MARKET INSIGHTS

from Ziegler Capital Management

Monthly Market Commentary: July 2022

WRITTEN: JULY 1, 2022

Financial news headlines are led by inflation running at multi-decade highs, recessionary fears, the Ukraine / Russia war, and the related economic sanctions including Russia's first foreign debt default since 1918, the pace and size of future increases in the Federal Funds rate and continued albeit improving supply chain disruptions. Additionally, there is focus on the upcoming U.S. midterm elections later in 2022. All 435 House of Representatives seats are up for re-election for two-year terms, as well as 35 of the 100 Senate seats for six-year terms. There are numerous gubernatorial elections and local elections as well. Presently, Democrats control the House with 221 seats to the Republicans' 208. There are currently six vacant seats. The Senate is equally split, with 50 members from each party with Vice President Harris having a tiebreaker vote. In addition, most states have completed their once-a-decade redistricting process based on updated population figures that have created new boundaries for most House seats.

The S&P 500 was negative in June, the 4th month of 2022 with negative results, with a return of -8.25%. For the year-to-date period through June 30, the S&P 500 has returned -19.96%. This is the worst first half of a year since 1970. Small cap stocks, as measured by the Russell 2000, returned -8.22% in June and have returned -23.43% on a year-to-date basis as of June 30, 2022. This contrasts with the 14.82% return for calendar year 2021. Large Cap Growth outperformed Value in June, with the Russell 1000 Growth returning -7.92% and the Russell 1000 Value returning -8.74%. On a year-to-date basis as of June 30, 2022, Large Cap Value has significantly outperformed Large Cap Growth, with a return of -12.86% versus -28.07%. In June, the Russell 2000 Value returned -9.88% and the Russell 2000 Growth returned -6.19%. On a year-to-date basis as of June

Returns by Sector

	S&P 500		Russell 2000	
Sector	June 2022	YTD	June 2022	YTD
Communication Services	-7.69	-30.16	-11.61	-32.71
Consumer Discretionary	-10.80	-32.82	-12.50	-34.79
Consumer Staples	-2.50	-5.58	0.65	-10.09
Energy	-16.80	31.84	-21.66	22.80
Financials	-10.90	-18.73	-7.18	-18.51
Health Care	-2.66	-8.33	2.01	-30.66
Industrials	-7.40	-16.79	-8.42	-20.58
Information Technology	-9.32	-26.91	-9.72	-32.89
Materials	-13.84	-17.89	-13.08	-18.17
Real Estate	-6.90	-20.02	-10.03	-23.98
Utilities	-4.98	-0.55	-3.00	-0.97
TOTAL RETURN	-8.25%	-19.96%	-8.22%	-23.43%

Source: Bloomberg

ABOUT ZCM MARKET INSIGHTS

A series that provides a glimpse of our internal thought process through current topics affecting our clients and colleagues.

www.zieglercap.com/insights

Ziegler CAPITAL MANAGEMENT, LLC

We are a premier asset management firm comprised of investment teams employing repeatable processes providing tailored investment solutions across the fixed income and equity markets.

www.zieglercap.com

zieglercap.com/linkedin

30, 2022, Small Cap Value outperformed Small Cap Growth, with a return of -17.31% for Small Cap Value versus Small Cap Growth at -29.45%.

Real gross domestic product (GDP) decreased at an annualized rate of 1.6% in the first quarter of 2022 according to the "third" estimate released by the Bureau of Economic Analysis (BEA), a decrease from the second estimate of -1.5%. The update primarily reflects a downward revision to personal consumption expenditures (PCE) that was partly offset by an upward revision to private inventory investment. The decrease in real GDP reflected decreases in exports, federal government spending, private inventory investment, and state and local government spending, while imports, which are a subtraction in the calculation of GDP, increased. Nonresidential fixed investment, PCE, and residential fixed investment increased. The decrease in exports reflected widespread decreases in nondurable goods. The decrease in federal government spending primarily reflected a decrease in defense spending on intermediate goods and services. The decrease in private inventory investment was led by decreases in wholesale trade (mainly motor vehicles) as well as mining, utilities, and construction (notably, utilities). The increase in imports was led by an increase in goods (notably, non-food, and non-automotive consumer goods). The increase in nonresidential fixed investment reflected increases in equipment and intellectual property products. The increase in PCE reflected an increase in spending on services (led by housing and utilities and "other" services) that was partly offset by a decrease in spending on goods. Within goods, widespread decreases in nondurable goods (led by groceries as well as gasoline and other energy goods) were largely offset by an increase in durable goods (led by motor vehicles and parts).

The Institute for Supply Management's (ISM) Purchasing Managers' Index (PMI) registered 53.0 in June, a decrease from the May reading of 56.1. This figure indicates expansion in the overall economy for the 25th month in a row after a contraction in April and May 2020, but is the lowest reading since June 2020 when it registered 52.4. A reading of over 50 is considered to be expansionary. According to the ISM, "The U.S. manufacturing sector continues to be powered — though less so in June — by demand while held back by supply chain constraints. Despite the Employment Index contracting in May and June, companies improved their progress on addressing moderate-term labor shortages at all tiers of the supply chain, according to Business Survey Committee respondents' comments. Panelists reported lower rates of quits compared to May. Prices expansion slightly eased for a third straight month in June, but instability in global energy markets continues. Sentiment remained optimistic regarding demand, with three positive growth comments for every cautious comment. Panelists continue to note supply chain and pricing issues as their biggest concerns."

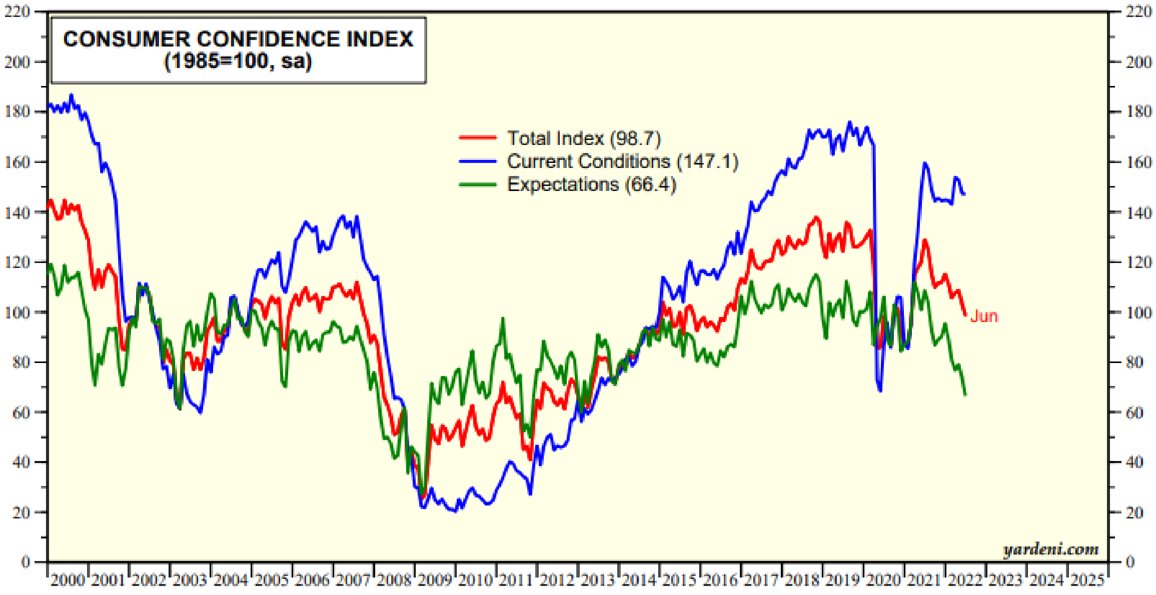
According to the U.S. Bureau of Labor Statistics (BLS), the unemployment rate was unchanged in May, at 3.6%, the same as the April and March readings. Total non-farm payroll employment rose by 390,000 in May. Notable job gains occurred in leisure and hospitality, in professional and business services, and in transportation and warehousing. Employment in retail trade declined. The number of unemployed was essentially unchanged at 6.0 million. Both measures continue to fall and are significantly lower than their April 2020 highs and are now roughly in line with their February 2020 pre-pandemic levels of 3.5% and 5.7 million people. The labor force participation rate was 62.3% in May, little changed since February. It has remained in a narrow range since June 2020.

The U.S. savings rate was 5.4% in May, an increase from 4.4% in April. The long-term average savings rate is approximately 9% after its stunning peak of 32.2% in April 2020. Personal income increased $113.5 billion in May (0.5%), according to the Bureau of Economic Analysis (BEA). The increase in personal income in May primarily reflected increases in compensation and proprietors' income that were offset by a decrease in government social benefits. Within compensation, the increase reflected increases in private and government wages. The increase in proprietors' income was led by nonfarm income. The decrease in government social benefits primarily reflected a decrease in “other” benefits that was partly offset by increases in Medicaid and Medicare. Within “other” benefits, the decrease primarily reflected a decline in transfers to nonprofit health care providers through the Provider Relief Fund. The $32.7 billion increase in current-dollar PCE in May reflected an increase of $76.2 billion in spending for services that was partly offset by a decrease of $43.5 billion in spending for goods. Within services, increases in housing and utilities (led by housing), "other" services (led by international travel), and health care (led by hospitals) were the largest contributors. Within goods, a decrease in spending on motor vehicles and parts (led by new motor vehicles) was partly offset by an increase in gasoline and other energy goods including motor vehicle fuel.

The statement released from the Fed’s June meeting noted, “Overall economic activity appears to have picked up after edging down in the first quarter. Job gains have been robust in recent months, and the unemployment rate has remained low. Inflation remains elevated, reflecting supply and demand imbalances related to the pandemic, higher energy prices, and broader price pressures. The invasion of Ukraine by Russia is causing tremendous human and economic hardship. The invasion and related events are creating additional upward pressure on inflation and are weighing on global economic activity. In addition, COVID-related lockdowns in China are likely to exacerbate supply chain disruptions. The Committee is highly attentive to inflation risks.” The Fed reiterated its objectives of maximum employment and a 2% inflation rate over the longer run. The Fed raised the target range for the federal funds rate by 75 basis points to a range of 1.5% to 1.75% and anticipates that further rate increases will be warranted. This was the third rate-hike so far in 2022 and the largest since 1994. As previously announced, the Committee will continue reducing its balance sheet holdings. It further stated, “In assessing the appropriate stance of monetary policy, the Committee will continue to monitor the implications of incoming information for the economic outlook. The Committee would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee's goals. The Committee's assessments will take into account a wide range of information, including readings on public health, labor market conditions, inflation pressures and inflation expectations, and financial and international developments.”

Consumer Confidence decreased in June to 98.7 from a downward revised 103.2 in May and now stands at its lowest level since February 2021. Consumer Confidence recently reached a peak of 128.9 in June 2021. According to a statement from the Conference Board, “Consumer confidence fell for a second consecutive month in June. While the Present Situation Index was relatively unchanged, the Expectations Index continued its recent downward trajectory—falling to its lowest point in nearly a decade. Consumers’ grimmer outlook was driven by increasing concerns about inflation, in particular rising gas, and food prices. Expectations have now fallen well below a reading of 80, suggesting weaker growth in the second half of 2022 as well as growing risk of recession by yearend. Purchasing intentions for cars, homes, and major appliances held relatively steady—but intentions have cooled since the start of the year and this trend is likely to continue as the Fed aggressively raises interest rates to tame inflation. Meanwhile, vacation plans softened further as rising prices took their toll. Looking ahead over the next six months, consumer spending and economic growth are likely to continue facing strong headwinds from further inflation and rate hikes." The Current Conditions Index (which is based on consumers' assessment of current business and labor market conditions) declined marginally to 147.1 from a downward revised 147.4 in May. The Expectations Index (which is based on consumers' short-term outlook for income, business, and labor market conditions) decreased sharply to 66.4 in June from a downward revised 73.7 in April. It is at its lowest level since March 2013. According to information from the BEA, the consumer is responsible for approximately 70% of the U.S. economy.

Consumer Confidence



The Bloomberg U.S. Aggregate Bond Index returned -1.57% in June and has returned -10.35% on a year-to-date basis as of June 30th. This is on the heels of a -1.54% return for calendar year 2021. The 10-Year U.S. Treasury ended June at 3.02% after ending May at 2.85% and beginning the year at 1.51%. It has increased dramatically since hitting an all-time low of 0.54% in July 2020. The 2-Year U.S. Treasury and 10-Year Treasury spread ended June with a spread of 6 basis points (2-year: 2.96% and 10-year: 3.02%). This contrasts with figures from the beginning of the year with a spread of 78 basis points and the 2-Year at 0.73 % and the 10-Year at 1.51%. Option Adjusted Spreads (as represented by the Bloomberg Corporate Index) ended June at 155 basis points, 25 basis points wider than the May month end of 130 basis points. Spreads began 2022 with a reading of 92 basis points.

West Texas Intermediate (WTI) finished June at $105.76 per barrel, decreasing -8.4% from May at $115.48 per barrel. WTI has increased 40.6% since beginning 2022 at $75.21 per barrel. This is on the heels of a 58.9% increase in 2021. Turmoil from the invasion of Ukraine by Russia, the related sanctions and increasing demand have been a significant factor in the increases so far in 2022. WTI is significantly higher than April 2020's close at $18.84 per barrel during the Saudi/Russia price war.

The Volatility Index (VIX) ended June at 28.71, increasing 9.6% from the May month-end reading of 26.19. The VIX has increased 66.7% after beginning 2022 with a reading of 17.22. Movement in the VIX has largely been driven by market turbulence over inflation, increasing interest rates, recessionary fears and the war between Russia and Ukraine. It remains lower than the March 16, 2020, COVID-19 pandemic peak of 82.69. The long-term average of the VIX is approximately 20.

We actively monitor the capital markets and are prepared to respond accordingly. As we have stated in the past, we continue to advise our clients to adhere to their long-term plans and objectives.

ZIEGLER CAPITAL MANAGEMENT, LLC
30 South Wacker Drive | Suite 2800 | Chicago, Illinois | 60606 | www.zieglercap.com

22-02001
Printed Internally