Weekly Manager's Pulse

August 01, 2022

Equities finished higher last week as investors seemed to take the news of another negative GDP reading for the second quarter in stride, hoping it to be a sign that the Fed's aggressive rate hike cycle will start to slow down, especially after another 0.75 bps rate hike this past week. Further, earnings results have remained generally resilient. With over 50% of the companies within the S&P 500 Index having reported earnings already, over 70% of the earnings reports have surprised on the upside. Ultimately, the S&P 500 Index finished 4.28% for the week. Also, global sovereign yields fell last week with the growing expectations of softening central bank policy. In the U.S., the 10-Year U.S. Treasury yield fell to 2.67% while the 2-Year U.S. Treasury yield fell to 2.89%.

Economic Review*
- Fed raised rates by 0.75% to a range of 2.25%-2.50%
- Eurozone eked out +0.7% GDP growth in 2Q
- 2s/10s curve saw its most inverted level in 20 years

Spotlight: TARGET PLUS

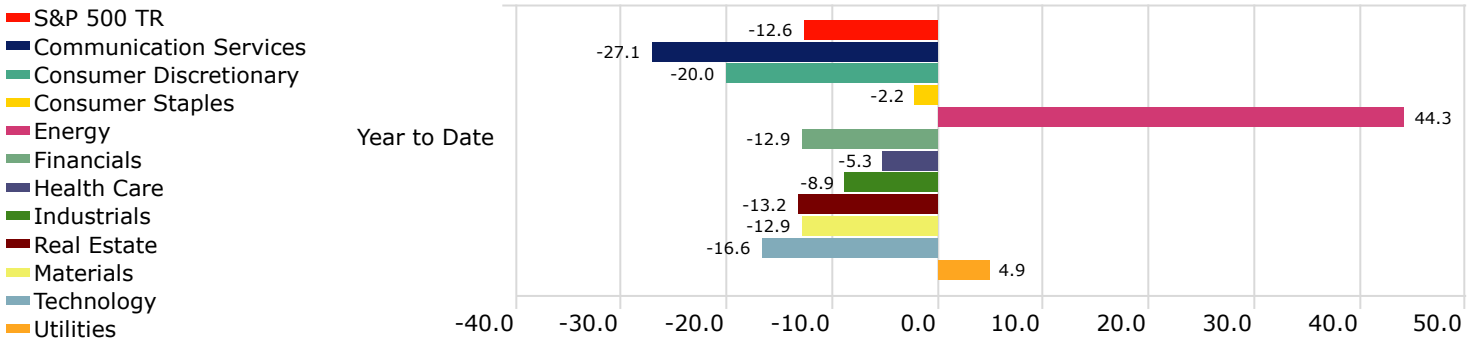
The Target PLUS models are designed to provide key enhancements to traditional target date investing. The first enhancement is to pair best-in-class equity managers with best-in-class fixed income managers, rather than using the same manager for each as most Target Date Funds do. Another enhancement is, given today's low interest rate environment, to only use fixed income strategies that utilize Tactical management or incorporate Active bond picking in their underlying holdings. We believe these types of strategies have the potential to offer enhanced returns, given the broader fixed income universe they are able to choose from. While the models are constructed with a Strategic, long-term investing horizon in mind, another key enhancement is to provide some Tactical exposure, which can help buffer losses during volatile markets. In addition, the underlying holdings within the models provide both Active management, via individual stock or bond selection, and Passive investing, via lower-cost, passive exposure to a specific index or benchmark. We believe the combination of these Strategic, Tactical, Active and Passive elements can deliver the desired portfolio outcome with greater diversification, improved risk management, and enhanced returns.

Within equities, a tactical business-cycle rotation strategy was a notable outperformer. The strategy is currently positioned to hedge against inflation by having an overweight to commodity-related sectors and an overweight to defensive areas of the market. Health care, energy, and utilities were three of the top four best performing sectors during the second quarter. Most strategic managers, notably those with a growth overweight, struggled as interest rates continued to rise during the quarter. One exception to this is a growth strategy that holds both commodities and real estate to provide diversification. The robust returns in commodities helped this strategy to outperform its benchmark. Benchmark-relative performance was strong across tactical strategies on the fixed income side. A tactical diversifier strategy that utilizes a blend of alternative asset classes and traditional fixed income posted strong performance, largely due to an allocation to real return assets. Lastly, a tactical income strategy provided downside protection via tactical high-yield bond timing strategies.

Trailing Major Index Returns

	1 Week	1 Month	3 Month	1 Year
S&P 500	4.28	8.28	0.39	-5.15
S&P MidCap 400 TR	4.87	9.81	0.94	-5.79
S&P SmallCap 600 TR USD	4.64	9.60	2.49	-6.47
MSCI ACWI NR USD	3.27	5.80	-1.92	-11.15
MSCI EM NR USD	0.41	-1.46	-6.46	-21.17
Bloomberg US Agg Bond TR USD	0.64	2.87	1.49	-8.98

YTD S&P Sector Returns



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Disclosure

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The indices are presented as broad-based measures of the equity, fixed income and consumer markets. The indices are provided for comparative and illustrative purpose to provide a comparison of the model against the broader based equity, fixed income and consumer market. The indices are not intended to reflect the investment objectives of the model as the securities held within the model will differ in market volatility, concentration, investment objectives and diversification among others from those of the indices. The indices are not managed, and returns do not reflect the deduction of fees, expenses, transaction costs or taxes that actual client accounts are subject to. Investors cannot invest directly in an index. Returns are not annualized for periods less than 1 year.

Trailing Major Index Returns and YTD S&P Sector Returns are sourced from Morningstar Direct.

* Sourced from JPMorgan Asset Management, publicly available at https://am.jpmorgan.com/us/en/asset-management/adv/insights/market-insights/market-updates/weekly-market-recap/

All other economic and market data sources may include, and is not limited to:

Edward Jones, publicly available at https://www.edwardjones.com/us-en/market-news-insights/stock-market-news/stock-market-weekly-update

Goldman Sachs, publicly available at https://www.gsam.com/content/gsam/us/en/advisors/market-insights.html

T. Rowe Price, publicly available at https://www.troweprice.com/personal-investing/resources/insights/global-markets-weekly-update.html

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