2022 2ND QUARTER | Economic and Financial Market Commentary

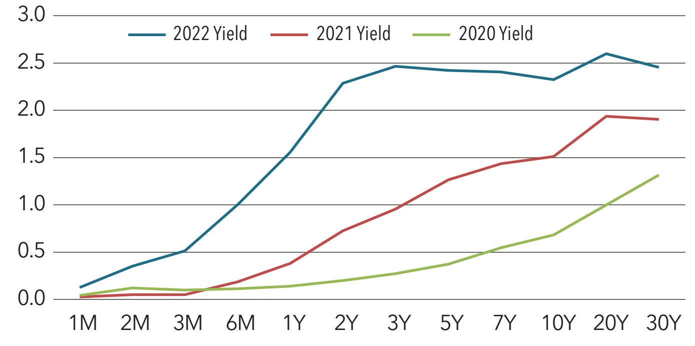
fnbo Wealth Management

Inflation Lifts Interest Rates Higher

Inflation has picked up with the consumer price index (CPI) increasing 7.9% in February from a year earlier, the highest rate since the late 1970s and early 1980s. While this number is scary, we don't expect it to persist. There are numerous factors that have driven this inflation, but most will likely dissipate in coming months. The biggest factor – excess liquidity – was built with low interest rates and government stimulus over the last couple years. The Federal Reserve is starting to pull liquidity out of the system by raising rates (possibly 2% this year) and will shrink its balance sheet later this year. Another factor – wage inflation – might subside as more workers come back to the labor force as COVID winds down. A third factor pushing inflation higher – supply chain issues – will likely dissipate as time goes on. We expect inflation to peak out in the 2nd quarter 2022. While the Federal Reserve is expected to hike interest rates aggressively this year, the full impact of higher rates likely won't be felt in the economy until next year.

So will higher rates slow the economy into recession? Not in the near future, at least. The consumer is still in good shape with higher wages and plenty of cash to spend. Businesses continue to see strong profit growth, despite the labor shortages. Manufacturing is seeing support from low inventories and strong demand for goods. So, while inflation and higher rates may slow things down a bit, a recession is still off in the future.

Yield Curve Shift



Source: FactSet

Market Returns

Source: Morningstar Direct data as of March 31, 2022

Asset Class	Index	Total Return 1 Month	Total Return YTD	Total Return 1 Year	Annualized 3 Year	Annualized 5 Year
Global Equities:	Diversified Equity Benchmark*	2.71	-5.24	9.41	15.60	13.29
Domestic Equities:	S&P 500 (Large Cap)	3.71	-4.60	15.65	18.92	15.99
	Russell 2000 (Small Cap)	1.24	-7.53	-5.79	11.74	9.74
International Equities:	MSCI EAFE (Developed)	0.64	-5.91	1.16	7.78	6.72
	MSCI Emerging Market	-2.26	-6.97	-11.37	4.94	5.98
Fixed income:	Barclays Intermediate U.S. Gov't/Credit	-2.45	-4.51	-4.10	1.50	1.81
	Barclays Muni Short-Interm 1-10 Years	0.05	-4.49	-3.88	0.94	1.61
	Barclays Global Intermediate	-3.01	-4.66	-6.40	-0.09	0.81

Geopolitical Risk

The war in Ukraine is an unknown risk to the economy and markets. It's safe to say that part of the volatility in the first quarter was due to uncertainty around Russia's invasion of Ukraine. From oil supplies to a weaker European economy, there is the possibility that our economy could be affected as well. On a positive note, a resolution to the conflict could be a substantial improvement. We don't know where this will go, but our expectation is that it will have only a minor impact on U.S. economic growth this year.

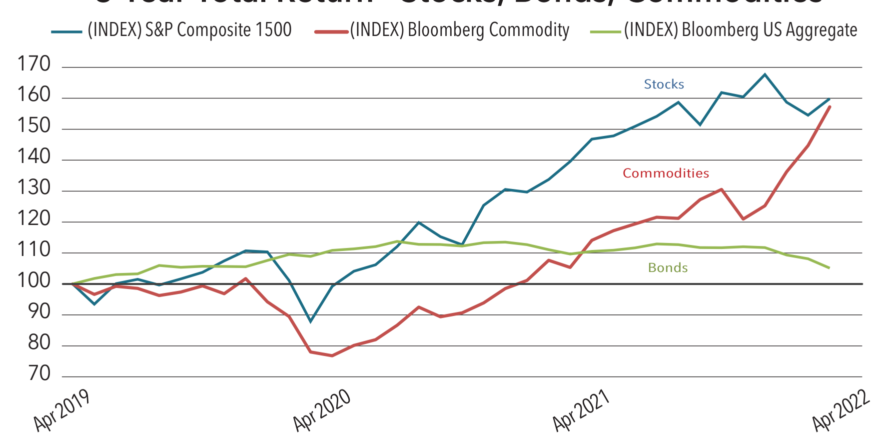
Transitory or Not, That is the Inflation Question

• Bonds: Higher rates have also impacted the broader bond market. As seen in the table above, the Barclays Intermediate US Gov't/Credit index declined 4.5% YTD, marking one of the worst quarterly bond returns in history. To minimize the impact of rising rates, we had previously reduced bond exposures and supplemented our portfolios with convertible and floating rate bonds. Fixed income returns will improve with higher interest rates, but it will likely take time.

• Stocks: Higher interest rates are also impacting the equity market. As rates increase, the valuation or multiple that equities should trade for typically compresses. This simply means we are paying less for stocks relative to what we did last year. We believe the rest of the year still looks positive for stocks as we still expect economic and profit growth. Job market and wage growth continues to underpin a stronger outlook for spending and equities.

• Commodities: The Bloomberg Commodity Index is up 25.5% YTD which is a good proxy for commodity returns. To prepare for increased volatility, we had previously lowered our equity allocation and increased the allocation to alternatives through commodities.

3 Year Total Return - Stocks, Bonds, Commodities



Source: FactSet

Please see important disclosures on the next page.

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Sources:
Bloomberg, Morningstar, FactSet, Crandall Pierce

*Benchmark consists of Russell 3000 (76%), MSCI ACWI ex US (20%) and FTSE EPRA/NAREIT Global (4%)

Index Definitions:
Barclays Global Intermediate: This index measures global investment grade debt from 24 local currency markets, including treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers.

Barclays Intermediate US Government/Credit Index: The index is a broad-based flagship benchmark that includes investment grade, US dollar-denominated, fixed-rate Treasuries, government-related and corporate securities, within a 2-10 year maturity range.

Barclays Municipal Short-Intermediate 1-10 Years: Index that measures the performance of US municipal bonds with time to maturity of between one and ten years.

Bloomberg Commodity Spot Index: This index measures the price movements of commodities in the Bloomberg Commodity Index and select subindexes. It does not account for the effects of rolling futures contracts or the costs associated with holding physical commodities and is quoted in US dollars (USD). The Bloomberg Commodity Index tracks prices of futures contracts on physical commodities on the commodity markets.

Bloomberg Commodity Index: This index is calculated on an excess return basis and reflects commodity futures price movements. The index rebalances annually weighted 2/3 by trading volume and 1/3 by world production and weight-caps are applied at the commodity, sector and group level for diversification. Roll period typically occurs from 6th-10th business day based on the roll schedule.

FTSE EPRA/NAREIT Global: An index used to track the performance of listed real estate companies and REITS in both developed and emerging markets.

MSCI ACWI ex US: An index that captures large and mid-cap representation across 22 of 23 Developed Markets (DM) countries (excluding the US) and 24 Emerging Markets (EM) countries. With 2,136 constituents, the index covers approximately 85% of the global equity opportunity set outside the US.

MSCI EAFE - Developed International: This index reflects the performance of small- to large-cap stocks across the developed regions of Europe, Australasia, and the Far East (EAFE). The index was developed by Morgan Stanley Capital International (MSCI) in 1969 and lists 926 stocks from 21 countries in the EAFE.

MSCI Emerging Market: An index used to measure equity market performance in global emerging markets, consisting of 23 economies including Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey and the United Arab Emirates.

Russell Indices: The Russell 3000 is a market-capitalization-weighted equity index maintained by the FTSE Russell that provides exposure to the entire U.S. stock market. The index tracks the performance of the 3,000 largest U.S. traded stocks which represent about 98% of all U.S. incorporated equity securities. The Russell 2000 index measures the performance of approximately 2,000 of the smallest companies in the Russell 3000 index.

S&P Indices: The S&P 500 Index is a market-capitalization-weighted index of the 500 largest U.S. publicly traded companies by market value. Other popular indices include the S&P MidCap 400, which represents the mid-cap range of companies and the S&P SmallCap 600, which represents small-cap companies. The S&P 1000 is a combination of the S&P 400 and 600, representing the small and mid-cap market. The S&P 500, S&P MidCap 400 and S&P SmallCap 600 combine to create a U.S. all-capitalization index known as the S&P Composite 1500.