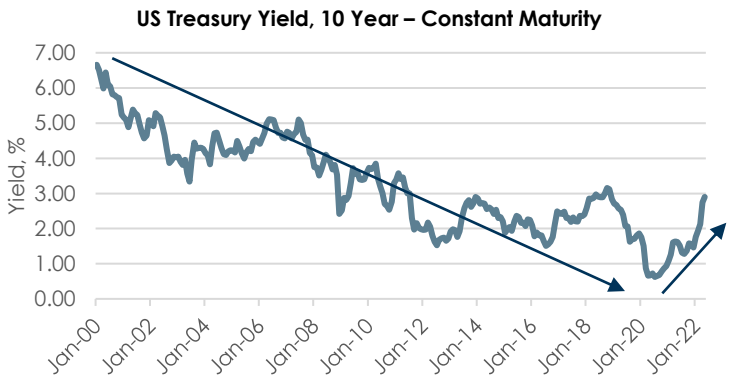


- Fear of several interest rate increases by the US Federal Reserve in 2022 has led to a sell-off in global equities
- Concurrently, the US is facing inflation rates not seen in more than 40 years, adding to investor concerns
- The Dollar's resilience continues to negatively impact Non-Dollar investment returns for US investors

Interest Rates and Global Liquidity

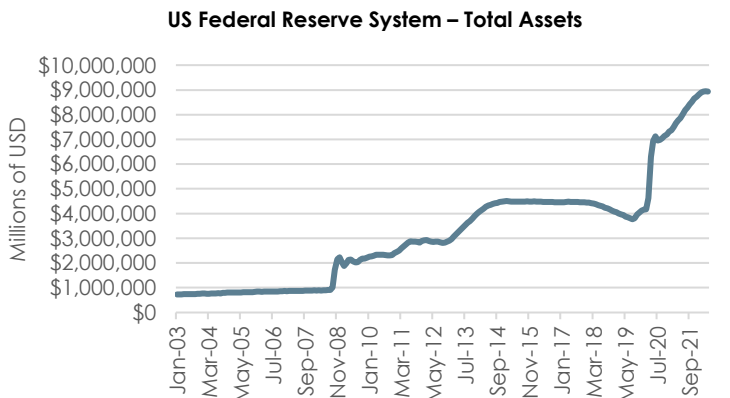
US interest rates have been in historically low territory for some time, and the monetary authorities (Central Banks) have added significant liquidity to the financial system, following the Great Financial Crisis (GFC) and more recently the COVID pandemic.

This environment has caused investors to favor risk assets, such as equities, in order to sustain target returns. Interest rates are a key input to equity valuation models. Lower rates increase intrinsic equity values, while higher rates reduce equity values.



Source: St. Louis Federal Reserve Bank, ACG Research.

The amount of liquidity added to the US financial system has been significant. Prior to the GFC, total assets on the US Federal Reserve system's balance sheet were just under \$1 trillion, today that number is nearly \$9 trillion. Since the GFC, monetary stimulus injected into the US financial system is up approximately 10x.



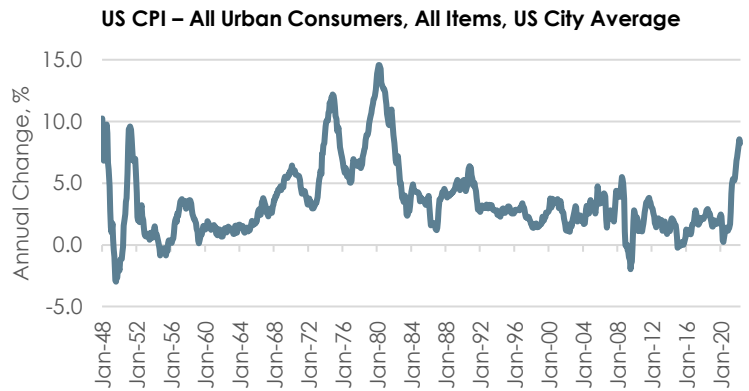
Source: St. Louis Federal Reserve Bank, ACG Research.

The US Federal Reserve is in the process of reducing the size of its balance sheet while simultaneously increasing interest rates. Despite the near-term volatility with rising interest rates and the right-sizing of the Fed's balance sheet, we still see long-term opportunities for equities. The near-term outlook for corporate earnings remains solid and price/earnings multiples have moderated.

Inflationary Pressure for Consumers and Companies

Bottlenecks in production and transportation, along with higher labor, energy, and financing costs, all translate into higher prices for the end consumer.

The US CPI ratcheted up very quickly, with the annual rate reaching levels not seen in 40 years. What was once viewed as a transitory problem has now become stubbornly persistent. Even if inflation levels off from here, elevated food and energy prices may be enough to change consumer purchasing patterns, which could additionally impact corporate revenues and earnings growth. For the moment, higher wages have helped offset rising inflation, supporting continued consumer spending.



Source: St. Louis Federal Reserve Bank, ACG Research.

Currency Impacts to US Dollar Investors

US dollar investors allocating to non-US equities have the added risk of currency translation. A strong US dollar will generally be negative, while a weakening US dollar will generally be positive. Over the past ten years the appreciating US dollar has resulted in an approximate annualized 2.5% headwind. In the last year alone, it was nearly 12%. As currency trends tend to run in long cycles, a reversal in the current US dollar trend could favor non-US investments.

	Annualized Returns as of May 31, 2022			
	1 Yr.	3 Yr.	5 Yr.	10 Yr.
MSCI EAFE	-9.90%	6.93%	4.68%	7.65%
MSCI EAFE Local Currency	<u>1.66%</u>	<u>8.67%</u>	<u>5.99%</u>	<u>10.10%</u>
Favorable / Unfavorable	-11.56%	-1.74%	-1.31%	-2.45%

ACG's Position

Interest rate/balance sheet normalization, inflation, war, and the impact of a strong US dollar are a lot for investors to digest. Timing the market has proven to be a difficult and costly exercise, however ACG believes adhering to long-term, strategic asset allocation targets is the best way to navigate this challenging environment.

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