APTUS CAPITAL ADVISORS

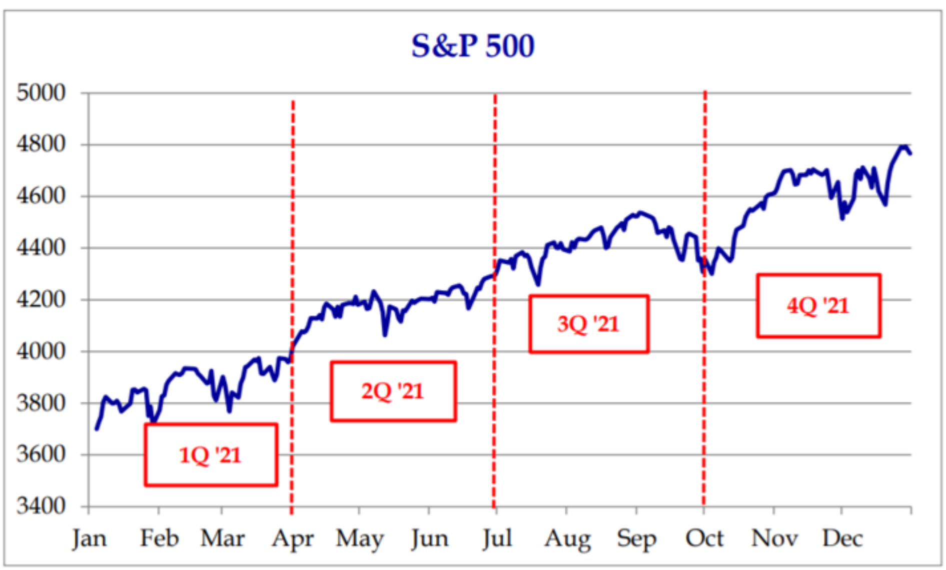
MARKET RECAP – Q4 2021

- The S&P 500 index led the global markets in Q4 on continued strong earnings growth, while developed international was hampered by currency weakness. Emerging markets fell, primarily due to weakness in Asia. U.S. bonds finished the quarter flat, as intermediate Treasuries gains were offset by short term securities as the Fed prepares to raise rates, and corporates were flat on a rise in credit spreads. TIPS gained as inflation expectations rose, while high yield corporates were up just marginally as wider spreads offset yield return. Commodities rose as gains in metals and agriculture offset weakness in energy. REITS overall were higher on gains in warehouse, industrial, and residential REITS.

	December '21	QTD	YTD	1-Year	3-Year	5-Year	10-Year
S&P 500	4.48%	11.03%	28.71%	28.71%	26.07%	18.47%	16.55%
NASDAQ	0.74%	8.45%	22.18%	22.18%	34.26%	24.97%	20.96%
Dow Jones Industrial	5.53%	7.87%	20.95%	20.95%	18.49%	15.51%	14.21%
Russell 2000	2.23%	2.14%	14.82%	14.82%	20.02%	12.02%	13.23%
MSCI EAFE	5.12%	2.69%	11.26%	11.26%	13.54%	9.55%	8.03%
MSCI Emerging Markets	1.88%	-1.31%	-2.54%	-2.54%	10.94%	9.87%	5.49%
Barclays Agg. Bond Index	-0.26%	0.01%	-1.54%	-1.54%	4.79%	3.57%	2.90%
Investment Grade Bonds	-0.03%	0.38%	-1.84%	-1.84%	8.52%	5.65%	4.93%
High Yield Bonds	1.66%	0.52%	4.79%	4.79%	7.53%	5.20%	5.73%

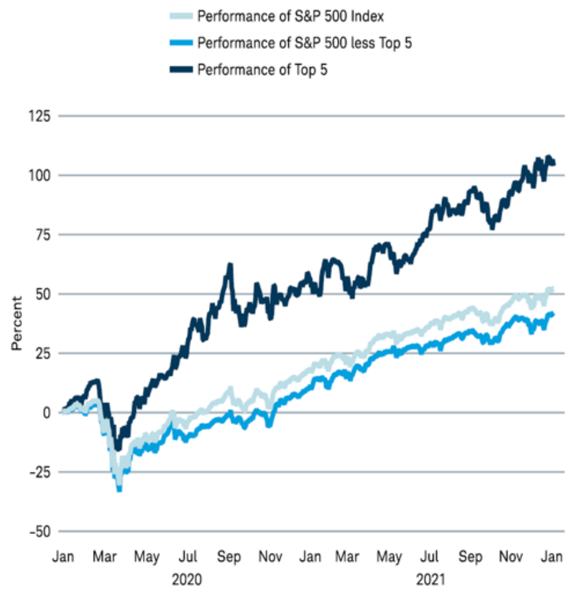
Source: Bloomberg. Data as of 12/31/2021. Returns over 1YR are Annualized.

- The S&P 500 delivered another extremely strong year in 2021, +28.7% on a total return basis, fueled by a year-end 4.5% rally in December. Over the past three years, the index more than doubled including dividends, marking its first 100%+ three-year gain since the Tech Bubble and a 93rd percentile year based on data back to 1938. The equal-weighted index outperformed the S&P 500 by 70bps. But outside of stocks, other asset classes dropped including long-term Treasuries (-4.6%), investment-grade corporate bonds (-1.0%), and gold (-4.3%). International stocks also lagged, especially in USD terms: ACWI ex-US +8.3% in USD & +13.5% in local currency terms, with Emerging Markets -2.2% in USD & +0.1% in local currency. Europe rose 11.8% in USD & 19.3% in local currency.



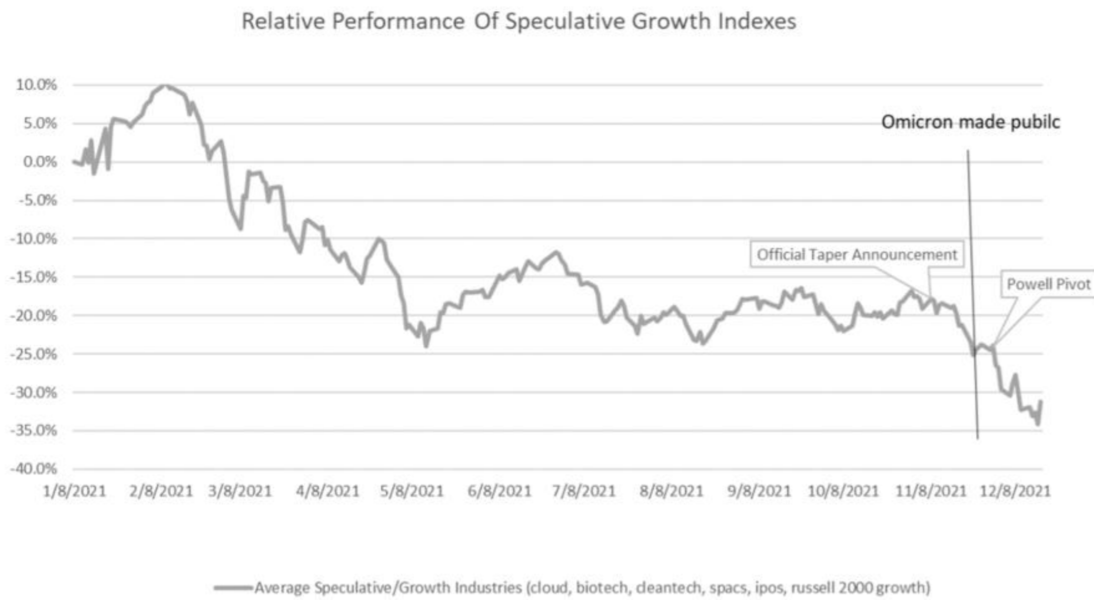
Source: Strategas, Data as of 12/31/2021

- *The Market Remains Concentrated* - The five biggest stocks, comprising nearly 25% of the S&P 500 Index, continue to outpace the overall market since the COVID-19 crisis lows in March of 2020.



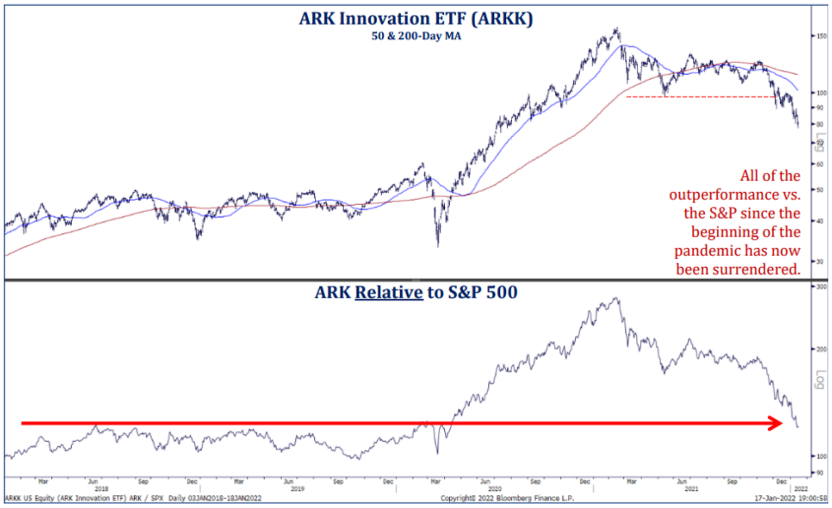
Source: Charles Schwab, Data as of 12/31/2021

- *Owning Speculative Growth Did Not Work Last Year* - Underperformance of speculative parts of the market is pretty self-explanatory from February through April - higher 10-year Treasury yields. But the severe underperformance at the end of the year can probably be chalked up to fear of short-term rates increasing, the "Powell pivot", and tax-loss selling.



Source: Raymond James, Data as of 12/31/2021

- *All the Pandemic Alpha for ARK v. S&P 500 is Now Gone* – As the above chart shows, speculative growth companies have had a difficult year.



Source: Strategas, Data as of 12/31/2021

- *Interest Rates and Equity Performance* - There have only been two instances where stocks fell during a rising rate environment. In fact, the annualized returns in each of these periods where rates rose 1% or more was 10.5%, which is right around the average long-term return for the U.S. stock market. It is worth noting some of these rising rate environments did precede some nasty stock market falls. Rates raced higher in 1987 right before the biggest one-day crash in history in October of that year. And rates rose in the final couple of years in the late-1990s dot-com bubble as the Fed was trying to snuff out a speculative mania.

The Stock Market Does Fine When Rates Rise
S&P 500 performance when the 10 year treasury yield rises 1% or more since 1950

Start Date	End Date	Starting Yield	Ending Yield	S&P 500
JAN '50	JUN '53	2.3%	3.1%	80.9%
JUL '54	OCT '57	2.3%	4.0%	60.7%
APR '58	JAN '60	2.9%	4.7%	40.4%
MAY '61	SEP '66	3.7%	5.2%	70.8%
MAR '67	MAY '70	4.5%	7.9%	-1.9%
NOV '71	SEP '75	5.8%	8.4%	2.8%
DEC '76	MAR '80	6.9%	12.8%	18.4%
JUN '80	SEP '81	9.8%	15.3%	11.4%
MAY '83	JUN '84	10.4%	13.6%	-1.5%
JAN '87	OCT '87	7.1%	9.5%	6.7%
OCT '93	NOV '94	5.3%	8.0%	2.2%
OCT '98	JAN '00	4.5%	6.7%	39.5%
JUN '03	MAY '06	3.3%	5.1%	39.1%
JUL '12	OCT '18	1.5%	3.2%	127.2%

Source: DFA, Data as of 12/31/2021

- *Interest Rates and Equity Performance Continued* - There seems to be a belief that rising yields are generally bad for Stocks, but the data suggests otherwise. The table shows the S&P 500's returns during periods in which the 10-year yield gained more than 100 basis points. As you can see, the S&P 500 tends to rise along with yields more often than not. To be fair, rising yields will likely impact which areas of the market outperform. But overall, the S&P 500 tends to do just fine in an environment where the 10-year yield is rising.

Higher Rates Are Usually Bullish For Stocks

S&P 500 Index Returns Under A Higher 10-Year Yield (Gains of more than 100 basis points)

Rising Rates Start Date	Rising Rates End Date	Duration (Months)	Change in 10-Year Treasury Yield	S&P 500 Gain/Loss
12/26/1962	8/29/1966	44.7	1.7%	18.3%
3/16/1967	12/29/1969	34.0	3.6%	1.3%
3/23/1971	9/16/1975	54.6	3.2%	-18.1%
12/30/1976	9/30/1981	57.8	9.0%	8.7%
5/4/1983	5/30/1984	13.1	3.9%	-7.9%
8/29/1986	10/16/1987	13.8	3.3%	11.8%
10/15/1993	11/7/1994	12.9	2.9%	-1.4%
1/19/1996	7/8/1996	5.7	1.5%	6.7%
10/5/1998	1/21/2000	15.8	2.6%	45.8%
6/13/2003	6/28/2006	37.0	2.1%	26.0%
12/30/2008	4/5/2010	15.4	1.9%	33.3%
7/24/2012	12/31/2013	17.5	1.6%	38.1%
7/8/2016	10/5/2018	27.3	1.9%	35.5%
3/9/2020	3/31/2021	12.9	1.2%	44.6%
Average		25.9	2.9%	17.3%
Median		16.6	2.4%	15.0%
% Positive				78.6%

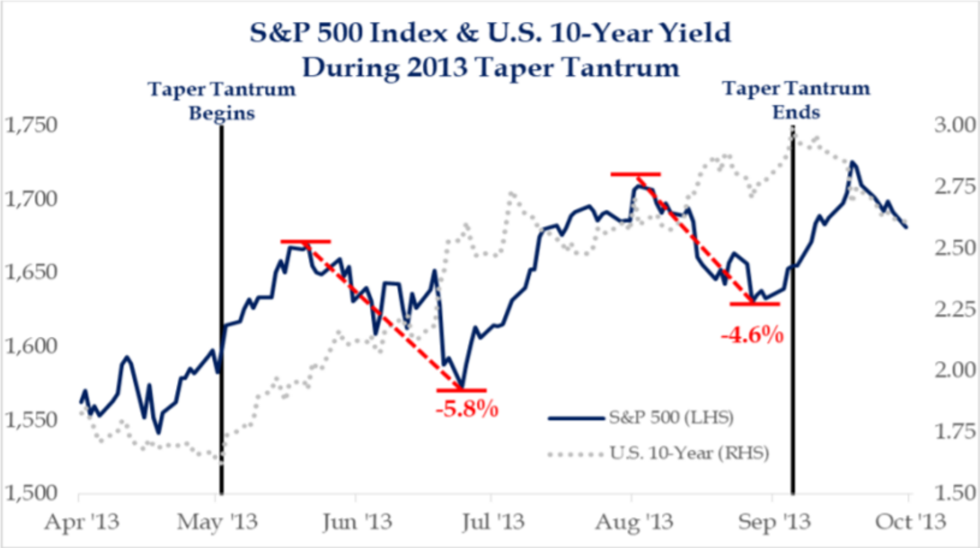
Source: LPL Research. Data as of 12/31/2021

- *A Brief History in Historical Returns* – We will start to learn with greater clarity investors' "rational expectations" of the fixed income markets as the Fed thinks about tightening. The size of the equity risk premium for the S&P 500 makes it difficult to be bearish. By the same token, the much-anticipated single digit return forecast that allows a strategist to sound reasonable and optimistic simultaneously doesn't actually happen all that often. As a matter of fact, the last time the Index posted a single-digit positive total return was 2015. In the 13 full years since Q.E. started in November 2008, the S&P 500 has posted a double-digit total return nearly 77% of the time. Since 1926, the likelihood of achieving the same result each year was a little less than 60%. Only the years 2011 (+2.1%), 2015 (+1.4%), and 2018 (-4.4%) were the exceptions to this period of truly remarkable equity performance.

	1930s	1940s	1950s	1960s	1970s	1980s	1990s	2000s	2010s	*2020s
Large-Cap Stocks	-0.1	9.2	19.4	7.8	5.9	17.6	18.2	-0.9	13.6	18.4
Long-Term Government	4.9	3.2	-0.1	1.4	5.5	12.6	8.8	7.7	6.6	16.7
Long-Term Corporate	6.9	2.7	1.0	1.7	6.2	13.0	8.4	7.6	8.0	15.4
Intermediate-Term Gov't	4.6	1.8	1.3	3.5	7.0	11.9	7.2	6.2	3.1	7.3
Small-Cap Stocks	1.4	20.7	16.9	15.5	11.5	15.8	15.1	6.3	12.4	6.6
Gold	5.3	0.1	0.1	0.0	30.7	-2.4	-3.3	14.3	3.3	2.2
Inflation	-2.0	5.4	2.2	2.5	7.4	5.1	2.9	2.5	1.8	1.4
Treasury Bills	0.6	0.4	1.9	3.9	6.3	8.9	4.9	2.8	0.5	0.4

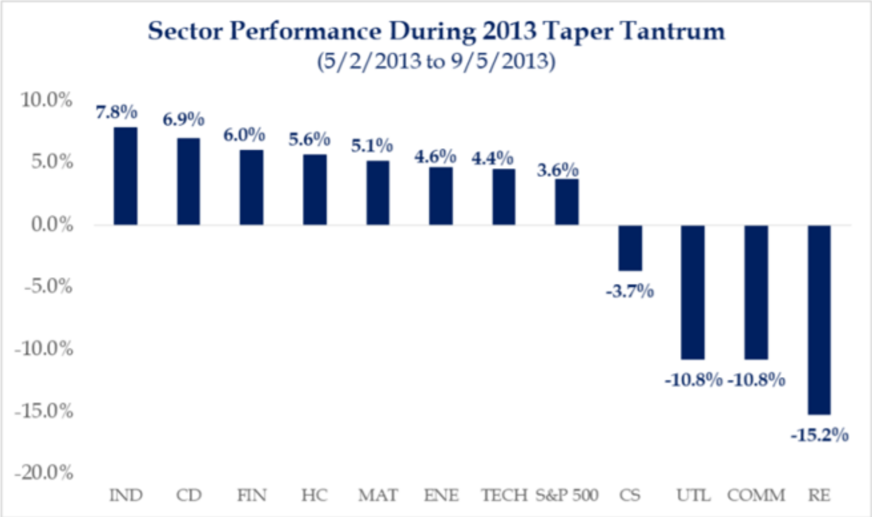
Source: Strategas, Data as of 12/31/2021

- *Fed Tightening on Multiples* - Historically, Fed tightening cycles have been accompanied by positive returns for both small and large caps, but multiple contraction in both size segments tend to occur. Large cap multiples have typically contracted more: during both the first six months and first 12 months of the tightening cycle (where cycles have lasted 1.5 years on average), the relative forward P/E of the Russell 2000 vs. Russell 1000 increased in ~60% of those instances (but in only 43% of instances when considering the full tightening cycle).



Source: Strategas, Data as of 12/31/2021

- *What Performs During Taper Tantrums?* – From a sector perspective, leading up to the taper tantrum in 2013, the financial sector was a significant outperformer while technology underperformed, which is very similar to the performance we have seen in the last six months. Look at Tech, a higher-duration sector, underperforming on increasing expectations of higher rates. However, major differences exist, as Utilities and Consumer Staples outperformed in 2013 before the taper and Energy and Materials underperformed. The complete opposite has occurred this time. What is different? Inflation Expectations.



Source: Strategas, Data as of 12/31/2021

Equity Asset Classes

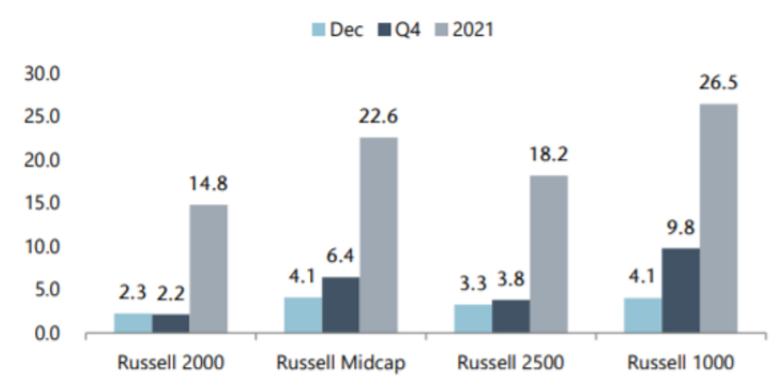
- *Diversification Benefits* - As shown below in the white boxes during the last 15 years, diversification generally puts you somewhere in the middle of the return spectrum. That's a feature not a bug, one we see as the first layer of portfolio protection. The idea that anyone is going to consistently overweight to next year's leading styles could be considered crazy; we see building a structure that minimizes the drag of large losers as far more realistic. From our perspective, in some years, like this year, protection isn't necessary, but over a 20 - 30-year period all portfolios face periods of drawdown - much like we saw in 2020. We believe a proactive plan to manage those periods can be the difference between meeting future spending needs or adjusting them.

2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2007 - 2021 Ann.	2007 - 2021 Vol.
EM Equity 39.8%	Fixed Income 5.2%	EM Equity 79.0%	REITs 27.9%	REITs 8.3%	REITs 19.7%	Small Cap 38.8%	REITs 28.0%	REITs 2.8%	Small Cap 21.3%	EM Equity 37.8%	Cash 1.8%	Large Cap 31.5%	Small Cap 20.0%	REITs 41.3%	Large Cap 10.6%	REITs 23.2%
Comdty. 16.2%	Cash 1.8%	High Yield 59.4%	Small Cap 26.9%	Fixed Income 7.8%	High Yield 19.6%	Large Cap 32.4%	Large Cap 13.7%	Large Cap 1.4%	High Yield 14.3%	DM Equity 25.6%	Fixed Income 0.0%	REITs 28.7%	EM Equity 18.7%	Large Cap 28.7%	Small Cap 8.7%	EM Equity 22.9%
DM Equity 11.6%	Asset Alloc. -25.4%	DM Equity 32.5%	EM Equity 19.2%	High Yield 3.1%	EM Equity 18.6%	DM Equity 23.3%	Fixed Income 6.0%	Fixed Income 0.5%	Large Cap 12.0%	Large Cap 21.8%	REITs -4.0%	Small Cap 25.5%	Large Cap 18.4%	Comdty. 27.1%	REITs 7.5%	Small Cap 22.5%
Asset Alloc. 7.1%	High Yield -26.9%	REITs 28.0%	Comdty. 16.8%	Large Cap 2.1%	DM Equity 17.9%	Asset Alloc. 14.9%	Asset Alloc. 5.2%	Cash 0.0%	Comdty. 11.8%	Small Cap 14.6%	High Yield -4.1%	DM Equity 22.7%	Asset Alloc. 10.6%	Small Cap 14.8%	High Yield 6.6%	Comdty. 19.1%
Fixed Income 7.0%	Small Cap -33.8%	Small Cap 27.2%	Large Cap 15.1%	Cash 0.1%	Small Cap 16.3%	High Yield 7.3%	Small Cap 4.9%	DM Equity -0.4%	EM Equity 11.6%	Asset Alloc. 14.6%	Large Cap -4.4%	Asset Alloc. 19.5%	DM Equity 8.3%	Asset Alloc. 13.4%	Asset Alloc. 5.7%	DM Equity 18.9%
Large Cap 5.5%	Comdty. -35.6%	Large Cap 26.5%	High Yield 14.8%	Asset Alloc. -0.7%	Large Cap 16.0%	REITs 2.9%	Cash 0.0%	Asset Alloc. -2.0%	REITs 8.6%	High Yield 10.4%	Asset Alloc. -5.8%	EM Equity 18.9%	Fixed Income 7.5%	DM Equity 11.8%	EM Equity 4.8%	Large Cap 16.9%
Cash 4.8%	Large Cap -37.0%	Asset Alloc. 25.0%	Asset Alloc. 13.3%	Small Cap -4.2%	Asset Alloc. 12.2%	Cash 0.0%	High Yield 0.0%	High Yield -2.7%	Asset Alloc. 8.3%	REITs 8.7%	Small Cap -11.0%	High Yield 12.6%	High Yield 7.0%	High Yield 1.0%	DM Equity 4.1%	High Yield 12.2%
High Yield 3.2%	REITs -37.7%	Comdty. 18.9%	DM Equity 8.2%	DM Equity -11.7%	Fixed Income 4.2%	Fixed Income -2.0%	EM Equity -1.8%	Small Cap -4.4%	Fixed Income 2.6%	Fixed Income 3.5%	Comdty. -11.2%	Fixed Income 8.7%	Cash 0.5%	Cash 0.0%	Fixed Income 4.1%	Asset Alloc. 11.7%
Small Cap -1.6%	DM Equity -43.1%	Fixed Income 5.9%	Fixed Income 6.5%	Comdty. -13.3%	Cash 0.1%	EM Equity -2.3%	DM Equity -4.5%	EM Equity -14.6%	DM Equity 1.5%	Comdty. 1.7%	DM Equity -13.4%	Comdty. 7.7%	Comdty. -3.1%	Fixed Income -1.5%	Cash 0.8%	Fixed Income 3.3%
REITs -15.7%	EM Equity -53.2%	Cash 0.1%	Cash 0.1%	EM Equity -18.2%	Comdty. -1.1%	Comdty. -9.5%	Comdty. -17.0%	Comdty. -24.7%	Cash 0.3%	Cash 0.8%	EM Equity -14.2%	Cash 2.2%	REITs -5.1%	EM Equity -2.2%	Comdty. -2.6%	Cash 0.7%

Source: JPMorgan Guide to the Markets, Data as of 12/31/2021

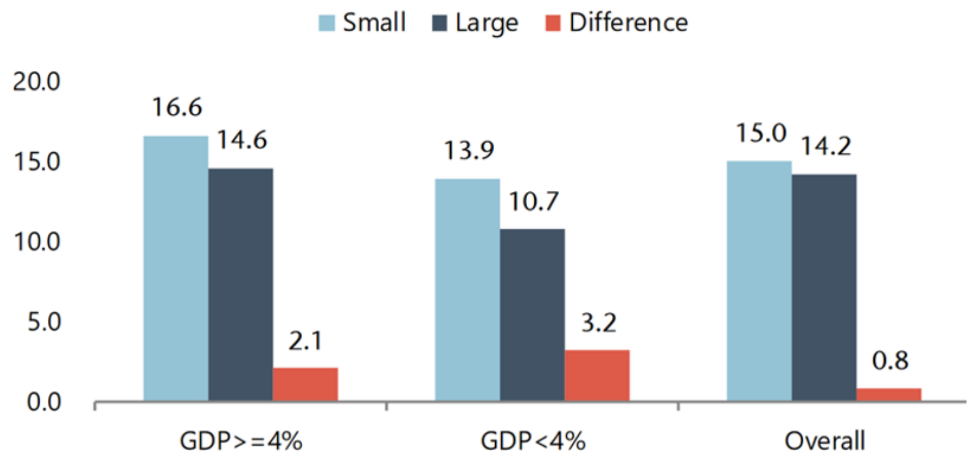
- U.S. Small Caps have underperformed U.S. Large Caps for five straight years. Even worse, this past year, 2021, U.S. Small Caps underperformed U.S. Large Caps by the largest spread since 1998 - ~14%. But, on the bright side, in years when GDP and inflation are above average (which is expected in 2022), even while the Fed is hiking, small tends to beat large by nearly 400bps. For the first time since '95 to '97, U.S. Small Caps delivered three consecutive years of double-digit gains. However, the performance was front-end loaded, as U.S. Small Caps were unable to break out of its 9-month range and only briefly surpassed its 3/15/21 high.

Chart 1 - Worst loss since '98 for Small vs. Large



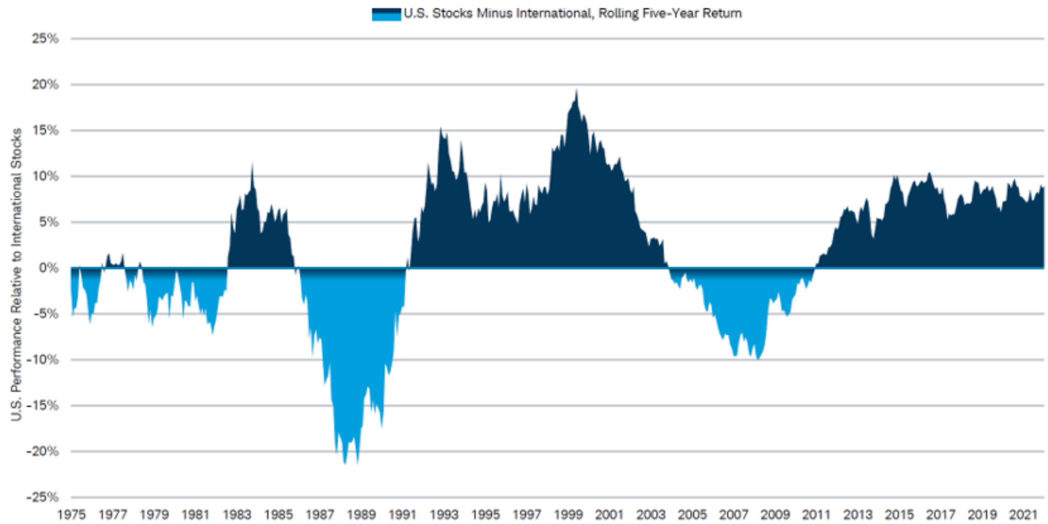
Source: Factset, Jefferies, Data as of 12/31/2021

- From our observations U.S. small cap stocks, which are not as well capitalized and thus more dependent on an economic rebound, tend to outperform when GDP > 4%.



Source: Jefferies, Data as of 12/31/2021

- *The Decade of International* – It was another difficult year for international stocks, as U.S. Fixed Income even outperformed the MSCI Emerging Markets Index. As of year-end, both the MSCI EAFE and MSCI EM are expected to grow earnings ~7% for 2022 – compared to 9% for the S&P 500. Furthermore, International stocks trade at a 30% discount relative to the S&P 500, when they have historically only traded at an 8% discount.



Source: Charles Schwab, Data as of 12/31/2021

- Why have International Stocks Underperformed U.S. Since the GFC / Why Do U.S. Stocks Trade at Such a Premium?
    1. *U.S. Has Higher Exposure to Growth* – Given the significantly larger weight to Growth sectors, U.S. equities have consistently traded at a premium to their international counterparts. Last year's outperformance by growth (in Large-Cap land), has taken the valuation premium to above 50%. With the Fed taper said to end in mid-March, and the dot plots signaling three hikes this year, rich valuations could pose as a headwind, especially for those stocks with weak or no earnings – growth tends to have more stocks that exhibit these characteristics.
    2. *Higher Profitability / Faster Earnings Growth* – When it comes to profits, U.S. firms are in a different league compared to their international peers. Supported by superior margins and operating conditions, U.S. firms have generated significantly better profits since the GFC, this is especially true of the more dominant Growth style. In fact, U.S. profit margins have exploded, while international has stayed stagnant over the past decade. The earnings backdrop is superior for U.S. equities v. international peers, even within the Value style. As such, the superior profitability for U.S. stocks is not only driven by the Tech heavy Growth style.
    3. *International Has More Industrial and Commodity Exposure* – The International Indices have a heavier weight in manufacturing and commodity-producing markets. Stocks with these types of exposures tend to trade at lower multiples and have underperformed over the last decade. Not only have these areas of the market underperformed, but It's been interesting to me that U.S. stocks have outperformed international peers, even within these more cyclical / Value areas of the market.
    4. *Consumers Have Changed their Spending Habits from Goods to Services* – Another significant headwind for international has been the rotation of consumer spending to services from goods. All of the largest weights in the MSCI ACWI ex.-U.S. index have a tight relationship with the industrial cycle, i.e., goods not services. Moving forward, the continued slowdown in the manufacturing new orders PMI and elevated input costs could further worsen the prospects for all major international equity markets moving forward.

Equity Attribution

- The S&P 500 index led the global markets in Q4, posting record highs and tripling the performance of international developed markets in 2021, which were hampered by currency weakness. The energy sector led the U.S. gains in 2021 as oil rose nearly 60% followed by REITs and Technology. Utilities and Consumer Staples lagged. Strong earnings growth in the U.S. continues to keep valuations in check albeit at rich levels. Many companies have been successful in passing along higher labor and input costs to consumers. The equity markets took the Fed's hawkishness in stride, as investors appear to be okay with less policy stimulus. Weak currencies also held back many emerging markets, while Chinese stocks struggled as weaker economic growth weighed on consumer discretionary stocks and technology fell amid a government clampdown on some high-profile companies.

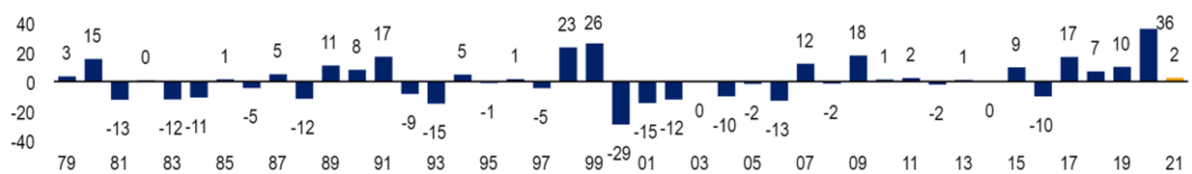
S&P 500 Sectors (Total Return)	3Q'20	4Q'20	2020	1Q'21	2Q'21	3Q'21	4Q'21 (sorted)	YTD
Real Estate	1.9%	4.9%	-2.2%	9.0%	13.1%	0.9%	17.5%	46.2%
Technology	12.0%	11.8%	43.9%	2.0%	11.6%	1.3%	16.7%	34.5%
Materials	13.3%	14.5%	20.7%	9.1%	5.0%	-3.5%	15.2%	27.3%
Staples	10.4%	6.4%	10.7%	1.1%	3.8%	-0.3%	13.3%	18.6%
Utilities	6.1%	6.5%	0.5%	2.8%	-0.4%	1.8%	12.9%	17.7%
Discretionary	15.1%	8.0%	33.3%	3.1%	6.9%	0.0%	12.8%	24.4%
Health Care	5.9%	8.0%	13.4%	3.2%	8.4%	1.4%	11.2%	26.1%
S&P 500 Total Return	**8.9%**	**12.1%**	**18.4%**	**6.2%**	**8.5%**	**0.6%**	**11.0%**	**28.7%**
Industrials	12.5%	15.7%	11.1%	11.4%	4.5%	-4.2%	8.6%	21.1%
Energy	-19.7%	27.8%	-33.7%	30.9%	11.3%	-1.7%	8.0%	54.6%
Financials	4.4%	23.2%	-1.7%	16.0%	8.4%	2.7%	4.6%	35.0%
Communication Services	8.9%	13.8%	23.6%	8.1%	10.7%	1.6%	0.0%	21.6%

Source: Strategas, Data as of 12/31/2021

- The Russell 2000 (+15%) underperformed the Russell Midcap (+23%) and Russell 1000 (+26%) in 2021. But the S&P 600 small cap index (+27%) performed similarly to the two large cap indices. Health Care (-18%) was the biggest detractor within the Russell 2000, led by Biotech. The S&P 600 is higher quality and has less exposure to Health Care; it also outperformed the Russell 2000 the next few years last time the indices diverged this much (2000). Within small caps, the Russell 2000 Value index beat the Growth index by a whopping 25% (in contrast to Growth outperformance in large caps). Energy was the best-performing small cap sector (similar to in large), but contrast to large caps, Consumer Discretionary was also a top performer.

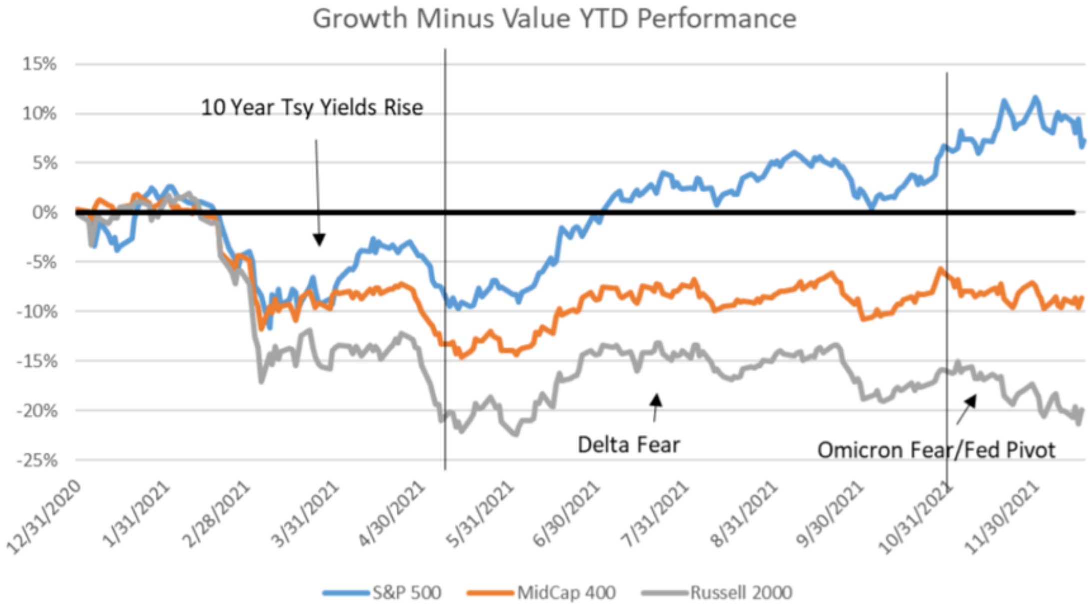
Exhibit 4: Annual relative (Growth vs. Value) total returns for Russell Large Caps

Relative total return of the Russell 1000 Growth Index vs. the Russell 1000 Value Index (1979-2021 YTD), as of 11/30/21



Source: BofA, Data as of 12/31/2021

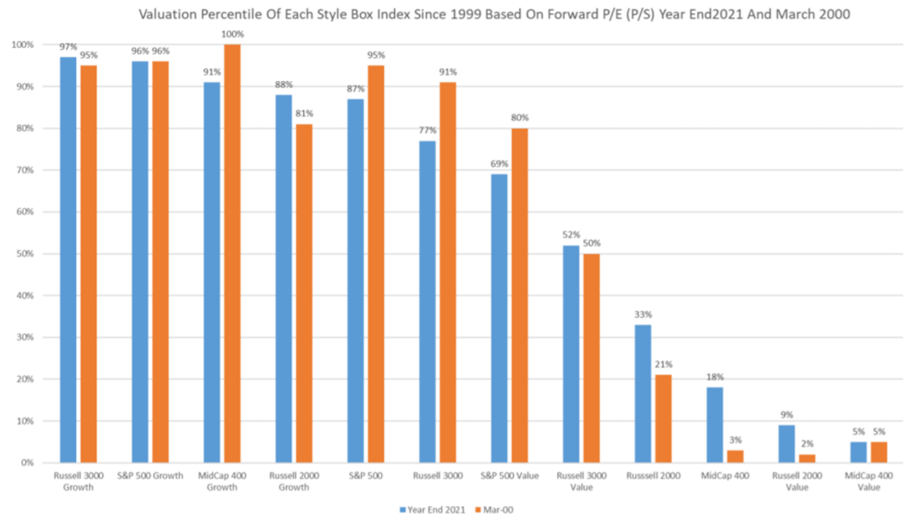
- *Growth vs. Value is In the Eye of the Beholder* - Growth sold off across all indexes as the 10-year Treasury yield increased in 1Q21. Then as Delta fear gripped the world, growth outperformed in large cap indexes, but no definable trend in growth vs. value in small/mid cap indexes. Since omicron/"Powell Pivot", there has not been a definite growth vs. value trend except in small caps where growth has meaningfully underperformed.



Source: Raymond James, Data as of 12/31/2021

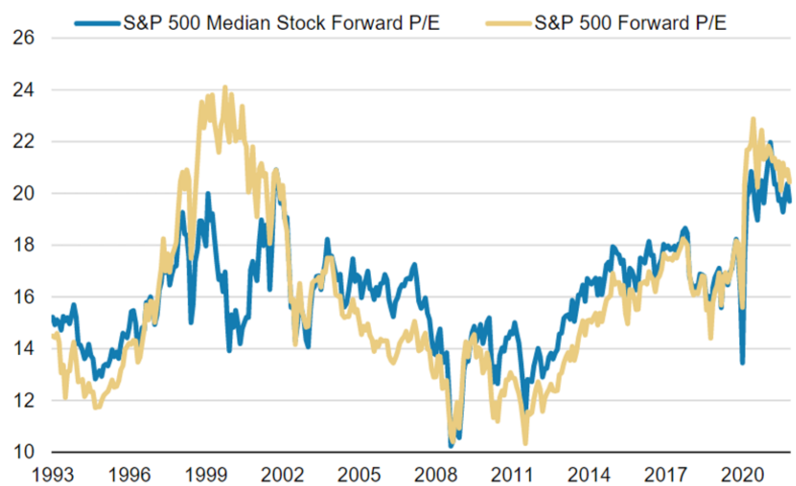
Equity Valuations

- *After 20 Years of Disinflationary Forces, PE Valuations Relative to Historical Norms are Heavily Skewed to Growth and Larger Caps* – Whether this will change if inflation is going to run hotter for a few years is an open question, but market positioning is HEAVILY weighted towards growth and larger cap stocks relative to history. Our guess is that if the yield curve just gets flatter this valuation differential WILL NOT change materially. But, if rates rise meaningfully, we suspect the market has a significant rotation in store. Of note, the orange bars are the valuation percentile of each style box in early 2000, which shows an eerily similar, if not quite as extreme, valuation condition in the equity market.



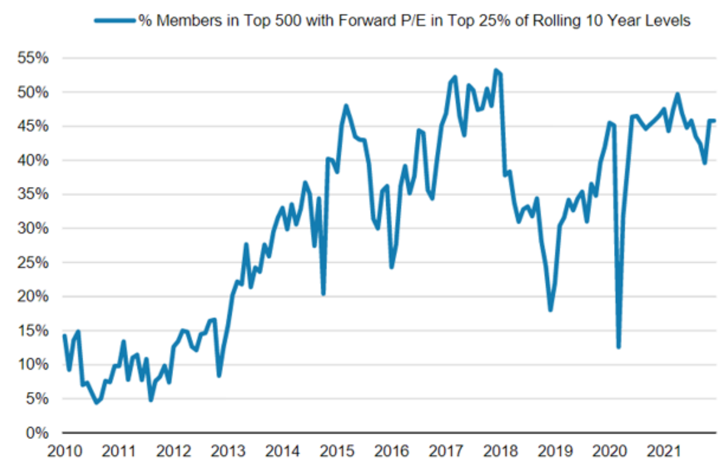
Source: Raymond James, Data as of 12/31/2021

- *Valuations are Broadly Extended Across the S&P 500* - There's been significant focus in recent months on the concentration in leadership at the index level and the price damage that has already been done under the surface away from that narrow leadership. While we're respectful of those facts, we find it very interesting that valuation under the surface of the index remains elevated from a historical standpoint. The chart below shows that forward P/E for the median stock in the S&P 500 remains around 20x, nearly in line with the S&P's cap weighted P/E.



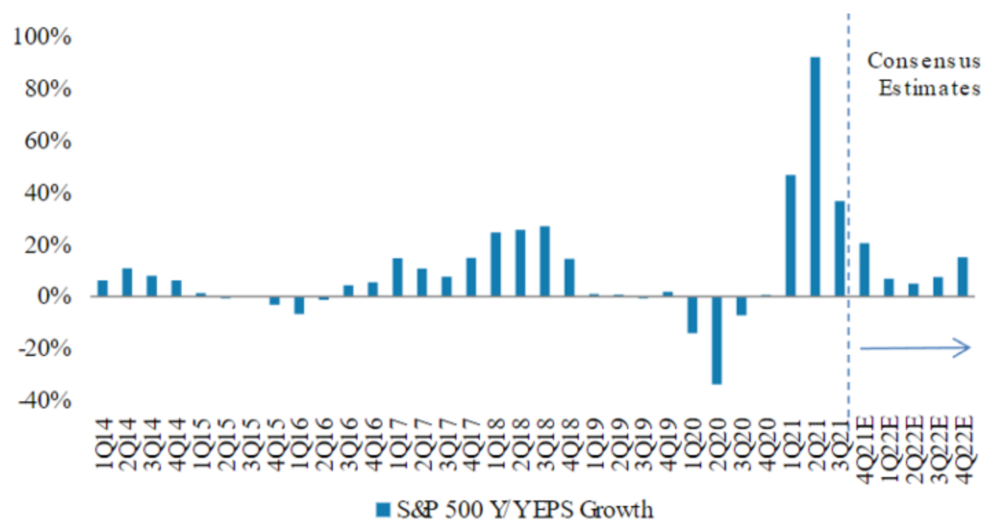
Source: Morgan Stanley, Data as of 12/31/2021

- *Top Quartile Valuations Also Broadly Extended Underneath the Hood* - Nearly 50% of top 500 by market cap constituents trade in the top quartile of their historical 10-year forward P/E levels. That measure is historically elevated and remains around post-covid highs. What's also amazing about this cycle is the snap back in this measure post-covid. This differs significantly from the prior cycle when valuation broadly remained depressed for several years before trending higher. The difference this time around is the speed of this V-shaped recovery, coupled with an incredibly accommodative monetary policy backdrop. However, as growth slows this year and monetary policy becomes more hawkish at a rapid pace in 1H '22, those tailwinds fade. We think that dynamic poses a risk to valuation broadly.



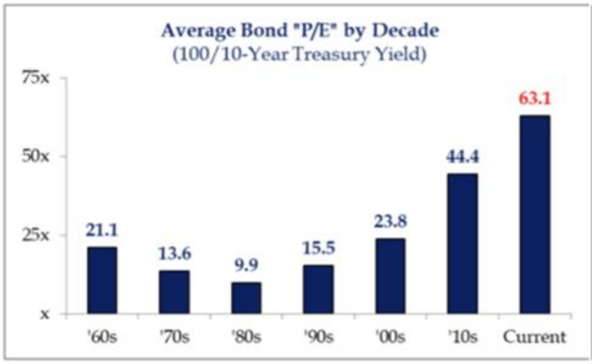
Source: Morgan Stanley, Data as of 12/31/2021

- *Earnings Preview* - Earnings are expected to rise 22% during the fourth quarter, this marks a continued deceleration in earnings growth and what is likely to be the last quarter of double-digit growth until the fourth quarter of 2022. Companies typically beat earnings estimates by about 5% and it is likely earnings will come in several percent higher than forecasted. One key thing we will be focused on this earnings season is how stocks react to earnings reports. If stocks that see big estimate beats don't rally after reporting, it will show how tough it is for the market to get excited at this point.



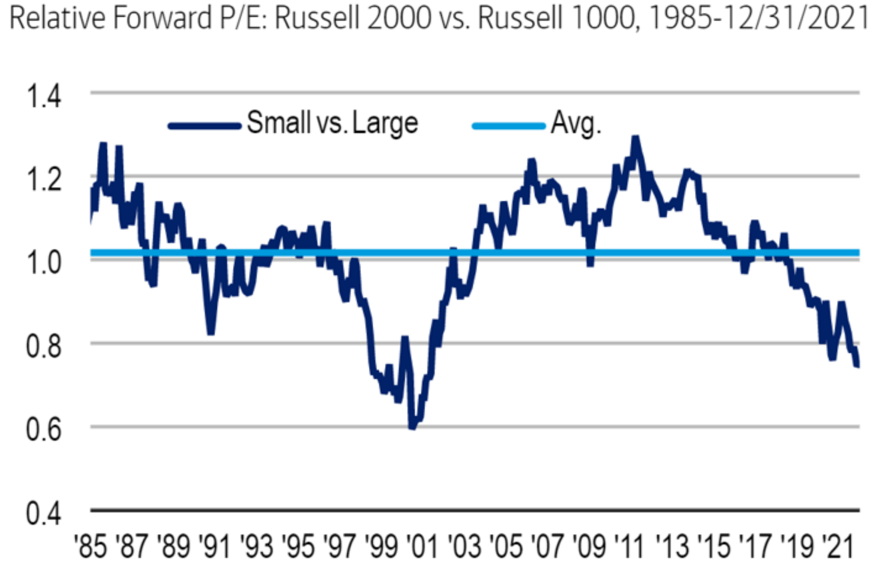
Source: Morgan Stanley, Data as of 12/31/2021

- *But Don't Forget About the Relative Opportunity Set* – Relative to the alternative options for investors, equities continue to remain attractive – especially versus bonds. Another way to measure valuations in the fixed income world is take the bond price ($100) and divide it by the 10-Year Treasury Yield to get a "P/E" multiple. The graphic below shows how expensive bonds are compared to history. Keep in mind those bond earnings come with zero potential for growth... and you thought tech was expensive! Furthermore, the equity risk premium currently stands at 246bps compared to a historical average of 63bps. While it has come in some recently, the forward prospects for earnings remain strong suggesting the measure should continue to hold true.



Source: Strategas, Data as of 12/31/2021

- *Small Cap Valuations* - The relative forward P/E of the Russell 2000 vs. the Russell 1000 was unchanged last month at 0.75x. It is now 9% below start-of-2021 levels, and more than 25% below its long-term average of 1.02x. This is also below COVID lows and the cheapest since 2001. The 2000's were a strong decade for small caps despite what was ultimately a negative decade for large caps, and the relative forward P/E of small vs. large expanded between 2000 through 2006.



Source: BofA, Data as of 12/31/2021

Fixed Income

- The Fed has embarked on the normalization of its monetary policy, accelerating the pace of tapering bond purchases and signaling up to four rate hikes in 2022 and 2023. The December Federal Open Market Committee (FOMC) statement cited “inflation developments and the further improvement in the labor market” for its hawkishness. Despite high inflation and strong economic growth, longer-term Treasury yields continue to be anchored by lower international rates. Corporate option adjusted spreads are up from cyclical lows but remain well below the long-term average. Municipal yields spreads have also increased modestly but there are few credit concerns due in part to strong fiscal support. The U.S. dollar has found support from the relatively more hawkish Fed and comparably higher U.S. rates.

	Q4 2021	YTD	1-Year	3-Year	5-Year	10-Year
Barclays Agg. Bond Index	0.01%	-1.54%	-1.54%	4.79%	3.57%	2.90%
Investment Grade Bonds	0.38%	-1.84%	-1.84%	8.52%	5.65%	4.93%
High Yield Bonds	0.52%	4.79%	4.79%	7.53%	5.20%	5.73%
Barclays Gov't 1-5YR	-0.74%	-1.18%	-1.18%	2.43%	1.90%	1.50%
Barclays Intermediate Tsy.	-0.57%	-1.72%	-1.72%	3.04%	2.33%	1.68%
Barclays Long-Term US Tsy.	3.08%	-4.65%	-4.65%	8.82%	6.54%	4.51%
Treasury TIPS	2.36%	5.96%	5.96%	8.44%	5.34%	3.09%
U.S. MBS	-0.37%	-1.04%	-1.04%	3.01%	2.50%	2.28%

Source: Bloomberg. Data as of 12/31/2021. Returns over 1YR are Annualized.

- *Interest Rates* - Interest Rates remained range bound throughout the back half of 2021, pinging between 1.30% and 1.70% based off investor sentiment on equity risk and inflation data. This followed the monstrous rise in rates Q1 of '21 (10YR went from 0.91% to 1.74% in a mere 3 months). As the outlook for long term growth and inflation continue to stay moderated, yields have been capped. We'd also perhaps point to the Fed's QE bond purchases lowering available supply of bonds in the market and foreign buyers relative value pick up vs local government bonds also keeping long term rates subdued, at least in Q4 of '21. Rates have broken out to start '22, rising from 1.51% to 1.79%.

Source: Bloomberg, Data as of 1/17/2022

- *What Are Rates Saying about Inflation?* - One of the larger stories that began to play out in Q4 '21 was the sudden rise in short term yields as the markets started to price in a more aggressive Fed following stickier than expected inflation. The 2YR Treasury rose 47 bps in Q4 '21 to end the year at 0.73%. The trend has continued into '22 where the 2YR has risen an additional 23bps, currently sitting at a 0.97% vs 0.265% to start Q4 '21.

Source: Bloomberg, Data as of 1/17/2021

- *Federal Funds Rates and The Fed* - Notably the Fed has continued to turn more hawkish into Q4 '21 and to begin Q1 '22 as the employment picture has continued to improve and inflation pressures have broadened and are running at uncomfortably high levels. Currently the market is hiking in 4 interest rate hikes in '22 with a ~90% chance of a hike following the end of asset purchases in March.

When Does The Market Expect The Fed To Hike?

As of January 14, 2022

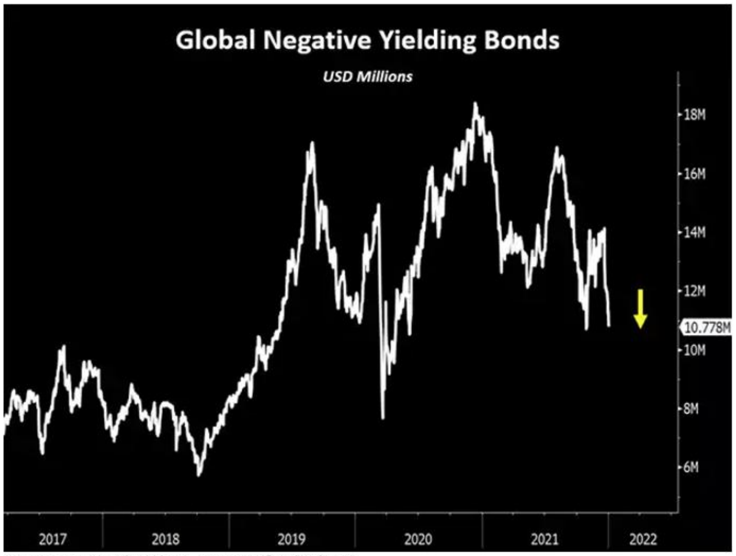
Probability of a Move

Green Hike Probability over 50%

FOMC Meeting	No Hike 0% - 0.25%	One Hike to 0.25% - 0.50%	Two Hikes to 0.50% - 0.75%	Three Hikes to 0.75% - 1.00%	Four Hikes to 1.00% - 1.25%	Five Hikes to 1.25% - 1.50%
26-Jan-22	97%	3%	0%	0%	0%	0%
16-Mar-22	14%	86%	3%	0%	0%	0%
4-May-22	9%	92%	36%	1%	0%	0%
15-Jun-22	2%	98%	79%	28%	1%	0%
27-Jul-22	1%	99%	85%	45%	10%	0%
21-Sep-22	1%	99%	92%	64%	27%	5%
2-Nov-22	1%	100%	94%	73%	38%	12%
14-Dec-22	0%	100%	97%	86%	60%	28%
1-Feb-23	0%	100%	98%	89%	66%	36%

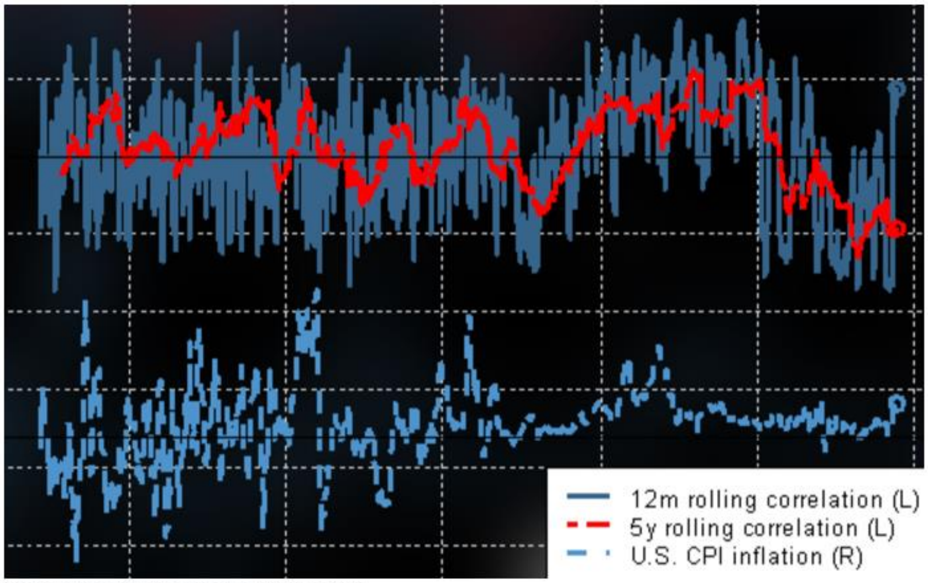
Source: Chicago Mercantile Exchange, Bianco, Data as of 12/31/2021

- *Negative Yielding Debt Across the World* - We continue to see the amount of negative debt outstanding globally decrease substantially.



Source: Bianco, Bloomberg, Data as of 12/31/2021

- *Fixed Income Correlations* - There are plenty of reasons to think the low interest rate environment will remain in place. However, that does not mean U.S. Treasury bonds will continue to serve the non-correlated, Long Volatility has played a role for the last two decades. Instead, inflation pressures may continue driving positive stock and bond correlations, meaning bonds lose value when investors need a ballast the most. With inflation rising, the correlation between the S&P 500 and 10-year Treasury bond has turned decidedly positive over the past 12 months. The safety and non-correlated attributes of U.S. fixed income have diminished and could be upended by inflation - we believe this will be a ballast for long volatility exposures.



Source: Bloomberg, Data as of 12/31/2021

- *Global Rates* - Global yields are turning positive, basically everywhere you look as inflation maintains the headline story.

Strategas Global Rate Matrix - 3/9/20

	3 Month	1 Year	2 Year	5 Year	10 Year	30 Year
Australia	0.60	0.39	0.43	0.40	0.61	1.16
Belgium	-0.67	-0.68	-0.72	-0.62	-0.32	0.27
Canada	0.65	0.57	0.53	0.53	0.54	0.74
Denmark	-	-0.85	-0.97	-0.91	-0.80	-
France	-0.67	-0.72	-0.75	-0.63	-0.38	0.24
Germany	-0.70	-0.91	-1.00	-0.99	-0.86	-0.49
Italy	-0.20	0.08	0.41	0.94	1.42	2.26
Japan	-0.34	-0.28	-0.31	-0.30	-0.16	0.25
Netherlands	-0.70	-	-0.82	-0.86	-	-0.38
Norway	0.99	0.73	-	0.55	0.74	-
Portugal	-0.45	-0.46	-0.32	0.03	0.39	1.07
Spain	-0.57	-0.46	-0.40	-0.17	0.96	0.96
Sweden	-0.15	-	-0.42	-0.67	-0.51	-
Switzerland	-	-0.93	-0.95	-0.92	-0.94	-0.64
U.K.	0.40	0.24	0.09	0.11	0.16	0.51
U.S.	0.34	0.31	0.38	0.48	0.54	1.00

Strategas Global Rate Matrix - Present

	3 Month	1 Year	2 Year	5 Year	10 Year	30 Year
Australia	0.03	0.43	1.52	1.52	1.92	2.57
Belgium	-0.65	-0.65	-0.62	-0.29	0.28	0.97
Canada	0.26	0.90	1.08	1.52	1.72	1.97
Denmark	-	-0.63	-0.54	-0.13	0.14	0.40
France	-0.65	-0.65	-0.63	-0.17	0.29	0.97
Germany	-0.62	-0.63	-0.59	-0.37	-0.03	0.29
Italy	-0.67	-0.53	-0.08	0.48	1.29	2.13
Japan	-0.10	-0.10	-0.05	-0.04	0.14	0.72
Netherlands	-0.64	-	-0.63	-0.34	0.07	0.40
Norway	0.04	1.07	1.50	1.74	1.85	-
Portugal	-0.73	-0.88	-0.57	-0.18	0.58	1.48
Spain	-0.62	-0.56	-0.55	-0.10	0.65	1.45
Sweden	-0.13	-	-0.15	0.23	0.42	-
Switzerland	-	-0.76	-0.69	-0.26	0.03	0.14
U.K.	0.20	0.68	0.84	1.01	1.19	1.31
U.S.	0.09	0.42	0.89	1.53	1.78	2.12

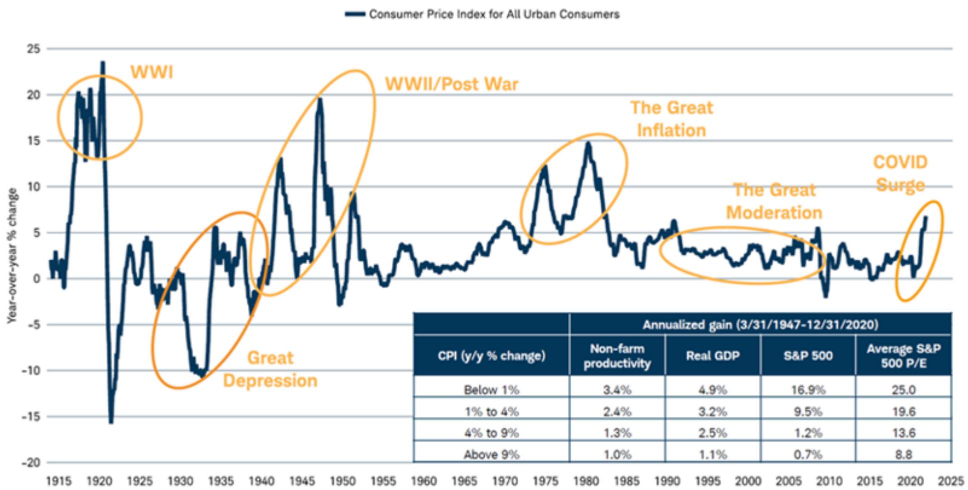
Source: Strategas, Data as of 12/31/2021

- *Global Rates Cont.* - While interest rates globally aren't typically something we'd harp on, this is a huge change in sentiment. Yields on Swiss and German 10yr bonds are making 3-year highs, both getting back into positive territory. We think this is a macro story being overlooked by the markets.

Source: Strategas, Data as of 12/31/2021

Economic Review

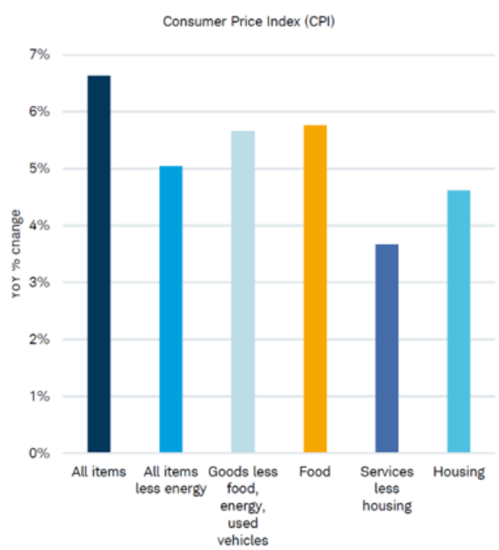
- *Longer-Term View of Inflation* – Previous surges in inflation were associated with unique events, some of which lasted for years. With more active monetary policies since the early 1980s, it's unlikely the recent rise in inflation will be as lengthy, although it has persisted longer than most expected. In the past, higher inflation correlated with weaker market and economic gains.

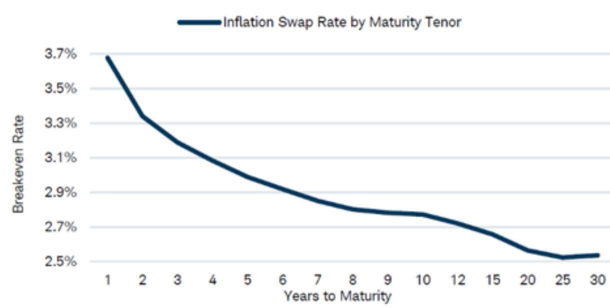


CPI (y/y % change)	Annualized gain (3/31/1947-12/31/2020) Non-farm productivity	Real GDP	S&P 500	Average S&P 500 P/E
Below 1%	3.4%	4.9%	16.9%	25.0
1% to 4%	2.4%	3.2%	9.5%	19.6
4% to 9%	1.3%	2.5%	1.2%	13.6
Above 9%	1.0%	1.1%	0.7%	8.8

Source: Charles Schwab, Data as of 12/31/2020

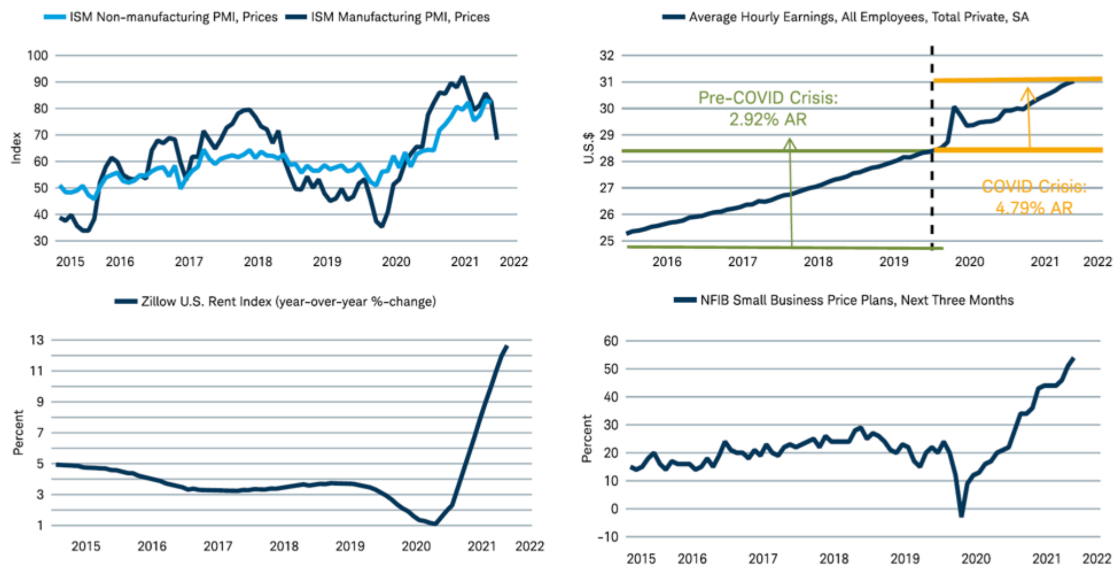
- *How Did Inflation Get Here?* - The stimulus related demand spike, combined with supply constraints, resulted in a surge in consumer prices, led by gasoline and transportation (e.g., new and used cars). Recently, food and housing prices have accelerated. Watch the three-month annualized rate, which shows short term inflation momentum. Investors expect less inflation in coming years.





Source: Charles Schwab, Data as of 12/31/2021

- *Inflation Through the Windshield* - While inflation may ease in the longer term, key areas merit watching. Housing prices have risen sharply. Businesses say that input prices are higher, and wages are rising faster than prior to the crisis. Small businesses are increasingly able to pass higher costs on to consumers.



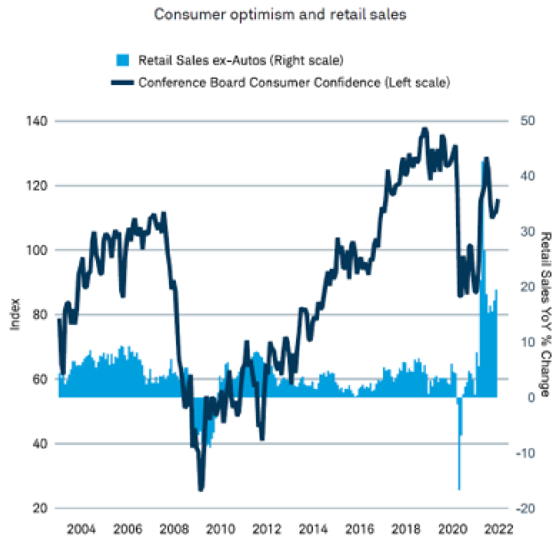
Source: Charles Schwab, Data as of 12/31/2021

- *The Impact of Inflation on Investment Returns* - A primary focus for long-term investors should be the growth of purchasing power of their investment; stocks have as good of a track record in accomplishing this goal, relative to other asset classes. With that said, stocks post higher nominal returns in periods of low inflation than in high inflation, even before factoring in the erosion that inflation causes to real returns.

S&P 500 When CPI > 5%										
Year	1973	1974	1975	1977	1978	1979	1980	1981	1990	**AVERAGE**
CPI	8.9%	12.2%	7.0%	6.8%	9.0%	13.3%	12.4%	8.9%	6.1%	9.4%
	-14.3%	-25.9%	37.0%	-7.0%	6.5%	18.5%	31.7%	-4.7%	-3.1%	4.3%

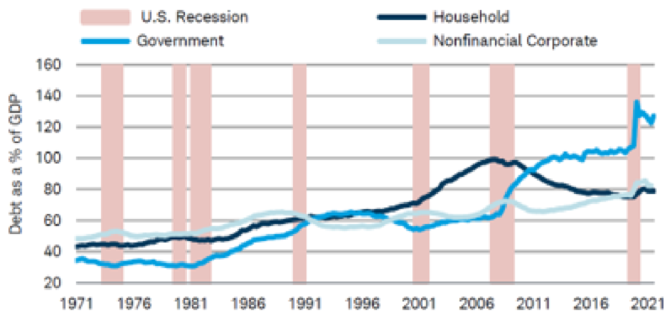
Source: Aptus Capital Advisors, Fama-French, Data as of 12/31/2021

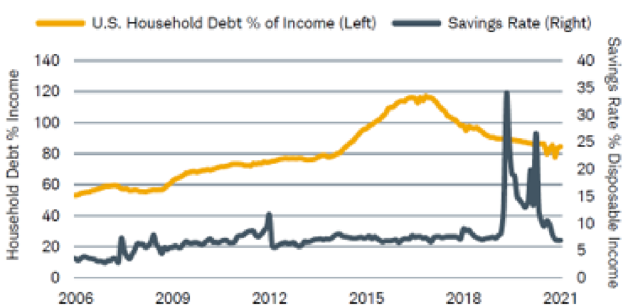
- *Consumer Confidence* - Small business capital spending plans have recovered, which portends a pickup in investment. Consumer confidence rose and retail sales shot higher due to stimulus, but both are moderating as the fiscal policy tailwind ebbs and inflation rises.

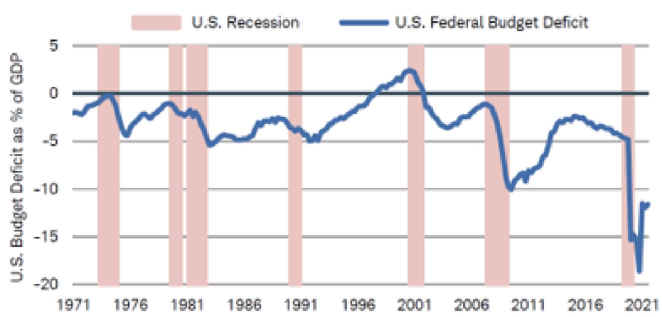


Source: Charles Schwab, Data as of 12/31/2021

- *U.S. Debt and Taxes* - Federal debt rose sharply amid COVID 19 related fiscal stimulus. Households used stimulus money temporarily bolstering savings to spend and pay down debt. It is too soon to say whether personal taxes will rise to help fund the government budget deficits.







Bars represent National Bureau of Economic Research defined recession periods.

Married Filing Jointly | Qualifying Widow(er) 2022 IRS Brackets

Tax rate	Taxable income bracket	Capital gains bracket	Long-term capital gains and qualified dividends
10%	$0 to $20,550	$0 to $83,350	0%
12%	$20,551 to $83,550	$83,351 to $517,200	15%
22%	$83,551 to $178,150	$517,201 or more	20%
24%	$178,151 to $340,100		
32%	$340,101 to $431,900		
35%	$431,901 to $647,850		
37%	$647,851 or more		

Source: U.S. Government, Charles Schwab, Data as of 12/31/2021

The Backdrop for 2022:

The Good:

- **The U.S. Consumer has Never Been Healthier** - We believe the aggregate consumer is flush with cash, and once pent-up demand can safely be unleashed, the U.S. economy can continue to rip higher. The average U.S. Household are worth ~30% more. Consumer balance sheets are well fortified and flush with cash - ready to spend when supply chain and virus risks ease.
- ***Better than Anticipated Earnings*** – Given Fiscal stimulus, the pandemic resulted in only a 15% drawdown in earnings – it only took 6 quarters to recoup the demand damages. We remain optimistic, as we continue to see the full-year 2021 earnings estimates from Wall Street analysts continues to grind higher, now standing at $204 - well above the 2019 level. Given the health of the consumer, and if we see peak supply chain stress in the market, we believe that there is upside to these estimates. The market next year will need to see continued growth, off the back of consumer spending, to see positive returns.

The Bad:

- ***Fed Tapering Misstep –*** For the most of Q2 and Q3, the yield curve paused its steepening. Now, it is up the Fed Chair Jerome Powell to recognize the level of flattening. This means caution in communication if the Fed is to avoid the mistakes of the Yellen Fed, namely inverting the yield curve and slowing the flow of liquidity to main street by redirecting said liquidity towards Wall Street. We believe the Fed is between a Rock (slower growth) and a Hard Place (Inflation). The Fed's recent hawkish pivot helps alleviate this worry.
- ***Longer-than-Expected Supply Chain Issues -*** It's no secret that there is a supply chain problem in the United States. Furthermore, it appears to be lasting much longer than originally anticipated. Given the lack of supply, coupled with extreme demand, we've seen substantial increases to the price of goods. If these bottlenecks continue to persist, it could dampen future expectations for consumer spending.

The Ugly:

- ***Faster-than-Expected Inflation Curbing Spending –*** The magnitude of the policy actions used to counteract deflation may, in the end, be hugely inflationary. Higher-than-expected inflation tends to be a major headwind to equity valuations. Right now, 5YR inflation breakeven figures are well above the Fed's 2% target. For markets, how the Fed chooses to address inflation is as important as the inflation itself.

Disclosures:

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The S&P 500® is widely regarded as the best single gauge of large-cap U.S. equities. There is over USD 11.2 trillion indexed or benchmarked to the index, with indexed assets comprising approximately USD 4.6 trillion of this total. The index includes 500 leading companies and covers approximately 80% of available market capitalization.

The Nasdaq Composite Index measures all Nasdaq domestic and international based common type stocks listed on The Nasdaq Stock Market. To be eligible for inclusion in the Index, the security's U.S. listing must be exclusively on The Nasdaq Stock Market (unless the security was dually listed on another U.S. market prior to January 1, 2004 and has continuously maintained such listing). The security types eligible for the Index include common stocks, ordinary shares, ADRs, shares of beneficial interest or limited partnership interests and tracking stocks. Security types not included in the Index are closed-end funds, convertible debentures, exchange traded funds, preferred stocks, rights, warrants, units and other derivative securities.

The Dow Jones Industrial Average® (The Dow®), is a price-weighted measure of 30 U.S. blue-chip companies. The index covers all industries except transportation and utilities.

The Russell 2000® Index measures the performance of the small-cap segment of the US equity universe. The Russell 2000® Index is a subset of the Russell 3000® Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership. The Russell 2000® is constructed to provide a comprehensive and unbiased small-cap barometer and is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small-cap opportunity set.

*The MSCI EAFE Index is an equity index which captures large and mid-cap representation across 21 Developed Markets countries*around the world, excluding the US and Canada. With 902 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.*

The MSCI Emerging Markets Index captures large and mid-cap representation across 26 Emerging Markets (EM) countries. With 1,387 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.*

The Bloomberg Barclays U.S. Aggregate Bond Index is a broad-based benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. This includes Treasuries, government-related and corporate securities, mortgage-backed securities, asset-backed securities and collateralized mortgage-backed securities.

The Russell Midcap® Index measures the performance of the mid-cap segment of the US equity universe. The Russell Midcap® Index is a subset of the Russell 1000® Index. It includes approximately 800 of the smallest securities based on a combination of their market cap and current index membership. The Russell Midcap® Index represents approximately 31% of the total market capitalization of the Russell 1000® companies. The Russell Midcap® Index is constructed to provide a comprehensive and unbiased barometer for the mid-cap segment. The index is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true mid-cap opportunity set.

Investment-grade Bond (or High-grade Bond) are believed to have a lower risk of default and receive higher ratings by the credit rating agencies. These bonds tend to be issued at lower yields than less creditworthy bonds.

Non-investment-grade debt securities (high-yield/junk bonds) may be subject to greater market fluctuations, risk of default or loss of income and principal than higher-rated securities.

The Russell 1000® Index measures the performance of the large cap segment of the U.S. equity universe. The Russell 1000 Index is a subset of the Russell 3000® Index, representing approximately 90% of the total market capitalization of that index. It includes approximately 1,000 of the largest securities based on a combination of their market capitalization and current index membership.

The S&P SmallCap 600® seeks to measure the small-cap segment of the U.S. equity market. The index is designed to track companies that meet specific inclusion criteria to ensure that they are liquid and financially viable.

The Russell 2000® Growth Index measures the performance of the small cap growth segment of the US equity universe. It includes those Russell 2000® companies with higher price-to-value ratios and higher forecasted growth values. The Russell 2000® Growth Index is constructed to provide a comprehensive and unbiased barometer for the small-cap growth segment. The index is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small cap opportunity set and that the represented companies continue to reflect growth characteristics.

The Russell Midcap® Growth Index offers investors access to the mid cap growth segment of the U.S. equity universe. The Russell Midcap® Growth Index is constructed to provide a comprehensive and unbiased barometer of the mid cap growth market. Based on ongoing empirical research of investment manager behavior, the methodology used to determine growth probability approximates the aggregate mid cap growth manager's opportunity set.

The Bloomberg US Mortgage-Backed Securities (MBS) Index tracks fixed-rate agency mortgage-backed pass-through securities guaranteed by Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC). The index is constructed by grouping individual TBA-deliverable MBS pools into aggregates or generics based on program, coupon and vintage.

Treasury Inflation-Protected Securities, or TIPS, provide protection against inflation. The principal of a TIPS increases with inflation and decreases with deflation, as measured by the Consumer Price Index.

Bloomberg Barclays Municipal 1-5 Yr TR USD includes all medium and larger issues of U.S. government, investment-grade corporate, and investment-grade international dollar-denominated bonds that have maturities of between 1 and 5 years and are publicly issued.

The Barclays Capital Intermediate U.S. Treasury Index includes all publicly issued, U.S. Treasury securities that have a remaining maturity of greater than or equal to 1 year and less than 10 years, are rated investment grade, and have $250 million or more of outstanding face value.

The Barclays Capital Long U.S. Treasury Index includes all publicly issued, U.S. Treasury securities that have a remaining maturity of 10 or more years, are rated investment grade, and have $250 million or more of outstanding face value.

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