q2022 Bond Market Data

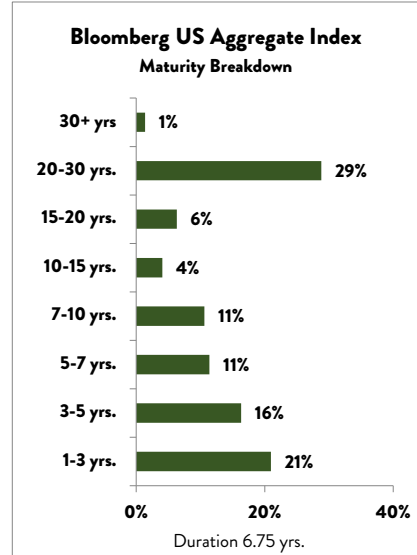
Index	QTR	YTD	1 yr.	3 yrs.	5 yrs.	10 yrs.
90-Day T-Bill	0.27%	0.35%	0.37%	0.56%	1.08%	0.63%
Bloomberg US Aggregate	-4.69%	-10.35%	-10.29%	-0.93%	0.88%	1.54%
Bloomberg Short US Treasury	-0.02%	-0.15%	-0.15%	0.63%	1.13%	0.69%
Bloomberg Int. US Treasury	-1.67%	-5.80%	-6.35%	-0.31%	0.87%	0.96%
Bloomberg Long US Treasury	-11.93%	-21.25%	-18.45%	-2.94%	0.51%	1.63%
Bloomberg US TIPS	-6.08%	-8.92%	-5.14%	3.04%	3.21%	1.73%
Bloomberg US Credit	-6.90%	-13.81%	-13.64%	-1.00%	1.24%	2.45%
Bloomberg US Mortgage-Backed	-4.01%	-8.78%	-9.03%	-1.44%	0.36%	1.18%
Bloomberg US Asset-Backed	-0.91%	-3.77%	-4.27%	0.51%	1.38%	1.43%
Bloomberg US 20-Yr Municipal	-4.70%	-11.57%	-10.92%	-0.29%	1.90%	3.02%
Bloomberg US High Yield	-9.83%	-14.19%	-12.81%	0.21%	2.10%	4.47%
Bloomberg Global	-8.26%	-13.91%	-15.25%	-3.22%	-0.55%	0.11%
Bloomberg International	-11.01%	-16.49%	-18.78%	-5.07%	-1.75%	-1.06%
Bloomberg Emerging Market	-8.72%	-17.14%	-18.02%	-3.54%	-0.29%	2.48%



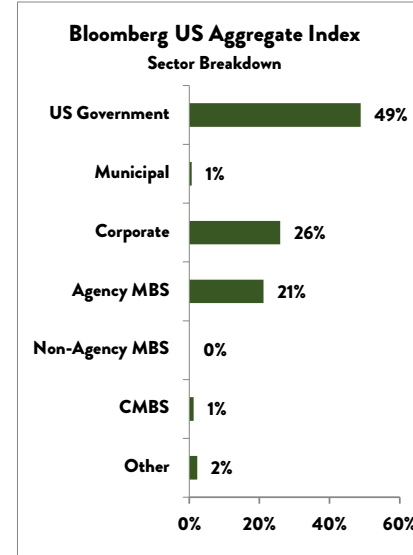
Source: Department of US Treasury



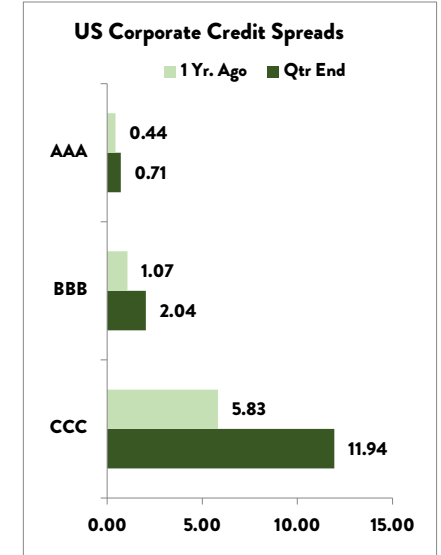
Source: Morningstar



Source: Morningstar



Source: Morningstar



Source: Federal Reserve / Bank of America

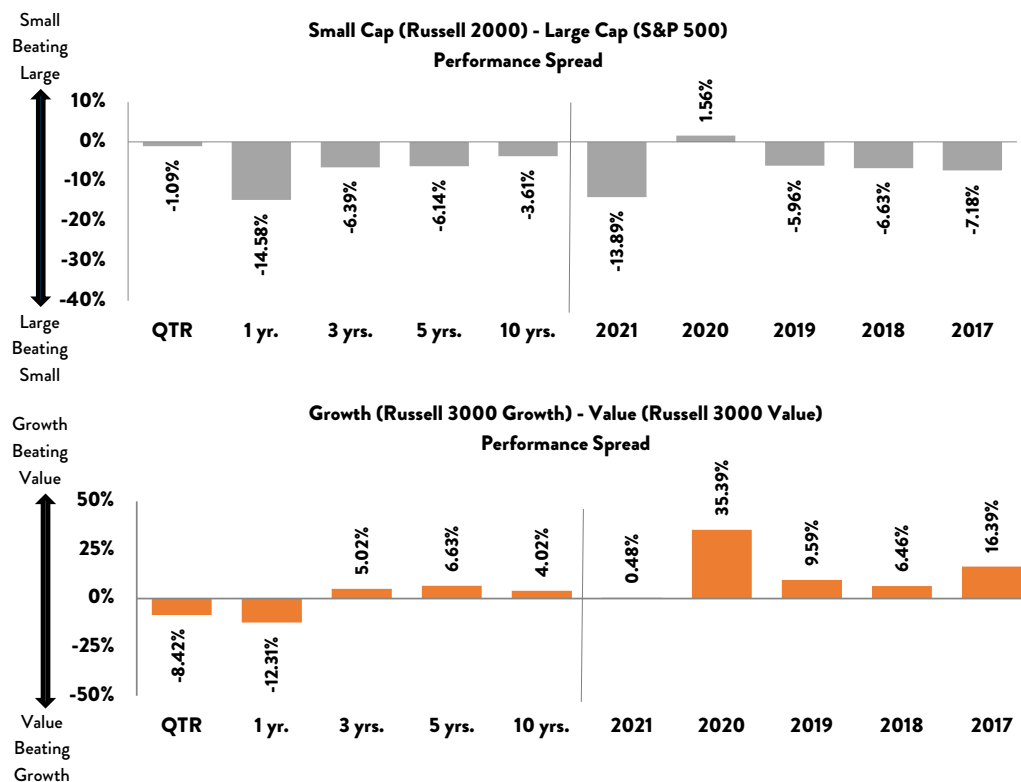
2Q2022 US Equity Market Data

Sectors Weights/Returns (ranked by quarter performance)

	Wgt.	Sector	QTR	YTD	1 yr.
S&P 500 Index	7%	Consumer Staples	-4.62%	-5.58%	6.66%
	3%	Utilities	-5.09%	-0.55%	14.30%
	4%	Energy	-5.17%	31.84%	39.99%
	15%	Health Care	-5.91%	-8.33%	3.37%
	3%	Real Estate	-14.72%	-20.02%	-5.17%
	8%	Industrials	-14.78%	-16.79%	-13.42%
	3%	Materials	-15.90%	-17.89%	-8.72%
	11%	Financials	-17.50%	-18.73%	-12.68%
	27%	Information Technology	-20.24%	-26.91%	-13.56%
	9%	Communication Services	-20.71%	-30.16%	-29.05%
	11%	Consumer Discretionary	-26.16%	-32.82%	-24.20%
S&P Midcap 400 Index	4%	Utilities	-2.59%	-1.03%	6.03%
	4%	Consumer Staples	-7.05%	-9.33%	-10.46%
	15%	Financials	-11.05%	-11.99%	-4.07%
	10%	Health Care	-13.23%	-19.98%	-19.21%
	4%	Energy	-13.49%	17.22%	27.15%
	18%	Industrials	-16.07%	-22.53%	-15.77%
	14%	Consumer Discretionary	-16.72%	-28.81%	-27.37%
	2%	Communication Services	-17.75%	-20.84%	-25.82%
	9%	Real Estate	-19.14%	-21.40%	-9.63%
	13%	Information Technology	-19.15%	-25.68%	-21.94%
	7%	Materials	-21.25%	-14.94%	-10.33%
S&P Smallcap 600 Index	6%	Consumer Staples	0.63%	-8.03%	-3.94%
	2%	Utilities	-3.98%	-4.80%	9.95%
	16%	Industrials	-11.34%	-17.33%	-11.29%
	5%	Energy	-12.60%	25.44%	10.09%
	5%	Materials	-13.00%	-12.19%	-8.36%
	18%	Financials	-13.17%	-17.67%	-12.33%
	12%	Health Care	-14.83%	-23.59%	-29.27%
	13%	Information Technology	-16.58%	-24.84%	-18.86%
	2%	Communication Services	-17.52%	-24.33%	-27.43%
	11%	Consumer Discretionary	-18.80%	-32.07%	-35.19%
	8%	Real Estate	-21.57%	-24.35%	-16.66%

Index Performance Data

Index	QTR	YTD	1 yr.	Annualized		
				3 yrs.	5 yrs.	10 yrs.
S&P 500	-16.10%	-19.96%	-10.62%	10.60%	11.31%	12.96%
Russell 1000 Value	-12.21%	-12.86%	-6.82%	6.87%	7.17%	10.50%
Russell 1000 Growth	-20.92%	-28.07%	-18.77%	12.58%	14.29%	14.80%
Russell Mid Cap	-16.85%	-21.57%	-17.30%	6.59%	7.96%	11.29%
Russell Mid Cap Value	-14.68%	-16.23%	-10.00%	6.70%	6.27%	10.62%
Russell Mid Cap Growth	-21.07%	-31.00%	-29.57%	4.25%	8.88%	11.50%
Russell 2000	-17.20%	-23.43%	-25.20%	4.21%	5.17%	9.35%
Russell 2000 Value	-15.28%	-17.31%	-16.28%	6.18%	4.89%	9.05%
Russell 2000 Growth	-19.25%	-29.45%	-33.43%	1.40%	4.80%	9.30%
Russell 3000	-16.70%	-21.10%	-13.87%	9.77%	10.60%	12.57%
DJ US Select REIT	-18.10%	-21.14%	-6.41%	2.54%	4.28%	6.61%



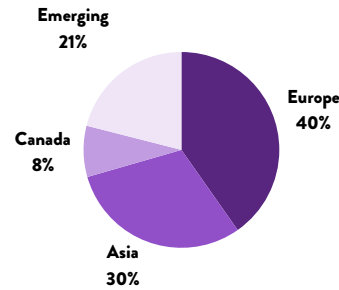
2Q2022 International Market Data

Index Performance Data (net)

Index (US\$)	QTR	YTD	1 yr.	3 yrs.	5 yrs.	10 yrs.
MSCI ACWI ex-US	-13.73%	-18.42%	-19.42%	1.35%	2.50%	4.83%
MSCI EAFE	-14.51%	-19.57%	-17.77%	1.07%	2.20%	5.40%
Europe	-14.49%	-20.79%	-17.61%	1.24%	2.16%	5.44%
United Kingdom	-10.48%	-8.84%	-4.00%	1.21%	2.24%	3.75%
Germany	-18.13%	-28.68%	-31.16%	-4.04%	-2.70%	3.97%
France	-14.76%	-22.16%	-18.32%	1.07%	3.15%	6.83%
Pacific	-14.43%	-17.09%	-18.10%	0.72%	2.31%	5.38%
Japan	-14.63%	-20.27%	-19.93%	1.01%	1.76%	5.59%
Hong Kong	-1.12%	-2.92%	-15.17%	-2.29%	2.38%	6.80%
Australia	-18.11%	-12.18%	-13.05%	2.42%	4.48%	4.91%
Canada	-15.75%	-11.89%	-7.95%	7.20%	6.79%	4.90%
MSCI EM	-11.45%	-17.63%	-25.28%	0.57%	2.18%	3.06%
MSCI EM Latin America	-21.87%	-0.57%	-16.08%	-6.35%	-0.58%	-2.18%
MSCI EM Asia	-9.32%	-17.20%	-25.87%	3.12%	3.36%	5.53%
MSCI EM Eur/Mid East	-14.41%	-34.43%	-31.46%	-7.91%	-1.43%	-2.40%
MSCI ACWI Value ex-US	-11.90%	-11.79%	-12.77%	0.56%	1.23%	3.76%
MSCI ACWI Growth ex-US	-15.71%	-24.79%	-25.80%	1.62%	3.43%	5.71%
MSCI ACWI Sm Cap ex-US	-17.55%	-22.92%	-22.45%	2.94%	2.55%	6.22%

Regional Exposure

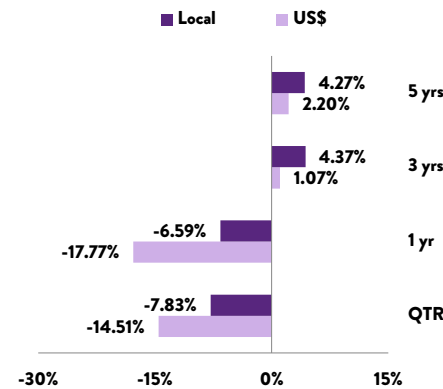
MSCI ACWI ex-USA



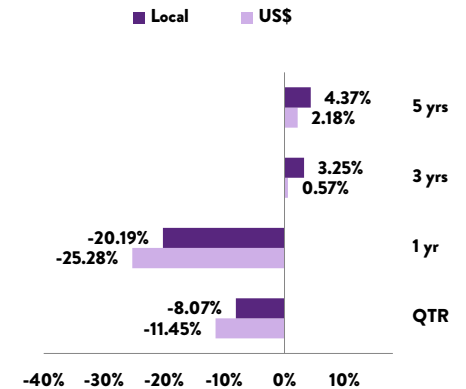
Top 10 Countries (MSCI AC World ex-USA)

Japan	14%
China	11%
UK	10%
Canada	8%
France	7%
Switzerland	7%
Australia	5%
Germany	5%
Taiwan	4%
India	4%

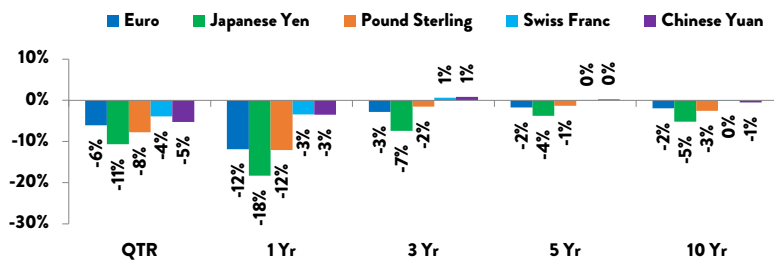
MSCI EAFE Index Return



MSCI Emerging Index Return

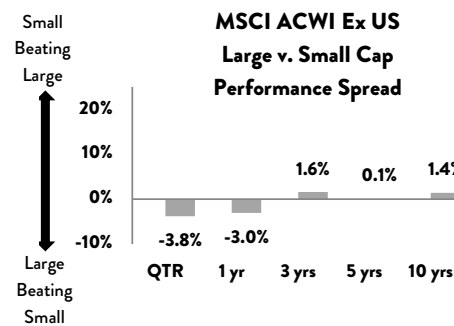


Foreign Currency v. US\$ Returns

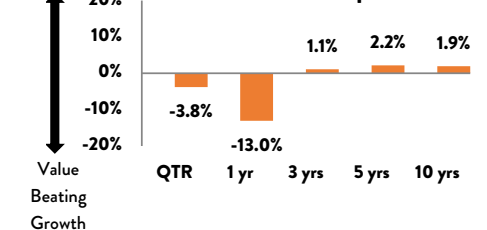


Exchange Rates	QTR	1Q22	4Q21	3Q21	2Q21	1Q21
Japanese Yen	135.69	121.44	115.17	111.50	111.05	110.67
Euro	0.96	0.90	0.88	0.86	0.84	0.85
British Pound	0.82	0.76	0.74	0.74	0.72	0.72
Swiss Franc	0.96	0.92	0.91	0.93	0.93	0.94
Chinese Yuan	6.70	6.34	6.37	6.44	6.46	6.55

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

2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	YTD	2Q22
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. 18.44%	Core Real Estate 4.58%
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 12.05%	Cash 0.27%
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 0.35%	US Bonds -4.69%
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 -8.92%	Commod. -5.66%
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%	US Bonds -10.35%	TIPS -6.08%
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%	Global Bonds -13.91%	Global Bonds -8.26%
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%	High Yield -14.19%	High Yield -9.83%
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%	Global Balanced -17.17%	Emerging Markets -11.45%
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%	Emerging Markets -17.63%	Global Balanced -12.59%
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%	Intl -18.42%	Intl -13.73%
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%	Large Cap -19.96%	Large Cap -16.10%
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%	Mid Cap -21.57%	Mid Cap -16.85%
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 -23.43%	Small Cap -17.20%

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