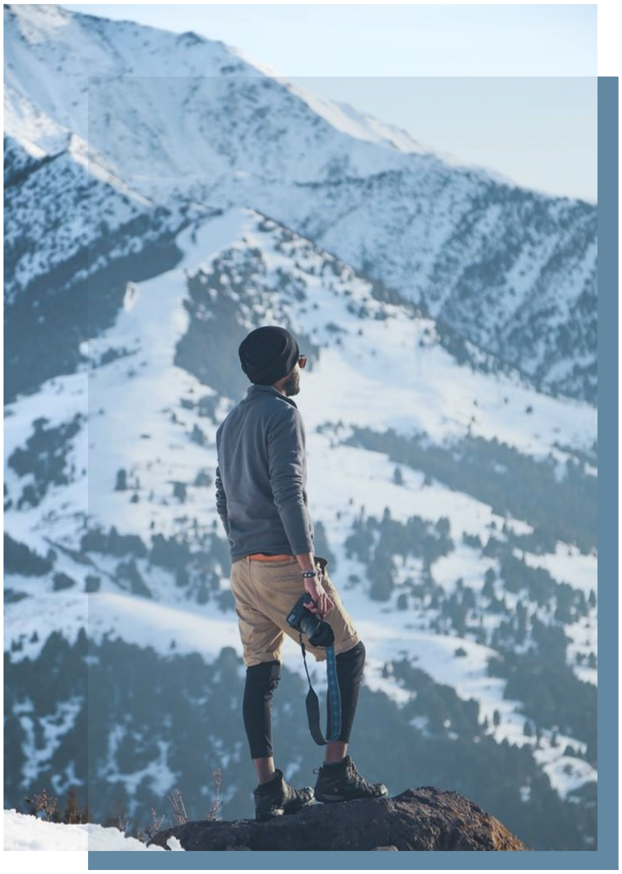
PERSPECTIVES

Benefit Financial Services Group's Newsletter

Quarter Ending March 31, 2022



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Market Recap

Patrick Powers, CFA®, CPA, CFP® (Partner/Managing Principal)

The resurgence of geopolitical tensions has contributed to global market volatility. It was a quarter when investors seemed to be especially glad they had active managers to size up the situation and deal with the volatility. Our team stayed cool, calm and collected and did what they had to do assess the rapidly changing situation and respond accordingly.

Along with the unfolding geopolitcal events, growing uncertainty around Federal Reserve (the "Fed") policy caused wild daily gyrations in market prices. The S&P 500[1] fell a sharp -12.2% from late December highs over the first three weeks of January, then rallied a bit, only to resume the slide through all of Feruary and into mid-March. At its lowest, the stock market was off -14.2% from the late December highs. Fortunately, the S&P 500 rallied nicely the last half of March to end the quarter just -5.8% off the previous high and off -4.6% for the first quarter. Due to the proximity of Europe to war-torn Ukraine and Europe's reliance on commodities from Russia, international equity markets[2] were down slightly more (-4.8%) than U.S. markets for the quarter.

After a terrific 2020 and 2021 for equities, some would say we were due for a good pullback. We don't believe in that at BFSG. Things happen for a reason – not because we are due. A drop in equities is always due to investor expectation that corporate earnings are going to fall for some reason. In this case, the weakness in equities was caused by the prospect of rising interest rates, skyrocketing inflation (especially in commodity and labor markets), and the Russian-Ukraine war. So far, U.S. corporate earnings have held up well despite supply chain entanglements, and rising input prices and labor costs. Though analysts' 2022-2023 earnings and revenue expectations have been marked down over the past several months according to FactSet, consensus earnings for 2022 are for an 8.5% gain with revenue growth at 8%, and 6% and 4%, respectively for 2023.

Ten-year Treasury bond yields rose strongly during the quarter from 1.7% to 2.3%, resulting in an unaccustomed, sizable 5.9% decline in the U.S. Aggregate Bond Index[3] – the third-worst quarter for bonds in the last 50 years. Sharply rising consumer prices and investor uncertainties over the pace of the Federal Reserve's hiking of the federal funds rate were mainly to blame.

In the first quarter, energy was the best performing equity sector. Along with rising energy prices, grain, fertilizer, and metals prices jumped sharply as the Ukraine-Russian hostilities threatened those countries' production and distribution of those commodities.

Spring is a time for revival and renewal, and this spring we are hopeful for a peaceful resolution to the Russia-Ukraine war and revival of positive market returns across both stocks and bonds.

Forecast

Steven Yamshon, Ph.D. (Partner/Managing Principal)

Significant uncertainty clouds the outlook and uncertainty is essentially unmeasurable. My sense is that the stock and bond markets will be higher in the next 12 months, even though there will likely be plenty of volatility. However, there are two caveats to this forecast. The first one, if the Ukraine-Russian dispute does not end in a timely manner, and secondly, that a new Covid variant shuts down the global economy once again. If these two situations come to pass, the global economy and the global stock market will have some indigestion.

After dropping the benchmark federal funds rate to a rock-bottom range of 0%–0.25% early in the pandemic, the Federal Open Market Committee (FOMC) has begun raising the rate toward more typical historical levels in response to high inflation. At its March 2022 meeting, the Committee raised the funds rate to 0.25%–0.50% and projected the equivalent of six more quarter-percentage-point increases in 2022 and three or four more in 2023.[4] So far in 2022, short-term yields have climbed much faster than long-term yields, flattening the yield curve. A flat yield curve typically means financial intermediation becomes more conservative and many investors have been spooked by the anticipated rise in interest rates.

Yes, global monetary conditions are tightening, but they are still not tight. The Neutral Rate of Interest is the interest rate in which the economy doesn't grow, nor does it shrink. When the FOMC raises rates above the "neutral" rate, then the economy, in most cases goes into recession. Conversely, when the FOMC keeps rates below the neutral rate, there is inflation and typically no recession. We believe the FOMC and many investors are underestimating the neutral rate between 2% to 3%, when it is likely to be between 4% to 5%. Therefore, if the FOMC raises the federal funds rate to its projected 2.4% by the end of 2023, then the economy should not enter a recession regardless of what the yield curve may be telling us now.[5] This is because 2.4% is below the neutral rate. If the FOMC adjusts upward its estimation of the neutral rate, then money will become tighter, and a recession could ensue. We believe this is unlikely but we also recognize that uncertainty has risen considerably, and with that comes a wider range of potential outcomes.

If the war in Ukraine comes to an end and Covid doesn't get out of hand, then the global supply chain can begin to normalize providing a temporary decline in inflation and inflation should moderate to the 3% to 4% range in the latter half of this year and into next. However, we believe inflation most likely will accelerate by mid-decade because of loose global monetary and fiscal policy, a decline in globalization, and wage and commodity price pressures. We will be prepared.

We know economics is a dismal science and investing is a humbling business. Therefore, your best insurance policy for the long term, is to stick with what has worked for you in the past and that is a diversified portfolio that can weather any storm and a consistent application of a sound investment approach.[6] Uncertainty is something we must face, and while not always comfortable, we believe the ability to remain invested, provides the best chance for good results over the long term.

Portfolio Management

Michael Allbee, CFP® (Partner/Senior Portfolio Manager)

Long-term investing is fraught with short-term turmoil and we witnessed that during the first quarter of 2022. It was front and center with our more conservative portfolios (i.e., those with higher allocations to bonds). When interest rates rise, the value of existing bonds typically falls, because investors would prefer to buy new bonds with higher yields. In a rising rate environment, investors may be hesitant to tie up funds for a long period, so bonds with longer maturity dates are generally more sensitive to rate changes than shorter-dated bonds. Regardless of the rate environment, however, bonds are a mainstay for investors who want to manage purchasing power risk (i.e., earn a return over inflation) or dampen the effects of stock market volatility on their portfolios.

For a long time, we have been holding more short- and medium-term bonds as a way to reduce interest-rate sensitivity in your portfolio given our outlook on inflation and the prospect for central bank tightening. We have also been favoring higher quality bonds and maintaining portfolio flexibility and liquidity to respond to events and potentially take advantage of opportunities. While this overall positioning helped during the quarter, it still could not protect from rapidly rising interest rates. On the bright side, short-term pain should lead to long-term gain, as bond holders are now better compensated for the risk they are taking with the U.S. Aggregate Bond Index yielding 2.92% at quarter-end.

We have been asked, “Why not just sell our bond positions until the Fed is done with their interest rate hikes?” There are very few occasions on which it makes sense to try to time the markets. As the successful investor Peter Lynch said, “Far more money has been lost by investors preparing for corrections, or trying to anticipate corrections, than has been lost in corrections themselves.” As is often the case, it’s far more important to be in the markets over the long-run and staying the course is the better path in the long-term.

This doesn’t mean we were standing still. We have been busy rebalancing into underperforming asset classes (i.e., buying low) and tax-loss harvesting (i.e., offsetting realized gains with losses to minimize any taxes you may owe). We have been speaking with many of you about your long-term portfolio objectives and changing them because of changing goals, risk appetite and other aspects in your life, not because of changes in the market. We also recommend our clients maintain a prosperous attitude by smiling, no mattter what happens. Wise, perservering activity with unfading smiles brings sure success.

Talk With Us!

Arash Navi, CPA, CFP® (Controller/Wealth Manager)

Benefit Financial Services Group (BFSG) has come a long way since 1991, when John Campbell, Managing Principal, started the firm as an advisory service to retirement plans in both the public and private sectors, helping these companies with constructing and maintaining their retirement plans for their employees. Over the last two decades, BFSG has merged with three independent registered investment advisory firms and is now proud to be able to serve individual investors in addition to institutions. This has all been possible due to our parent company, Focus Financial Partners, LLC (Focus).[7] Focus is a public company that in the last 16 years has been able to acquire over 80 registered investment advisory firms and use its financial and regulatory expertise to help these companies grow while maintaining their entrepreneurship spirit and unique investment and service philosophy.

Each of the founding partners that decided to join the Focus umbrella had their own particular circumstances and needs, however, they all agreed that by joining Focus they will be able to better serve their respective clients. This has never been more true than it is today. Over the years, Focus has been able to recognize various needs of partner firms and their clients and bring experts on board to help better serve our clients. We now offer clients the option of obtaining certain financial solutions from unaffiliated third-party financial institutions and insurance brokers with the assistance of our affiliates, Focus Treasury & Credit Solutions, LLC (FTCS) and Focus Risk Solutions, LLC (FRS):[8]

- **Client Lending Solutions:** A platform of broad lending options such as residential mortgages, commercial/business loans, securities-backed lines of credit, aircraft and specialty lending.
- **Cash Solutions:** FDIC insurance of up to $20 million per separate tax ID with all cash held in insured accounts at program banks.
- **Risk Solutions:** The ability to obtain various insurance offerings: life & disability, property & casualty, individual & business health, and executive benefits.
- **Fiduciary Services:** Estate and trustee services.
- **Valuation Solutions:** Valuation services for entertainment and intellectual property (i.e., royalty agreements, trademarks and copyrights, publishing rights, etc.), estate planning, business planning, and disputes.

More than a referral program, FTCS and FRS provides you with access to expertise on lending markets, credit terms and rates, and advocates for the best solution for rate and term compared to an option sourced through a single custodian, local bank, or insurance carrier. For example, if you have specific questions regarding your trust or insurance, we are able to ask the estate planning attorneys and insurance professionals at our affiliates to provide feedback. I’m sure you agree that being able to ask estate planning lawyers simple questions without having to pay an hourly fee is a win!

We highly encourage you to Talk With Us if you have any questions or like to learn more about our comprehensive suite of value-added services that we can now offer!

The Score Board

	03/31/2022	YTD Change
Dow Jones Industrial Average	34,678.35	-4.10%
S&P 500*	4,530.41	-4.95%
NASDAQ Composite*	14,220.52	-9.10%
MSCI EAFE (USD)*	2,181.63	-6.61%
Bloomberg Commodity Index	124.41	25.45%
U.S. Aggregate Bond Index	2,215.38	-5.93%
10 Yr U.S. Treasury Bond Yield	2.34%	+83 bps
30 Yr Fixed Mortgage Rate	4.90%	+185 bps
Prime Rate	3.50%	+25 bps
Crude Oil ($ / Barrel)	$100.28	31.81%
Gold ($ / Oz.)	$1,937.44	5.92%
U.S. $ / Euro €	$0.91	7.65%
Core Inflation (excluding food / energy)		6.40%**
Inflation (including food / energy)		7.90%**

**Without Dividends; **Unadjusted 12-Months ended February 2022; bps (1 Basis Point = 1/100%); UNCH (Unchanged)*
Sources for Score Board and quoted statistics: WSJ, US Dept. of Labor, Federal Reserve

Sources:

1. The S&P 500 is designed to be a leading indicator of U.S. equities and is commonly used as a proxy for the U.S. stock market. Total return quoted.
2. The MSCI ACWI ex USA Index captures large and mid cap representation across 22 of 23 Developed Markets countries (excluding the US) and 24 Emerging Markets countries. With 2,312 constituents, the index covers approximately 85% of the global equity opportunity set outside the US. Total return quoted.
3. The U.S. Aggregate Bond Index is a broad-based index used as a proxy for the U.S. bond market.
4. Source: Federal Reserve, Summary of Economic Projections, March 16, 2022. Keep in mind that the anticipated path of the federal funds rate is only a projection, based on current conditions, and may not come to pass. The actual direction of interest rates might change.
5. Source: FRED, Longer Run FOMC Summary of Economic Projections for the Fed Funds Rate, March 16, 2022.
6. Diversification does not guarantee a profit or protect against investment loss.
7. BFSG is a wholly owned subsidiary of Focus Operating, LLC ("Focus Operating"), which is a wholly owned subsidiary of Focus LLC. BFSG has been a Focus partner firm and registered with the Securities and Exchange Commission since 2007. Registration does not imply a level of skill or training.
8. FTCS and FRS do not receive any compensation from such third-party institutions or third-party insurance brokers for serving our clients. A copy of BFSG's current written disclosure Brochure discussing our advisory services and fees is available upon request. Further information about FTCS and FRS is available in Items 4, 5, and 10 of our disclosure Brochure.

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