ECONOMIC AND MARKET COMMENTARY

1st Quarter 2022

SMITH SHELLNUT WILSON
AN AFFILIATE OF b1BANK

OUR MISSION

Smith Shellnut Wilson is a registered investment adviser* specializing in managing investment portfolios for banks, individuals, corporations, foundations and public entities. Smith Shellnut Wilson offers its clients skilled investment management and unremitting client service. Smith Shellnut Wilson is dedicated to the premise that client relationships and performance, not transactions, are the ultimate goals.

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I. FIRST-QUARTER 2022 EQUITY MARKET RECAP

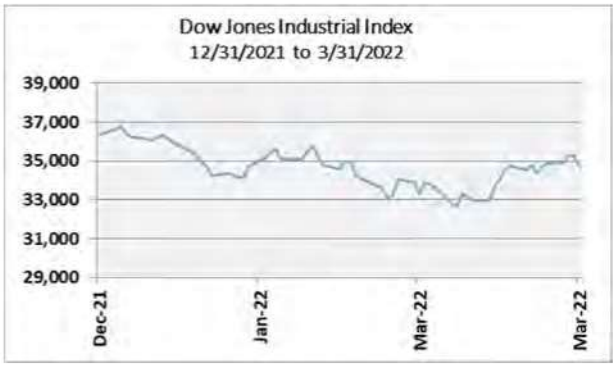
Due to a multitude of negative market events, the three major U.S. stock indices were all down for the first quarter, with the tech-heavy NASDAQ (-8.95%) almost doubling the losses seen in the S&P 500 (-4.6%) and Dow Jones Industrial Average (-4.1%).

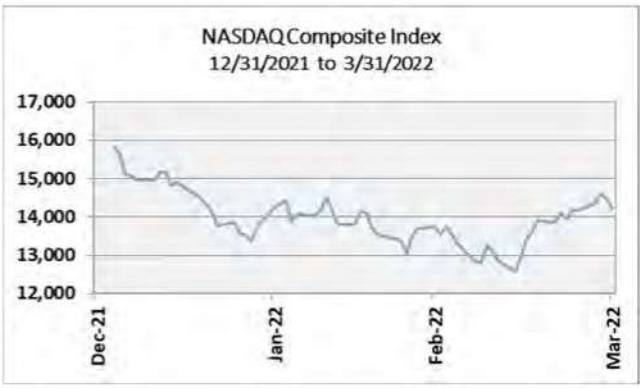
The first quarter of 2022 was eventful to say the least. Fourth-quarter economic concerns surrounding the Omicron variant switched to first-quarter concerns regarding Russia invading Ukraine, oil skyrocketing, inflation continuing to run hot, and the Federal Reserve raising interest rates. As a result of rising uncertainty, the VIX more than doubled between January and March. It was no surprise that investors overweighted a risk-off posture. It was no surprise that value outperformed growth, with large cap value down -0.19% while large cap growth was down -10.76%.

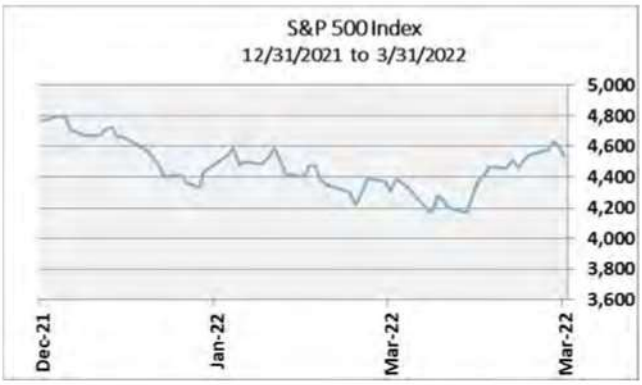
Looking forward, volatility is expected to remain elevated over the near term especially until there is a resolution in Ukraine. Headwinds to contend with for the remainder of the year will be slowing U.S. economic growth, tighter monetary policy, rising interest rates, and inflation uncertainty. Tech will be vulnerable to rising interest rates.

A bright spot may be the reduction in pandemic mandates. This should allow consumer spending to drift back to pre-pandemic activity. Specifically, this should shift spending away from goods and back towards services. Many strategists are forecasting that spending will increase on travel and entertainment. A spending switch to services should also help alleviate supply chain issues which should have a positive impact on inflation pressure.

One of the biggest takeaways from rising volatility is the importance of diversification and following a well-constructed long-term investment plan that helps mitigate market surprises.







*Registration of an Investment Adviser does not imply any certain level of skill or training.

II. FIRST-QUARTER 202 BOND MARKET RECAP

The U.S. Treasury yield curve rose across every duration during the quarter. Short duration Treasuries saw the biggest increase, which created curve steepening along the first three years and then a flattening beyond three. The 2-year Treasury yield rose the most (+161 basis points), while the benchmark 10-year Treasury only increased by about half of that (+82 basis points). Shorter rates were more volatile due to uncertainty regarding inflation and the Fed's response with overnight rate hikes.

	12/31/2021	Low	High	3/31/2022
2yr UST	0.73%	0.73%	2.36%	2.34%
5yr UST	1.26%	1.26%	2.56%	2.46%
10yr UST	1.52%	1.51%	2.47%	2.34%

The Federal Reserve did deliver a 25-basis point rate hike at its March 16th meeting. This was the first hike since 2018. It took the overnight rate from 0.00% - 0.25% to 0.25% - 0.50%. The futures market is pricing in an overnight rate of 2.50% - 2.75% by the end of 2022. The market is pricing the 10-year Treasury to be at 2.78% by year end. The flattening forecast is an indication that the market expects the Fed to be aggressive in its efforts to tame inflation while economic growth may be slowing. Minutes from the March 16 meeting also revealed that the Fed agreed to trim $95 billion ($60b Treasuries and $35b MBS) a month from its bond holdings.

There were very few bond sectors that escaped the increase in yields, volatility and credit spread widening. Government bonds outperformed corporate and municipal sectors. The ten-year AAA tax-free Municipal to Treasury ratio rose from 69.5% to 95.3% and five-year investment grade credit spreads widened from +50 basis points to as high as +78 basis points before finishing the quarter at +68 basis points to Treasuries. In addition to credit spread widening the bond market also realized option spread widening due to rising market uncertainty (inflation, economic growth, Ukraine). Option-adjusted spreads doubled during the quarter.

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III. LOOKING FORWARD

US growth in Q4 revised lower to 6.9%, slower growth

Christopher Rugaber
Associated Press

The U.S. economy ended 2021 by expanding at a healthy 6.9% annual pace from October through December, a slight downgrade from previous estimates.

Previously, the government estimated growth in last year's fourth quarter was 7%. The small downgrade reflected a smaller increase in consumer spending and fewer exports, the Commerce Department said.

For all of 2021, the nation's gross domestic product — its total output of goods and services — jumped by 5.7%, the fastest calendar-year growth since a 7.2% surge in 1984 in the aftermath of a brutal recession.

Looking ahead, however, growth is likely to slow sharply this year, particularly in the first three months 2022. Higher inflation will likely weigh on consumer spending as Americans take a dimmer view of the economy. Home sales have fallen as the Federal Reserve has started pushing up borrowing costs, leading to a sharp increase in mortgage rates. Exports may weaken as overseas economies are disrupted by Russia's invasion of Ukraine.

For the January-March quarter of this year, the biggest drag will be a sharp reduction in the number of goods businesses restock on their shelves and in warehouses. In last year's fourth quarter, companies engaged in a huge buildup of inventories, to get ahead of supply chain problems for the winter holidays.

That inventory restocking added nearly six percentage points to fourth quarter growth, a boost that wasn't repeated in the first three months of this year. And solid consumer spending likely pulled in more imports in the first quarter, economists forecast, while a stronger dollar

and slower growth overseas reduced U.S. exports. The combination should also weaken the economy in the first quarter.

Economists forecast that growth could fall to as low as 0.5% in the first three months of the year and may even slip into negative territory

Still, the first quarter will likely be a temporary hiccup. As the pandemic continues to fade, more Americans are traveling, eating out and flying. Businesses are hiring at a healthy clip and boosting pay. The higher income isn't enough to fully offset inflation but should support continued consumer spending.

The latest GDP reading represents the third and final estimate of fourth quarter growth. The government issues three estimates for US GDP each quarter. Each report includes more complete data.

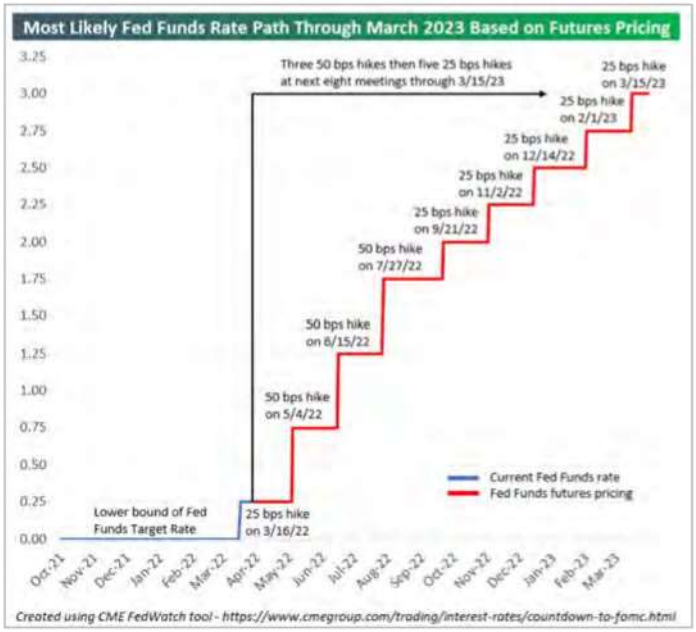
The figures are adjusted for inflation, which has spiked to a four-decade high. Consumer spending rose 2.5% in the fourth quarter, down from the previous estimate of 3.1%. Economists expect spending to remain healthy in the first quarter, even as overall growth slows.

Growth in corporate profits, which have attracted political attention as a potential contributor to inflation, slowed in the fourth quarter. Profits increased $20 billion, or about 0.7%, in the October-December quarter. That's down from a huge jump of nearly $268 billion, or 10.5%, in the second quarter.

The Federal Reserve forecasts the U.S. economy will expand 2.8% this year, much lower than in 2021 but still a solid pace.

The acceleration in inflation has spurred Fed chair Jerome Powell to signal multiple increases in its short-term benchmark interest rate this year, with one or more of the hikes possibly being a half-point, as opposed to the usual quarter-point increase. Such increases make it more expensive to take out mortgage or auto loans and raise credit card interest rates as well.

At a meeting earlier this month, Fed policymakers raised their benchmark rate to roughly 0.375%, up from nearly zero, where it had sat since the pandemic hit two years ago. Officials forecast they will raise the rate at least six more times this year to approximately 1.9%, though comments by Powell suggest it could go higher, particularly if inflation doesn't show signs of cooling in the coming months. Fed funds futures are pointing to an even deeper trajectory for the Fed's policy rate (see graph, top right).



Rapidly rising interest rates could slow growth and cool hiring. The Fed hopes to pull off a "soft landing" in which inflation comes back down closer to the central bank's 2% target, without the economy tumbling into a recession. But many economists worry that the higher rates could cause a downturn.

The following pages are the CHART BOOK to review economic graphs.

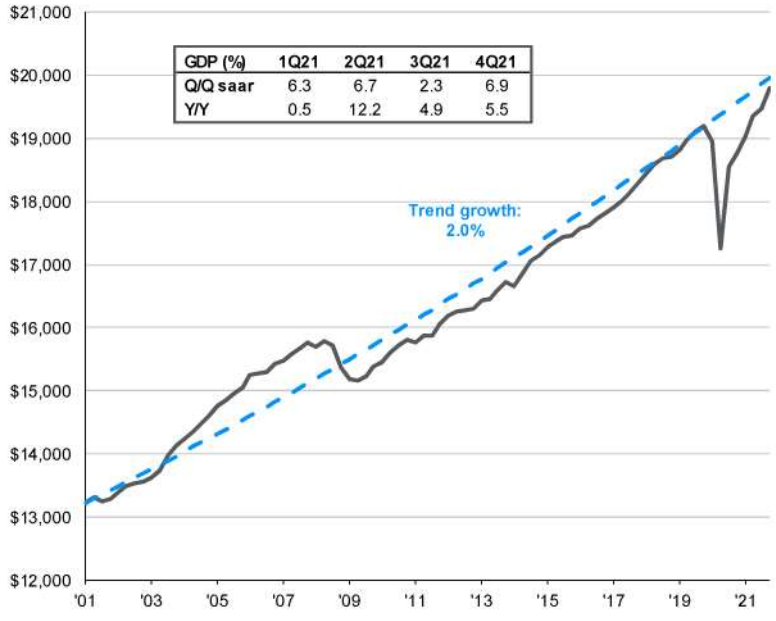
The source of the information in this commentary is SSW, Associated Press, and Bloomberg.

Economy

Economic growth and the composition of GDP

Real GDP

Billions of chained (2012) dollars, seasonally adjusted at annual rates



Components of GDP

4Q21 nominal GDP, USD trillions



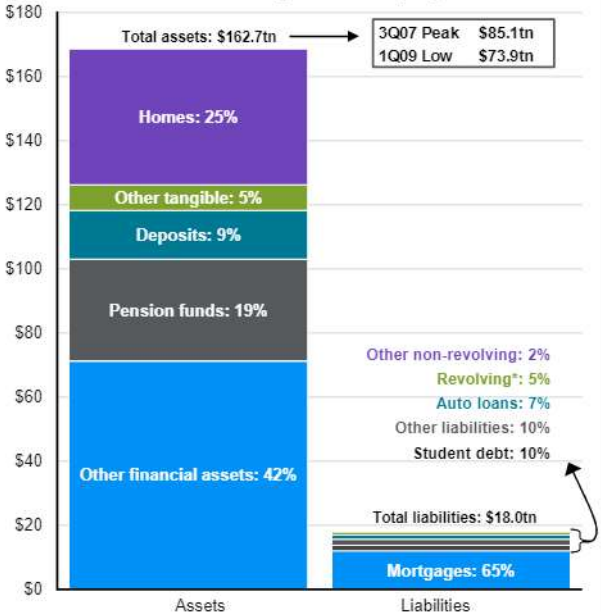
Source: BEA, FactSet, J.P. Morgan Asset Management. Values may not sum to 100% due to rounding. Trend growth is measured as the average annual growth rate from business cycle peak 1Q01 to business cycle peak 4Q19.
Guide to the Markets – U.S. Data are as of March 31, 2022.

Economy

Consumer finances

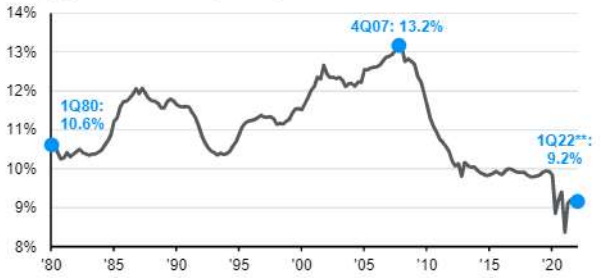
Consumer balance sheet

4Q21, trillions of dollars outstanding, not seasonally adjusted



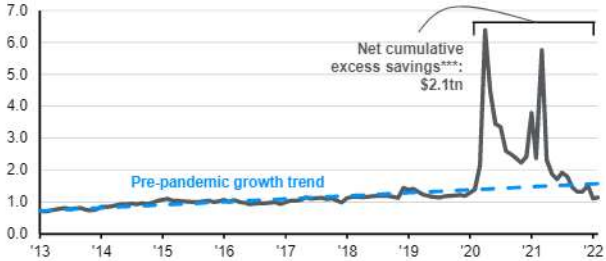
Household debt service ratio

Debt payments as % of disposable personal income, SA



Flow of personal savings

Disposable personal income less consumer outlays, trillions of USD, SAAR



Source: FactSet, FRB, J.P. Morgan Asset Management; (Top and bottom right) BEA.
Data include households and nonprofit organizations. SA – seasonally adjusted. SAAR – seasonally adjusted annual rate. *Revolving includes credit cards. Values may not sum to 100% due to rounding. **1Q22 figures for debt service ratio are J.P. Morgan Asset Management estimates. ***Net cumulative excess savings are calculated by summing the difference in realized savings and pre-pandemic trend savings from March 2020 to February 2022 and dividing by 12.
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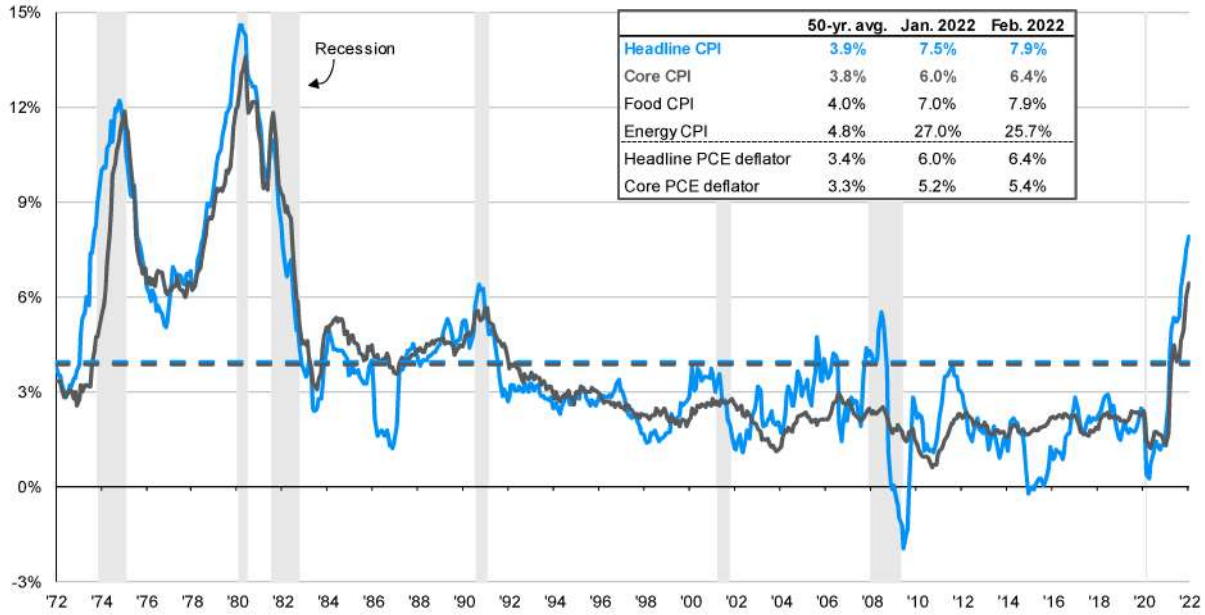
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Economy

Inflation

CPI and core CPI

% change vs. prior year, seasonally adjusted



	50-yr. avg.	Jan. 2022	Feb. 2022
Headline CPI	3.9%	7.5%	7.9%
Core CPI	3.8%	6.0%	6.4%
Food CPI	4.0%	7.0%	7.9%
Energy CPI	4.8%	27.0%	25.7%
Headline PCE deflator	3.4%	6.0%	6.4%
Core PCE deflator	3.3%	5.2%	5.4%

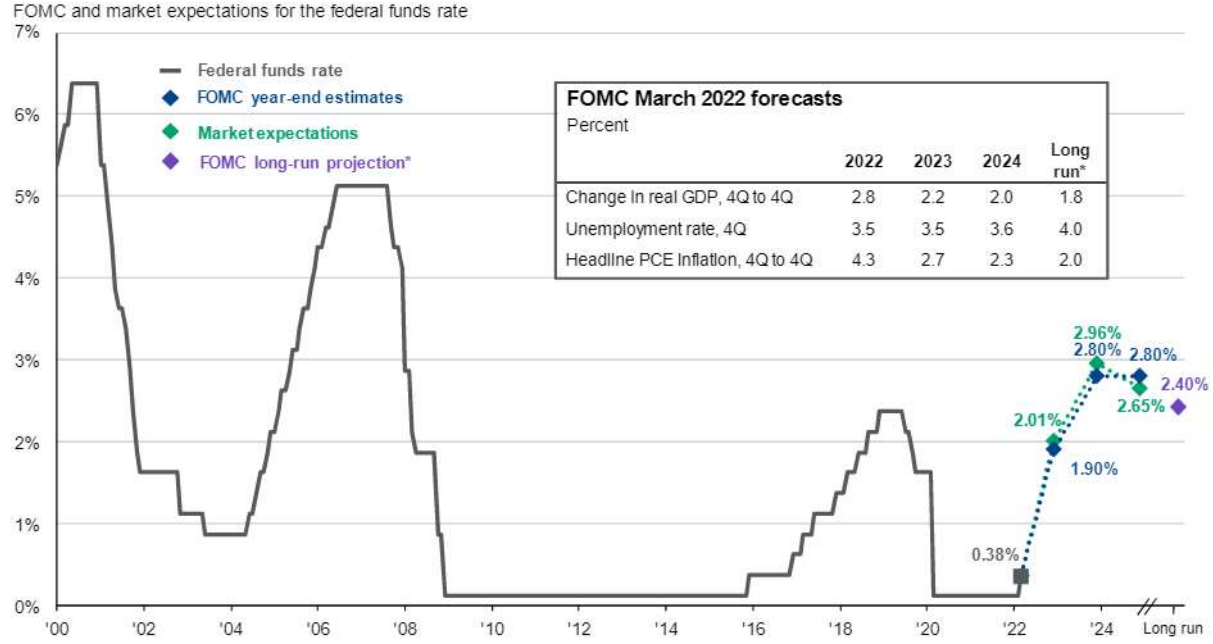
Source: BLS, FactSet, J.P. Morgan Asset Management.
CPI used is CPI-U and values shown are % change vs. one year ago. Core CPI is defined as CPI excluding food and energy prices. The Personal Consumption Expenditure (PCE) deflator employs an evolving chain-weighted basket of consumer expenditures instead of the fixed-weight basket used in CPI calculations.
Guide to the Markets – U.S. Data are as of March 31, 2022.

Fixed Income

The Fed and interest rates

Federal funds rate expectations

FOMC and market expectations for the federal funds rate



FOMC March 2022 forecasts

Percent

	2022	2023	2024	Long run*
Change in real GDP, 4Q to 4Q	2.8	2.2	2.0	1.8
Unemployment rate, 4Q	3.5	3.5	3.6	4.0
Headline PCE inflation, 4Q to 4Q	4.3	2.7	2.3	2.0

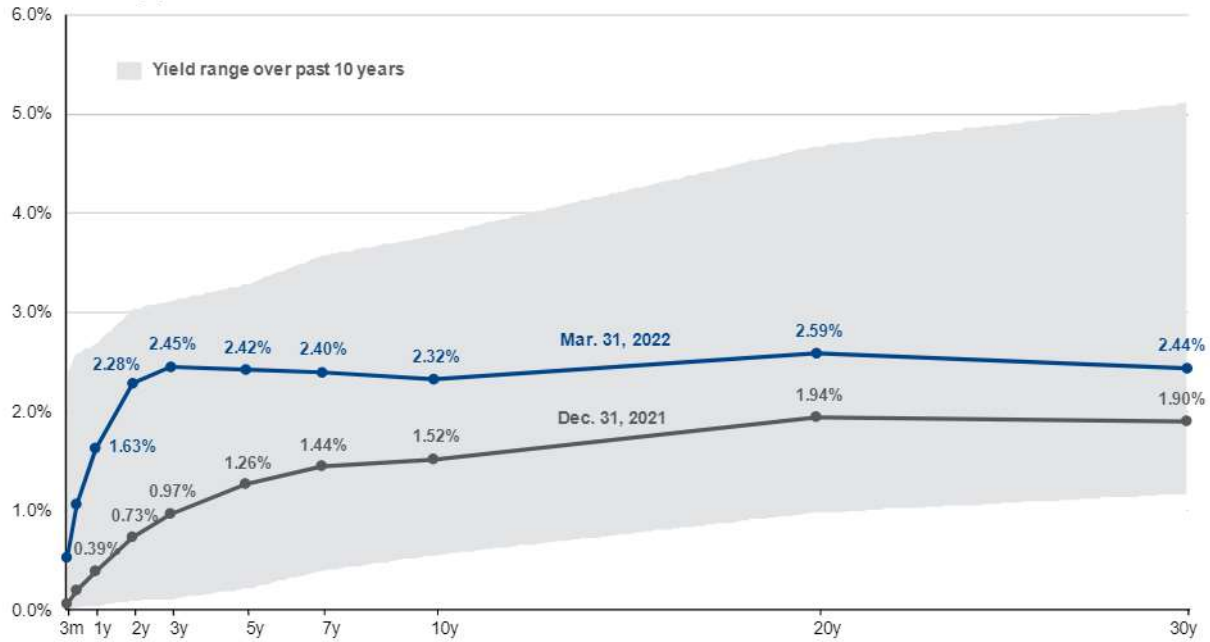
Source: Bloomberg, FactSet, Federal Reserve, J.P. Morgan Asset Management.
Market expectations are based off of the respective Federal Funds Futures contracts for December expiry. *Long-run projections are the rates of growth, unemployment and inflation to which a policymaker expects the economy to converge over the next five to six years in absence of further shocks and under appropriate monetary policy. Forecasts are not a reliable indicator of future performance. Forecasts, projections and other forward-looking statements are based upon current beliefs and expectations. They are for illustrative purposes only and serve as an indication of what may occur. Given the inherent uncertainties and risks associated with forecasts, projections or other forward-looking statements, actual events, results or performance may differ materially from those reflected or contemplated.
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Fixed Income

Yield curve

U.S. Treasury yield curve



Source: FactSet, Federal Reserve, J.P. Morgan Asset Management.
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Equities

S&P 500 valuation measures

S&P 500 Index: Forward P/E ratio

Valuation measure	Description	Latest	25-year avg.*	Std. dev. Over-/under-Valued
P/E	Forward P/E	19.46x	16.83x	0.78
CAPE	Shiller's P/E	37.45x	27.98x	1.47
Div. Yield	Dividend yield	1.46%	2.00%	1.63
P/B	Price to book	4.07x	3.09x	1.22
P/CF	Price to cash flow	14.80x	11.12x	1.69
EY Spread	EY minus Baa yield	0.86%	0.19%	-0.34



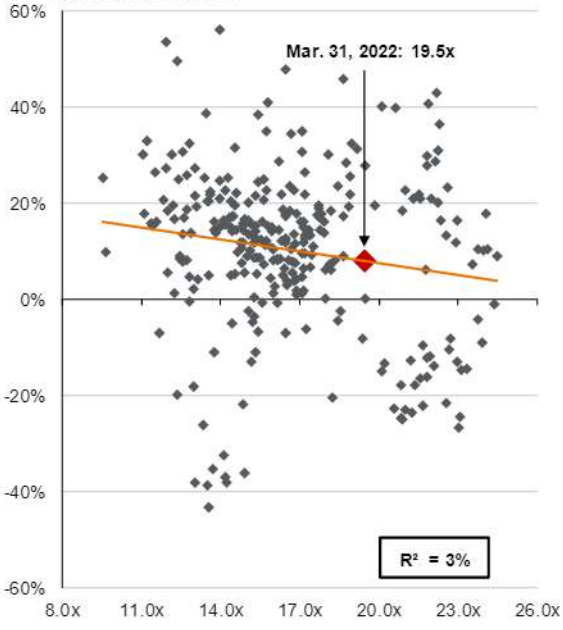
Source: FactSet, FRB, Refinitiv Datastream, Robert Shiller, Standard & Poor's, Thomson Reuters, J.P. Morgan Asset Management.
Price-to-earnings is price divided by consensus analyst estimates of earnings per share for the next 12 months as provided by IBES since March 1997 and by FactSet since January 2022. Current next 12-months consensus earnings estimates are $233. Average P/E and standard deviations are calculated using 25 years of history. Shiller's P/E uses trailing 10-years of inflation-adjusted earnings as reported by companies. Dividend yield is calculated as the next 12-months consensus dividend divided by most recent price. Price-to-book ratio is the price divided by book value per share. Price-to-cash flow is price divided by NTM cash flow. EY minus Baa yield is the forward earnings yield (consensus analyst estimates of EPS over the next 12 months divided by price) minus the Moody's Baa seasoned corporate bond yield. Std. dev. over-/under-valued is calculated using the average and standard deviation over 25 years for each measure. *P/CF is a 20-year average due to cash flow availability.
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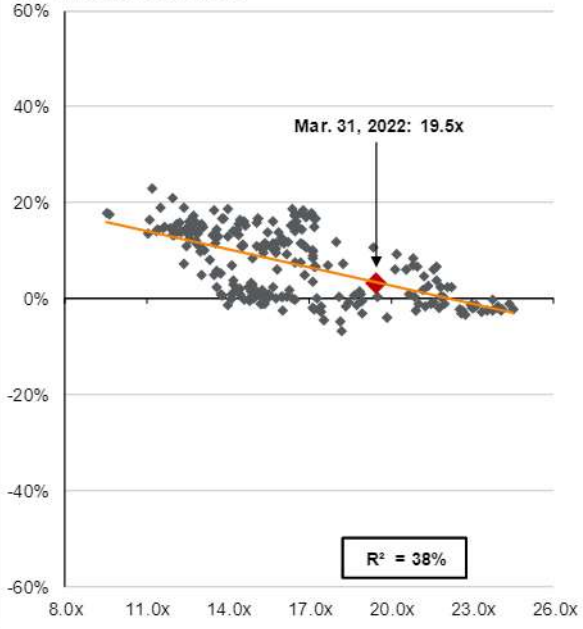
Equities

P/E ratios and equity returns

Forward P/E and subsequent 1-yr. returns
S&P 500 Total Return Index



Forward P/E and subsequent 5-yr. annualized returns
S&P 500 Total Return Index

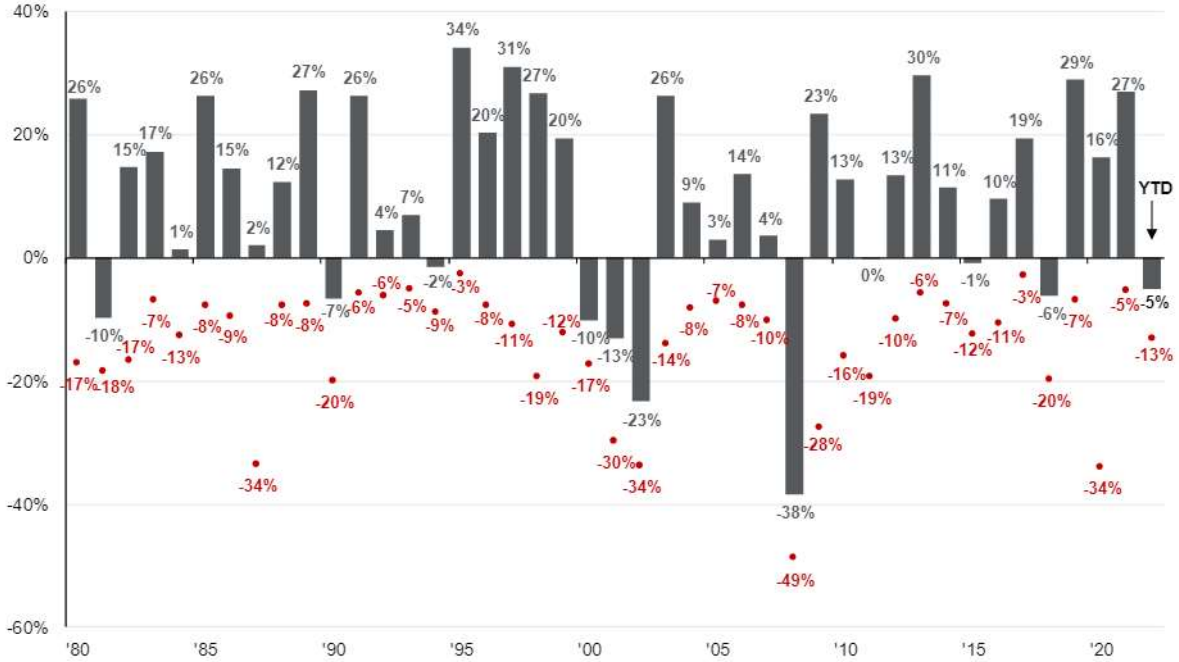


Source: FactSet, Refinitiv Datastream, Standard & Poor's, Thomson Reuters, J.P. Morgan Asset Management.
Returns are 12-month and 60-month annualized total returns, measured monthly, beginning 1/28/97. R^2 represents the percent of total variation in total returns that can be explained by forward price-to-earnings ratios. Price-to-earnings is price divided by consensus analyst estimates of earnings per share for the next 12 months as provided by IBES since January 1997 and by FactSet since January 2022.
Guide to the Markets – U.S. Data are as of March 31, 2022.

Equities

Annual returns and intra-year declines

S&P intra-year declines vs. calendar year returns
Despite average intra-year drops of 14.0%, annual returns were positive in 32 of 42 years



Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management.
Returns are based on price index only and do not include dividends. Intra-year drops refers to the largest market drops from a peak to a trough during the year. For illustrative purposes only. Returns shown are calendar year returns from 1980 to 2021, over which time period the average annual return was 9.4%.
Guide to the Markets – U.S. Data are as of March 31, 2022.

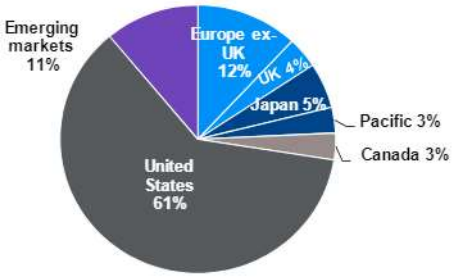
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International

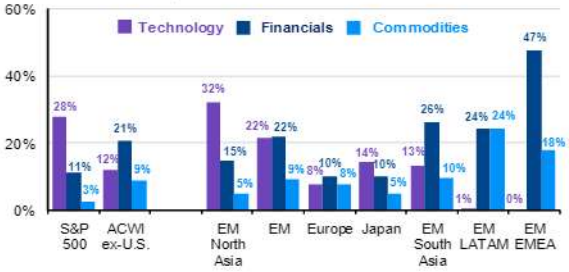
Global equity markets

Returns	2022 YTD		2021		15-years	
	Local	USD	Local	USD	Ann.	Beta
Regions						
U.S. (S&P 500)	-	-4.6	-	28.7	10.7	0.90
AC World ex-U.S.	-3.8	-5.3	13.5	8.3	4.2	1.07
EAFE	-3.6	-5.8	19.2	11.8	4.1	1.04
Europe ex-UK	-8.1	-9.8	24.4	16.5	4.8	1.18
Emerging markets	-6.1	-6.9	0.1	-2.2	4.8	1.18
Selected Countries						
United Kingdom	4.8	1.8	19.6	18.5	2.3	1.02
France	-6.6	-8.6	29.7	20.6	4.7	1.22
Germany	-10.9	-12.8	13.9	5.9	4.7	1.31
Japan	-1.4	-6.4	13.8	2.0	3.4	0.72
China	-13.9	-14.2	-21.6	-21.6	5.8	1.10
India	0.1	-1.8	28.9	26.7	6.7	1.26
Brazil	16.0	36.0	-11.2	-17.2	0.9	1.50
Russia	-	-	21.6	20.0	0.9	1.49

Weights in MSCI All Country World Index
% global market capitalization, float adjusted



Representation of key sectors in international markets
% of Index market capitalization

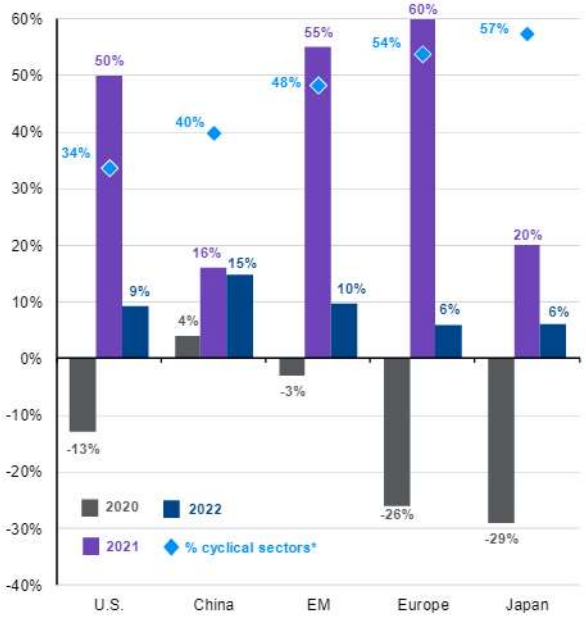


Source: FactSet, Federal Reserve, MSCI, Standard & Poor's, J.P. Morgan Asset Management. All return values are MSCI Gross Index data. 15-year history based on USD returns. 15-year return and beta figures are calculated for the time period 12/31/2006 to 12/31/2021. Beta is for monthly returns relative to the MSCI AC World Index. Annualized volatility is calculated as the standard deviation of quarterly returns multiplied by the square root of 4. Chart is for illustrative purposes only. Please see disclosure page for index definitions. Past performance is not a reliable indicator of current and future results. EM North Asia includes China, Taiwan and South Korea. EM South Asia includes India, Indonesia, Malaysia, Pakistan, Philippines, Taiwan and Thailand.
Guide to the Markets – U.S. Data are as of March 31, 2022.

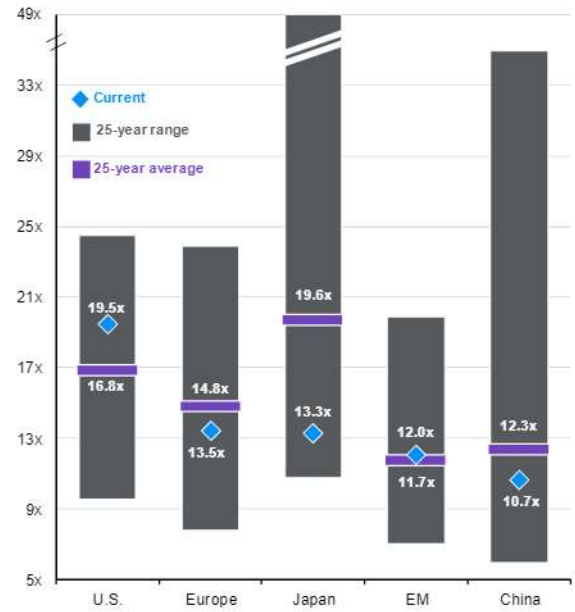
International

International equity earnings and valuations

Global earnings growth
Calendar year consensus estimates



Global valuations
Current and 25-year next 12 months price-to-earnings ratio

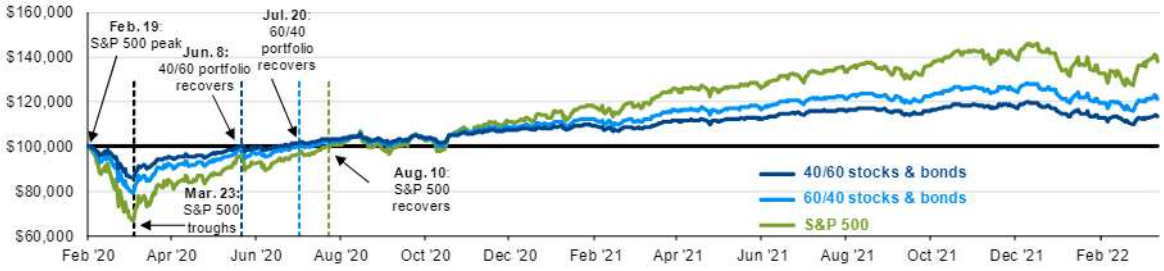


Source: FactSet, MSCI, Standard & Poor's, Thomson Reuters, J.P. Morgan Asset Management.
*Cyclical sectors include consumer discretionary, financials, industrials, energy and materials. The Internet and direct marketing subsector has been removed from the cyclicals calculation. In our judgement, companies in this space do not yet fit into the cyclical category, as they are still in a transitional growth phase and are not being directly impacted by the business cycle. Valuation and earnings charts use MSCI indices for all regions/countries, except for the U.S., which is the S&P 500. All indices use IBES aggregate earnings estimates, which may differ from earnings estimates used elsewhere in the book. MSCI Europe includes the eurozone as well as countries not in the currency bloc, such as Norway, Sweden, Switzerland and the UK (which collectively make up 44% of the overall index). Past performance is not a reliable indicator of current and future results.
Guide to the Markets – U.S. Data are as of March 31, 2022.

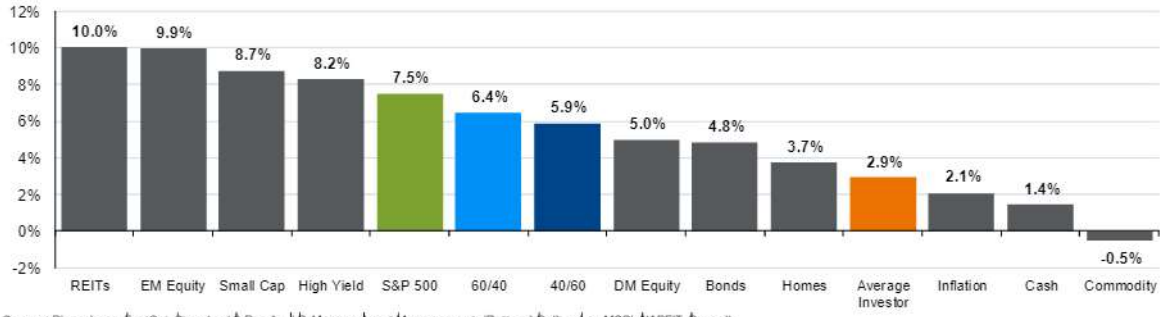
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Diversification and the average investor

Portfolio returns: Equities vs. equity and fixed income blend



20-year annualized returns by asset class (2001 – 2020)



Source: Bloomberg, FactSet, Standard & Poor's, J.P. Morgan Asset Management; (Bottom) Dalbar Inc, MSCI, NAREIT, Russell.
Indices used are as follows: REITs: NAREIT Equity REIT Index, Small Cap: Russell 2000, EM Equity: MSCI EM, DM Equity: MSCI EAFE, Commodity: Bloomberg Commodity Index, High Yield: Bloomberg Global HY Index, Bonds: Bloomberg U.S. Aggregate Index, Homes: median sale price of existing single-family homes, Cash: Bloomberg 1-3m Treasury, Inflation: CPI. 60/40: A balanced portfolio with 60% invested in S&P 500 Index and 40% invested in high-quality U.S. fixed income, represented by the Bloomberg U.S. Aggregate Index. The portfolio is rebalanced annually. Average asset allocation investor return is based on an analysis by Dalbar Inc.[] which utilizes the net of aggregate mutual fund sales, redemptions and exchanges each month as a measure of investor behavior.
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