MB FOUNDATION
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# INVESTMENT SUMMARY
# 06/30/2022

| Index Name | QTD Return | YTD Return |
|---|---|---|
| **Dow Jones Industrial Average** | -10.78% | -14.44% |
| **S&P 500 (U.S. Large Co. index)** | -16.10% | -19.96% |
| **Russell 2000 (U.S. Small Co. index)** | -17.19% | -23.43% |
| **MSCI EAFE (Int'l Equity index)** | -14.51% | -19.57% |
| **Bloomberg U.S. Aggregate Bond** | -4.69% | -10.35% |

## Market Commentary

The second quarter of 2022 was negative for broad asset classes (U.S. Stocks, Int'l Stocks, Real Estate, and Bonds), and volatility remained elevated. The S&P 500 dropped 16% for the quarter and is now in bear market territory at -20% year-to-date. International markets were down slightly less than U.S. equities, with Developed Market stocks down 19% YTD and Emerging Market stocks down 18% YTD. Small Cap U.S. equities were down 23% YTD. Real Estate Investment Trusts ("REITs") dropped 15%. Bonds returned -5% in Q2 as interest rates rose sharply in April and June. The Bloomberg U.S. Aggregate Bond index had its worst start to the year in 40 years, down over 10% YTD.

As anticipated, macro forces continue to be in focus. Uncertainty remains high. The key macro risks currently are inflation, Federal Reserve tightening of monetary policy, recession fears due to Fed tightening, and war in Ukraine. Higher than expected inflation has come from supply shocks (pandemic and war) coupled with excess liquidity in the system spurring high consumer demand. To combat this inflation, the Fed has shifted to a much more aggressive monetary policy tightening posture. The Fed's forward guidance indicates that it plans to raise the Fed Funds rate above 3% by year-end (another 1.5% from where we are today).

The economic landscape has begun to show some weakness. In the back half of 2022 and into 2023, growth will likely decelerate faster than previously expected as tighter monetary policy globally aims to bring down inflation by slowing demand. While our base case has not been a recession in 2022, recessionary risks have risen. The market has pulled back 20%, the yield curve has inverted, and leading economic indicators have slowed significantly. The big questions remain: how much consumer demand is there in the economy, and will corporate earnings continue to grow? So far, the consumer has remained resilient. Also, earnings have not yet come down, and many strategists are still forecasting 5% to 10% earnings growth for the full year 2022. With the 20% market drop, the S&P 500 is now trading at a much more reasonable valuation.

We remain cautious given the economic backdrop of tighter financial conditions, elevated inflation, and slowing economic data. With our cautious view, we believe equity returns will remain volatile throughout Q3. We also believe most of the pain of rising rates has already been priced in the bond market, and higher yields are now available to help cushion any future upward rate pressure. Therefore, we think security selection, manager value, and diversification will help portfolios navigate volatility in the back half of 2022.

**Market Highlights**

- For YTD 2022, diversified portfolios performed in-between fixed income and equity markets
- YTD 2022, Church Loans were the leading sub-asset class, with the strategy up +.79%
- Financial Markets will be focused on three key areas: Inflation, Interest Rates, and Corporate Earnings

*Market commentary provided in partnership with Cornerstone Management, Inc.*