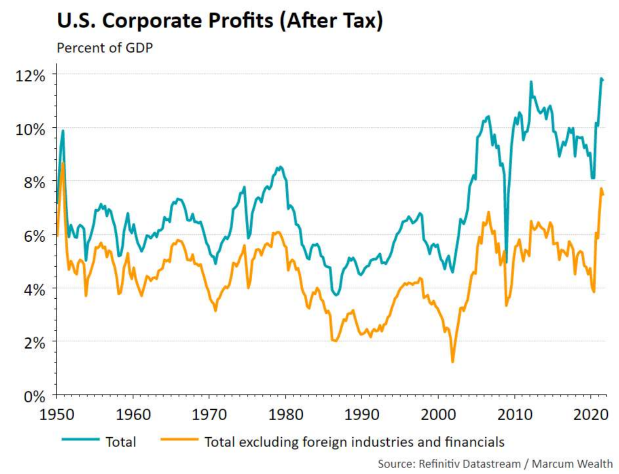
Strategy Newsletter – 1st Quarter 2022

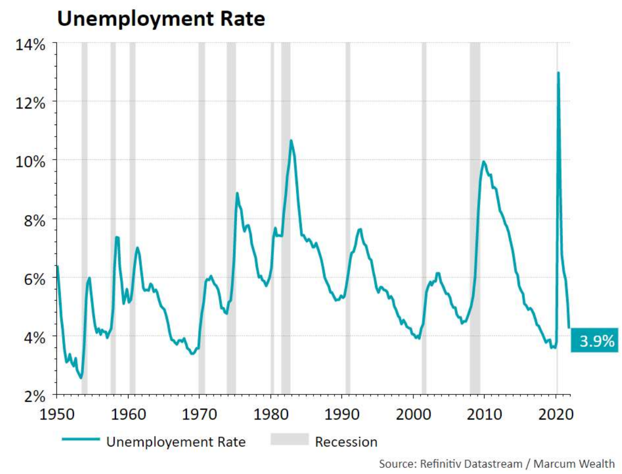
- A robust economic recovery brings about inflation and the expectation that the Fed will step in.
- Equities had an excellent year as the growth versus value debate continues.
- Rising yields raise investors' expectations for the future.
- REITs look less cheap than a year ago.

Economy

Corporate profits are at record levels going back to 1950, an amazing recovery from the depths of 2020.

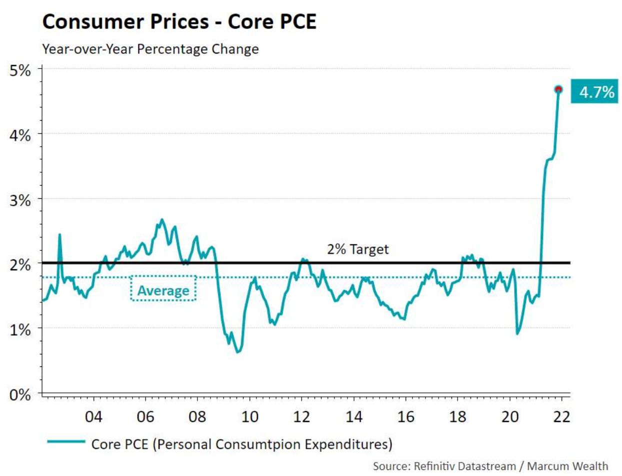


The unemployment rate fell from a peak of 14.7% in April 2020; today it sits at 3.9%.



Unemployment has been at this level or lower just a few times in history. We saw a similarly low rate in 1969, and then again in 2000 and 2019. Wage gains are healthy across workers, allowing greater consumption and economic support.

Despite this, the narrative surrounding the economy has a boogeyman: inflation. It is uncomfortably high, even for the Federal Reserve. What matters is the core personal consumption expenditures index. For the last 20 years, it was hardly above the 2% target. The latest reading is more than double that.



Unfortunately, the Federal Reserve cannot help the supply chain problems. As consumers shifted more purchases to goods from services, keeping up with the demand at ports around the world was challenging. We are going from the recovery phase to the mid-cycle phase of this expansion. The Federal Reserve plans to tighten monetary policy.

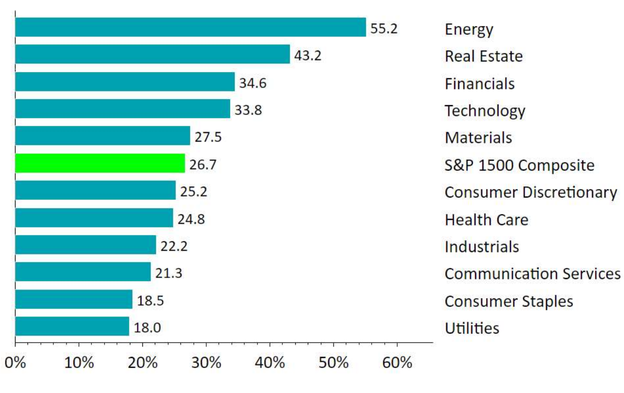
Equity

The wall of worry rose as equity prices at the end of the previous quarter. This made for a nice contrarian setup into the end of the year with positive performance. Growth beat out value in the U.S. and other developed markets while large caps led the way higher.

US Equity	4Q 2021
Large Cap Stock	
S&P 500	11.0%
Small & Mid Cap Stock	
S&P 400 Mid Cap	7.8%
S&P 600 Small Cap	5.5%
All Cap Style Indices	
S&P 1500 Value	8.2%
S&P 1500 Growth	13.0%
International Equity	**4Q 2021**
MSCI EAFE	2.7%
MSCI EAFE Value	1.2%
MSCI EAFE Growth	4.1%
MSCI Europe	5.7%
MSCI Japan	-3.9%
MSCI Emerging Markets	-1.2%

Energy was the big winner for the year, though it notably fell 51% during 2020 as oil prices collapsed. Defensive sectors, including utilities and consumer staples, lagged during the past year's risk-seeking environment.

U.S. All Cap Sector Returns - 2021

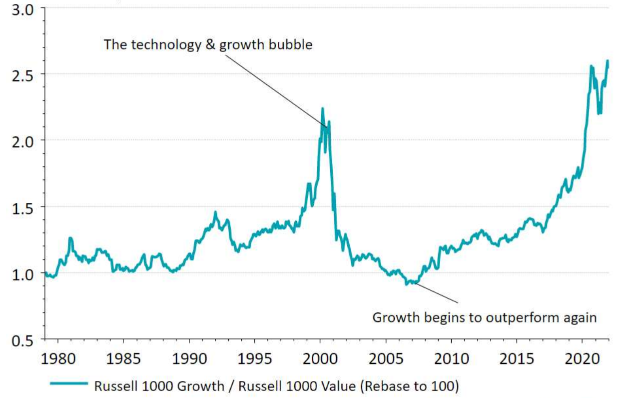


Source: Refinitiv Datastream / Marcum Wealth

At the beginning of 2021, it looked like value may take the spotlight back from growth — but that was not to be as growth staged a comeback. Growth has been outperforming value since 2007.

Large Cap Growth / Large Cap Value Ratio

Growth outperformed in the late 90's and since 2007

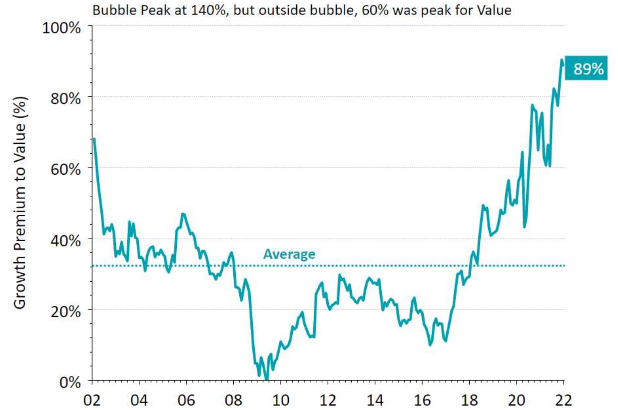


Source: Refinitiv Datastream / Marcum Wealth

The growth and value styles traded at nearly identical forward earnings multiples to start this period of outperformance following the Great Recession. Today, growth stocks trade at a 90% premium multiple to value. Since these stocks are growing faster, they do deserve some premium.

Forward Price to Earnings: Growth vs. Value

Bubble Peak at 140%, but outside bubble, 60% was peak for Value



Source: Refinitiv Datastream / Marcum Wealth

Many strategists think value's time is finally here. The naysayers believe the secular growth of the trillion-dollar technology companies will continue. We see the case on both sides and have a small tilt toward value, while maintaining exposure across both styles.

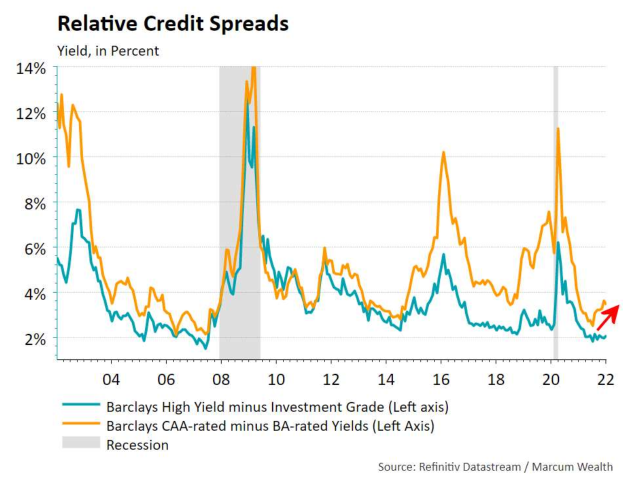
Equities remain at the strategic target weight within the Marcum Wealth Asset Allocation Frameworks.

Fixed Income

Last quarter witnessed modest returns from most bond sectors. Treasury Inflation Protected Securities (TIPS) were the top performer as inflation expectations increased.

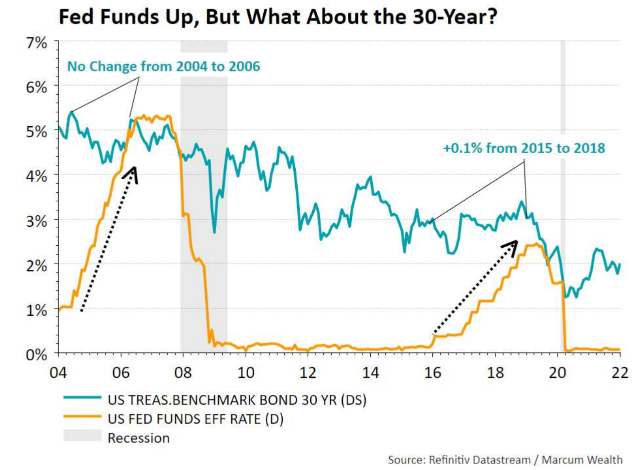
Fixed Income	4Q 2021
Bloomberg U.S. Aggregate Bond	0.0%
Bloomberg Corporate Inv. Grade	0.2%
Bloomberg High Yield Bond	0.8%
Bloomberg Global ex. U.S. Treas.	-1.5%
Bloomberg Municipal Bond	0.8%
Bloomberg TIPS	3.3%

Bond holders of corporate debt receive additional yield over Treasuries, known as the credit spread to compensate for the issuers' default risk. The chart below compares credit spreads between higher-rated debt and lower-rated debt. The orange line is beginning to rise, signaling that the lowest-rated borrowers are having to pay more in interest. This can often signal a warning to the broader corporate bond market that credit spreads may begin to rise.

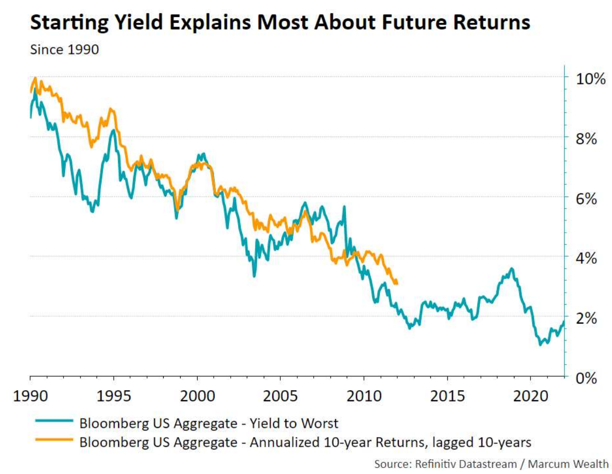


The Fed and markets signal there are three to four interest rate hikes expected during 2022. In addition, the Fed will taper purchases of securities, providing less accommodative policy.

Markets expect interest rates to rise over the next year. Yet it is important to specify which maturities are most likely to increase. As the Fed raises the Fed Funds Rate, short and intermediate bonds yields will begin to increase. In the past two hiking cycles, the 30-year maturity had no change and only rose 0.1% each time.



Yields moving up initially pushes bond prices down, but this is a welcome development for savers. Today, the Bloomberg Aggregate Bond Index yields 1.8%, near the lowest in its history. The starting yield is empirically a good estimate of future return expectations. The chart below shows the future path of returns and tracks the starting yield of 10 years prior as well.



The Marcum Wealth Asset Allocation Frameworks maintain the target exposure to fixed income. Portfolios have a diversified mix of corporate, securitized, and high-quality bonds.

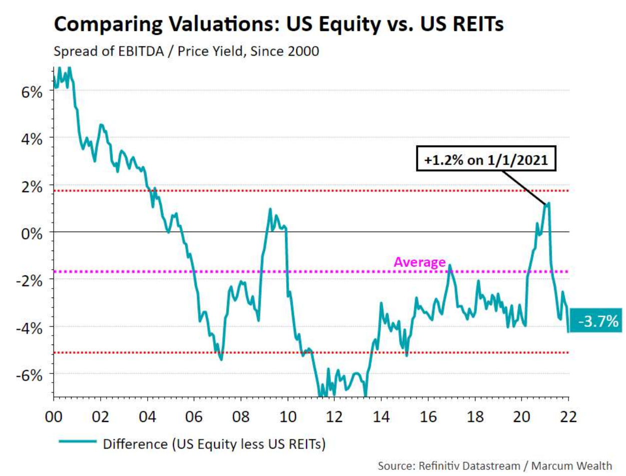
Real Estate

REITs finished up a banner year as the third best performing sector in the fourth quarter, behind consumer discretionary and staples.

Real Estate	4Q 2021
Wilshire U.S. REIT	17.1%
Wilshire Int'l REIT	5.0%

In 2020, REITs were one of only two sectors that lost money. In 2021, everything changed as REITs were up more than 40% and became the second best performing sector for the year (trailing only energy).

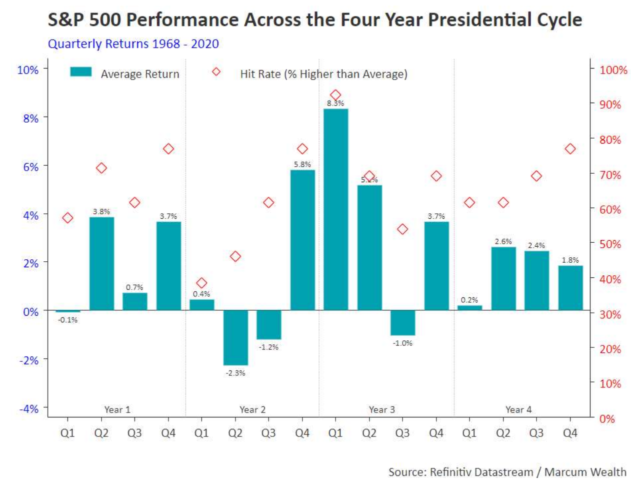
The cheap valuation multiple was a great tailwind entering 2021 as there was a premium yield to the rest of the market. In the beginning of 2022, the discount to the market is below average. Historically, periods of REIT outperformance begin with lower starting values.



The Marcum Wealth Asset Allocation Frameworks continue to maintain equal weight exposure to REITs.

Summary

The second year (and particularly the first three quarters) of presidential terms have historically been the weakest. The silver lining is that following mid-term elections, markets tend to rise into year-end. Of course, every year has its unique, fundamental factors driving results. The last two years have seen strong performance with varying sectors and styles trading leads for top performer. It would not be surprising to see markets digest the strong results.



Marcum Wealth Asset Allocation Frameworks

	Income	Conservative	Balanced	Moderate	Growth
Asset Class	Strategic	Strategic	Strategic	Strategic	Strategic
Equity	**20%**	**35%**	**50%**	**65%**	**80%**
U.S. Equity	12%	21%	30%	39%	48%
International Equity	6%	11%	15%	20%	24%
Emerging Markets Equity	2%	4%	5%	7%	8%
Fixed Income	**77%**	**62%**	**47%**	**32%**	**17%**
US Fixed Income	69%	56%	42%	29%	15%
Global Bonds	8%	6%	5%	3%	2%
Real Estate / REITs	**3%**	**3%**	**3%**	**3%**	**3%**

The risk designations are relative only to the five Strategic Allocation targets and do not represent comparisons with any other investment or risk of the overall strategies.

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