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# June 2022 CMA Updates



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# Market Outlook

# June 2022 Investment Outlook

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## Key Observations

- With inflation remaining stubbornly high despite signs of a cooling economy, the Federal Reserve may have to push the economy into recession in late 2022 or early 2023 to rein in inflation.
- The global bond and stock markets have experienced significant declines in early 2022, which have led to meaningfully higher expected forward-looking returns.

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## Capital Market Factors

- **Economic Growth**: 2022 economic growth forecasts have steadily declined since the beginning of the year. The risk of recession in late 2022 or early 2023 has steadily risen throughout the year.
- **Monetary Policy**: The Fed has materially accelerated its path to increasing interest rates. As of mid June, market futures\* indicate an expected year-end Fed Funds rate ranging between 3.5 and 4.0%.
- **Fiscal Policy**: Much of the pandemic relief spending has expired.
- **Inflation**: Current year-over-year inflation is running at a level in excess of 8.5 percent, which is meaningfully above the Fed's stated target, and is likely to remain high in the immediate future. However, the bond market's expectation is for inflation to gradually moderate back towards 2.6 percent over the next decade.
- **Currency**: Monetary tightening and higher U.S. interest rates has led to a stronger U.S. Dollar in the first half of 2022.

# 2022-2031 Ten-Year Outlook

## Executive Summary of Return Assumption Changes

Asset Class	2022 Mid Year Update	Original 2022 Outlook	Year Over Year Change
	E(R) - 10 Year	E(R) - 10 Year	
Inflation	2.6%	2.5%	0.1%
Cash*	0.9%	0.1%	0.8%
TIPS	3.1%	1.3%	1.8%
Muni Bond**	3.8%	1.2%	2.7%
Muni High Yield**	7.8%	4.9%	2.9%
US Bond	3.4%	1.7%	1.7%
Dynamic Bonds***	3.4%	2.0%	1.4%
Global Bonds	3.0%	1.4%	1.6%
Corp HY Bond	5.5%	3.7%	1.8%
Global Equity	8.1%	7.2%	0.9%
US Equity (AC)	6.6%	5.9%	0.8%
US Equity (LC)	6.5%	5.7%	0.8%
US Equity (MC)	6.8%	6.1%	0.8%
US Equity (SC)	6.8%	6.1%	0.7%
Int'l Dev. Equity	9.3%	7.7%	1.6%
EM Equity	10.6%	9.6%	1.0%
Real Estate	5.8%	5.4%	0.4%
Broad Real Assets****	5.4%	4.7%	0.7%
Marketable Alternatives	7.2%	5.9%	1.3%
Private Equity	9.6%	8.9%	0.8%

\*3-month forecast

\*\*Tax equivalent yield based on highest marginal tax rate (37%)

\*\*\*33% Cash, 33% Corp HY, and 34% Global Bonds

\*\*\*\*20% REITs, 20% Global Infrastructure, 20% Commodities, 20% US Bonds, 15% Corp High Yield, 5% TIPS

## Intra-Year Shifts

- Forecasted inflation increased modestly
- Nominal and real Interest rates rose significantly across the globe leading to meaningfully higher forecasted returns.
- Except for cash, all fixed income categories now have a positive real return expectation.
- The meaningful global equity market rout in the first half of 2022 has led to a meaningfully higher rate of return across all equity asset classes.
- With inflation expectations remaining stubbornly high, real assets remain an important diversifier.
- Alternative asset class return expectations rose modestly.

# 2022-2041 Twenty-Year Outlook

## Executive Summary of Return Assumption Changes

Asset Class	2022 Mid Year Update E(R) - 20 Year	Original 2022 Outlook E(R) - 20 Year	Year Over Year Change
Inflation	2.8%	2.6%	0.2%
Cash*	1.4%	0.7%	0.7%
TIPS	3.6%	2.1%	1.6%
Muni Bond**	4.6%	2.1%	2.5%
Muni High Yield**	8.6%	5.6%	2.9%
US Bond	3.9%	2.5%	1.5%
Dynamic Bonds***	3.9%	2.8%	1.2%
Global Bonds	3.5%	2.2%	1.4%
Corp HY Bond	6.0%	4.5%	1.6%
Global Equity	8.9%	8.1%	0.8%
US Equity (AC)	7.4%	6.8%	0.6%
US Equity (LC)	7.3%	6.6%	0.7%
US Equity (MC)	7.6%	7.0%	0.6%
US Equity (SC)	7.6%	7.0%	0.6%
Int'l Dev. Equity	10.1%	8.6%	1.5%
EM Equity	11.4%	10.5%	0.9%
Real Estate	6.6%	6.3%	0.3%
Broad Real Assets****	6.2%	5.6%	0.6%
Marketable Alternatives	8.0%	6.8%	1.2%
Private Equity	10.4%	9.8%	0.6%

\*3-month forecast

\*\*Tax equivalent yield based on highest marginal tax rate (37%)

\*\*\*33% Cash, 33% Corp HY, and 34% Global Bonds

\*\*\*\*20% REITs, 20% Global Infrastructure, 20% Commodities, 20% US Bonds, 15% Corp High Yield, 5% TIPS

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For additional information on forecast methodologies, please speak with your advisor. Please see Index Proxy Summary slide at the end of this presentation for summary of indexes used to represent each asset class. Past performance does not indicate future performance and there is a possibility of a loss.

# Disclosures

The historical performance information derived from the Frontier Engineer and used or presented in charts, tables, or graphs represent simulated historical performance, which has been derived by retroactively applying an asset allocation modeling process in its most recently developed form with its most recently derived ten-year (forward-looking) capital market assumptions. Such historical return simulations (or back testing) was performed by simulating the combination of actual index returns for the historical period with a buy and hold strategy effective January 1, 1988, through the most recently available month-end date with simulated rebalancing occurring every month-end (with the reinvestment of dividends and capital gains from each index).

Back tested performance is hypothetical and does not reflect actual trades or actual performance. As with all models, there are inherent limitations which are derived from the retroactive application developed with the possible benefit of hindsight, including the risk that certain factors such as material economic and market conditions could have contributed to materially different (either higher or lower) performance results than those depicted, or that certain material factors may have been included or excluded from consideration. As such, actual results during the applicable back tested period would have been different than those depicted.

The asset allocation modeling process currently used was initially developed in 2002 and was not offered as a strategy prior to that time. The output of a forward-looking model (or process) is a representation of allocation percentages among specific asset classes. Clients cannot invest directly in a target allocation, but rather, in underlying securities within designated asset classes. Advisor may change its models from time to time and may update its model as additional capital market assumption information becomes available or to increase or decrease relative weightings or emphasis on certain factors. Consequently, the Advisor may choose to deviate from a stated model over time as the model itself is revised, which could have a materially positive or negative impact on performance.

During the period represented, numerous modelling changes were made, including the periodic changes in (ten-year) forward-looking expected returns, expected volatilities, expected non-normal return distribution assumptions, as well as tracking-error assumptions and risk budgets. Furthermore, such assumptions can be modified client-by-client depending on certain preferences, priorities, constraints or unique considerations applicable to each client.

Other economic and market factors may have impacted decision-making when using the model to manage client funds, including the list of approved asset classes by a client or client type as well as any client-directed or Advisor implemented constraints.

All investments bear the risk of loss, including the loss of principal. Past performance, actual or hypothetical, is no guarantee of future results.

The returns displayed on the preceding pages are gross of fees. Actual performance would be reduced by investment advisory fees and other expenses that may be incurred in the management of the client's portfolio. The collection of fees produces a compounding effect on the total rate of return net of management fees. As an example, the effect of investment management fees on the total value of a client's portfolio assuming (a) quarterly fee assessment, (b) \$1,000,000 investment, (c) portfolio return of 8% a year, and (d) 0.50% annual investment advisory fee would be \$5,228 in the first year, and cumulative effects of \$30,342 over five years and \$73,826 over ten years. Additional information on advisory fees charged by advisor are described in Part 2 of the Form ADV.

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