MARCUM
WEALTH

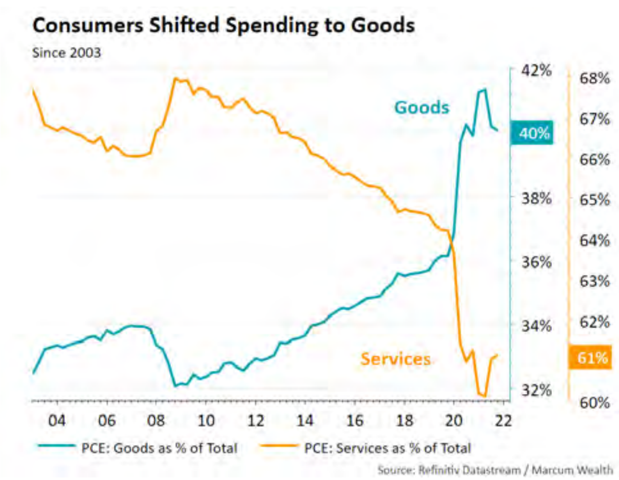
Strategy Newsletter – 2nd Quarter 2022

- Inflation and geopolitical risks take center stage for the economic outlook.
- Earnings expectations continue to increase despite the macro backdrop.
- The Fed raises rates for the first time this cycle.
- Will higher mortgage rates slow home price gains?

Economy

In hindsight, the government spending to combat the pandemic may have been too much. Shocking the economy by turning it off overnight and then slowly back on negatively impacted supply chains. Different parts of the world had different responses to the Covid pandemic, which also caused shortages.

A dramatic shift in the composition of consumer spending added to the pressure. While it may not seem like much, consumers dedicating up to 41% of their purchases to goods was a big jump from 36% prior to the pandemic.



Economies around the world are experiencing inflation far above target levels. Just 18 months ago, inflation was below average in the U.S. and across major developed economies.

Consumer Price Index - G7 Countries

Country	Canada	France	Germany	Italy	Japan	UK	US
Aug 20	0.5	0.1	-0.2	-0.6	-0.2	0.5	1.4
Sep 20	0.7	0.1	-0.2	-0.3	-0.6	0.7	1.2
Oct 20	1.0	0.2	-0.3	-0.2	-1.0	0.3	1.2
Nov 20	0.7	0.0	-0.3	-0.2	-1.2	0.6	1.4
Dec 20	1.0	0.6	1.1	0.4	-0.7	0.7	1.4
Jan 21	1.1	0.6	1.3	0.6	-0.5	0.4	1.7
Feb 21	2.2	1.1	1.7	0.8	-0.4	0.7	2.6
Mar 21	3.4	1.2	2.0	1.1	-1.1	1.5	4.2
Apr 21	3.6	1.4	2.6	1.3	-0.7	2.1	5.0
May 21	3.1	1.5	2.4	1.3	-0.4	2.5	5.4
Jun 21	3.7	1.2	3.8	2.0	-0.3	2.0	5.4
Jul 21	4.1	1.9	3.9	2.0	-0.4	3.2	5.3
Aug 21	4.4	2.2	4.1	2.5	0.2	3.1	5.4
Sep 21	4.7	2.6	4.5	3.0	0.1	4.2	6.2
Oct 21	4.7	2.8	5.2	3.7	0.6	5.1	6.8
Nov 21	4.8	2.8	5.3	3.9	0.8	5.4	7.0
Dec 21	5.1	2.9	4.9	4.8	0.5	5.5	7.5
Jan 22	5.7	3.6	5.1	5.7	0.9	6.2	7.9
Feb 22	N/A	4.5	7.3	6.7	N/A	N/A	N/A

High inflation   Low inflation/deflation

Source: Refinitiv Datastream / Marcum Wealth

The Federal Reserve and other central banks are looking to combat rising inflation by increasing interest rates. This should slow the demand side for consumers, especially for cars and other large purchases that are financed. Yet central banks want to carefully slow the economy down without causing a recession.

Inflation data was running hot prior to the Russian invasion of Ukraine. Energy prices soared higher in the initial phases of the tragic war. Since then, prices have cooled but continue to act as a tax on consumers.

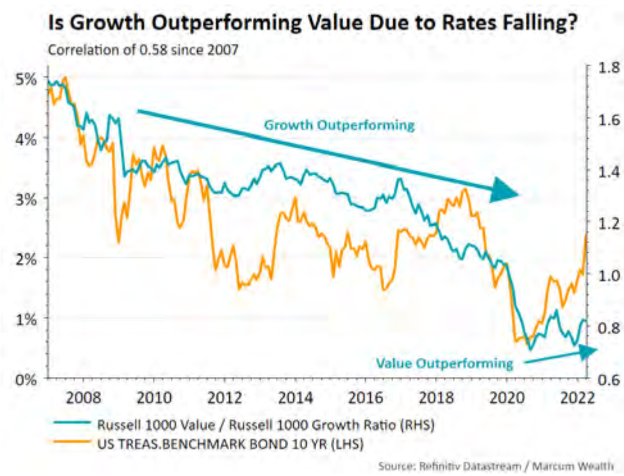
Economists generally still have a positive outlook for the U.S. economy. Europe and the rest of the world are a different story given the unknown duration of the conflict. While inflation remains the story today, there are signs the second half of the year may see easing price pressure and inflation data.

Equity

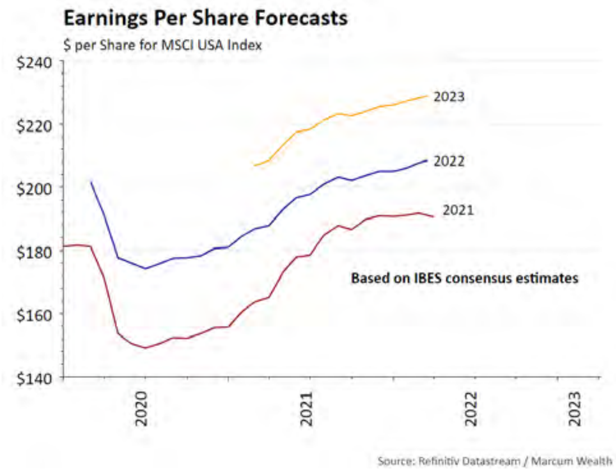
Considering the rapidly rising interest rates and geopolitical events of the first quarter, equities prices held up relatively well.

U.S. Equity	1Q 2022
Large Cap Stock	
S&P 500	-4.6%
Small & Mid Cap Stock	
S&P 400 Mid Cap	-5.0%
S&P 600 Small Cap	-5.7%
All Cap Style Indices	
S&P 1500 Value	-0.2%
S&P 1500 Growth	-8.6%
International Equity	**1Q 2022**
MSCI EAFE	-5.8%
MSCI EAFE Value	0.5%
MSCI EAFE Growth	-11.9%
MSCI Emerging Markets (EM)	-6.9%
MSCI EM Value	-3.4%
MSCI EM Growth	-10.5%

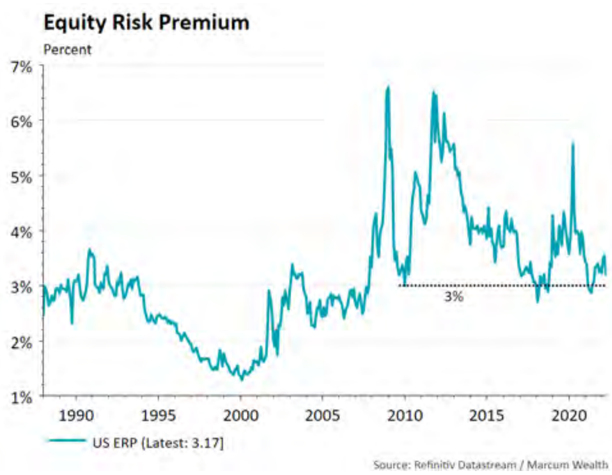
Value outperformed growth across regions during the past quarter. The spread between the two styles was healthy in the U.S. (+7.4%), in developed international countries (+12.4%), and in emerging markets (+7.1%). The contraction in the multiples was driven by higher interest rates. When rates rose in short bursts in the last 15 years, value was the winner — just as it has been in the last 18 months.



The outlook for earnings remains strong. Despite the headwinds discussed in the first quarter, analysts increased expectations for both 2022 and 2023 earnings.



We will need to see earnings deliver to justify the current risk of equities relative to bonds. Because interest rates rose during the quarter, the equity risk premium did not rise much during the quarter. A higher equity risk premium implies that investors are being compensated for owning equities. Since 2010, the floor has been about 3%.



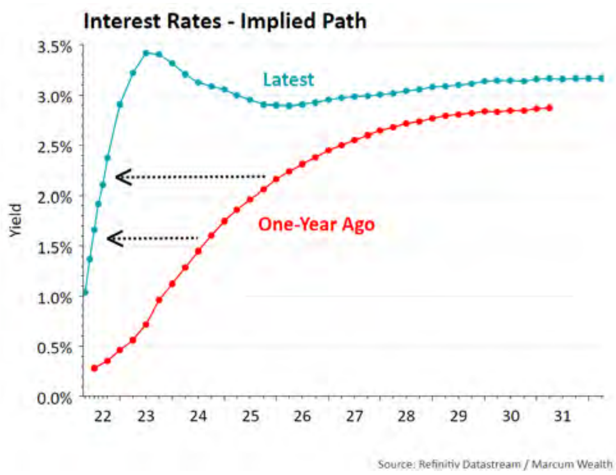
Equities remain at the strategic target weight within the Marcum Wealth Asset Allocation Frameworks. We have a small bias toward small-mid caps across the global equity allocations.

Fixed Income

The 10-year Treasury yield rose to 2.32% from 1.50% at the start of the quarter. The two-year yield rose from 0.73% to 2.28%.

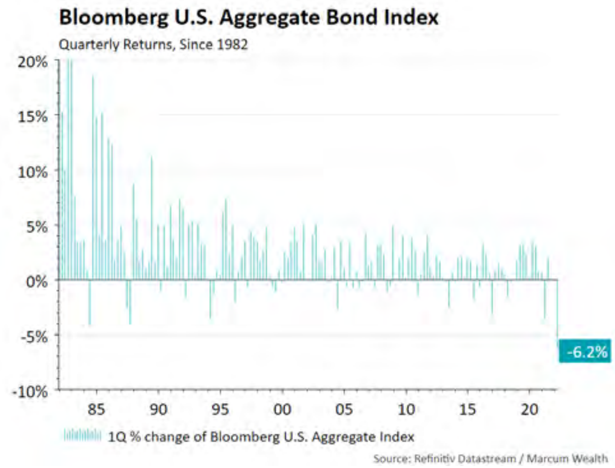
Fixed Income	1Q 2022
Bloomberg U.S. Aggregate Bond	-6.2%
Bloomberg Corporate Inv. Grade	-7.9%
Bloomberg High Yield Bond	-5.5%
Bloomberg Global ex. U.S. Treas.	-7.7%
Bloomberg Municipal Bond	-6.7%
Bloomberg TIPS	-4.1%

The short end of Treasuries responded more than the long -end to the Fed's expectation of increasing interest rates. Just a year ago, only one interest rate hike was expected during 2022, bringing the Fed Funds rate in the December to 0.5%.

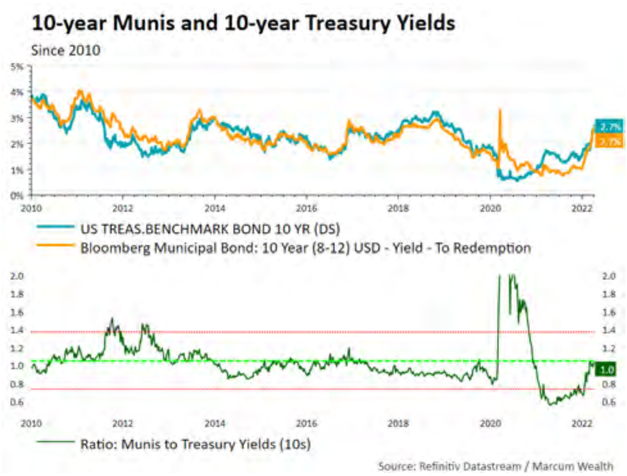


We already had that hike in March, and market probabilities suggested a 2.75% rates at end of 2022. The Fed hopes to engineer a 'soft landing.' That is, to raise interest rates enough to cool inflation, without derailing the economic recovery.

The dramatic rise in yields led to one of the worst periods of bond performance in decades. Credit spreads rose modestly. Floating rate mortgages and bank loans performed well during the past quarter.



Municipal bonds were not immune to the price movement in Treasuries. In 2021, the ratio between the two hit its lowest point in the past 30 years. This corrected itself during the quarter and the Muni-to-Treasury ratio is now back to the 12-year average. The bottom half of the following chart shows the ratio rising to 1.0. Municipal bonds look interesting for taxable investors to earn tax-exempt income.



The Marcum Wealth Asset Allocation Frameworks maintain the target exposure to fixed income.

Real Estate

REITs outperformed the broader market during the past quarter. Residential sectors continue to perform well on the back of rising rents. The office sector remains challenged with 'work from home' becoming a permanent part of company culture in many industries.

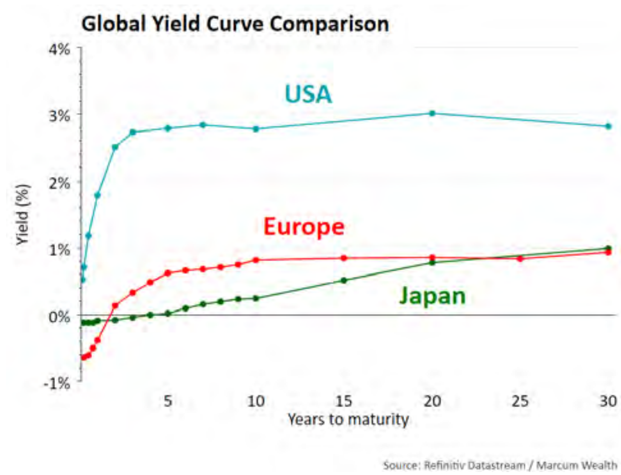
Real Estate	1Q 2022
Wilshire U.S. REIT	-3.9%
Wilshire Int'l REIT	-2.0%

Many are wondering if we are witnessing another housing bubble. A major difference this time compared to the mid-2000s is that there is a much higher quality standard for underwriting mortgages. In addition, demand remains high and inventory low as more millennials enter peak home-buying years. Still, rising mortgage rates may change the affordability for households. Rates are up dramatically in the last six months, but we have not seen mortgage purchase applications fall too much at this stage.

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

Summary

The U.S. yield curve became flatter in the last quarter. Certain areas have inverted (meaning the short-term yields are above the long-term yields). Curve inversions have preceded recessions in the past, but they have also produced some false positive signals (where economic expansions continued). While painful to go through, rising rates do offer investors higher returns going forward. It is better than experiencing perpetually meager interest rates, especially compared to the rest of the world.



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.

Important Disclosure Information