ASHFIELD Q1 MARKET UPDATE: OPPORTUNITIES AMID INFLATIONARY HEADWINDS

APRIL 2022

In our most recent market commentary (February's "2021 Was A Recovery Year"), we forecasted continued stock market volatility despite the strong economic underpinnings of the US post-pandemic economic recovery. Price inflation for goods and services was, at that time, leading the Federal Reserve to consider policy action to reverse years-long monetary stimulus toward tightening conditions. Fast forward to today, the Federal Reserve has formally instituted a new program of interest rate hikes and balance sheet reduction. The bond market is pricing in these measures before they even occur. As a result:

1. Long-term interest rates as represented by the Ten-Year US Treasury Note have rapidly shifted upward, from 1.5% at year-end 2021 to a nearly double 2.9% today, creating havoc on bond prices, driving mortgage rates to 5% and repricing the valuation of many riskier stocks

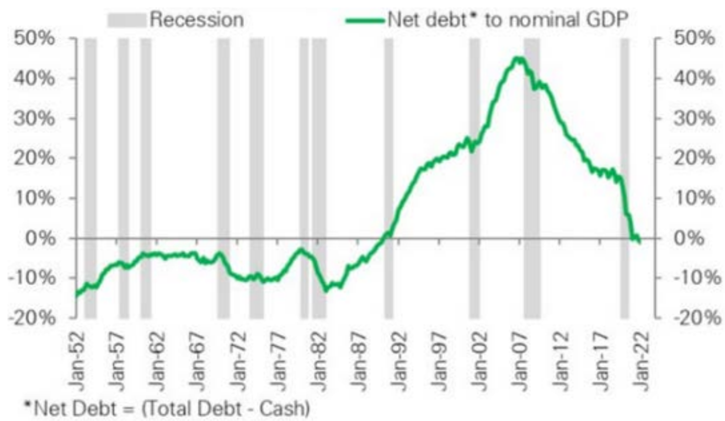
2. Continued uncertainty regarding "persistent" inflation has made it challenging to forecast corporate profit margins and inventory resupply for the Q1 period

3. Russia's invasion of Ukraine added additional complexity, resulting in wide-reaching financial sanctions, a possible shortfall in global energy supply and therefore price spikes, a refugee crisis for Europe, and a potentially serious drop in food supply with the loss of Ukraine's agricultural exports

In the face of these difficult headwinds, we want to highlight the positive: the strength of consumer incomes and balance sheets. Consumer spending is considered to drive over two thirds of US economic activity. Consumer spending therefore remains a key source of economic stability for the year ahead.

Corporate earnings (profits) for first quarter 2022 are currently being reported and will showcase how companies are handling inflationary pressure and rising costs. Early indications are showing resilience for well-managed companies, as retail sales for March were reported up 0.5% from last month. Consumers are continuing to spend. With Tax Day just behind us, many Americans are expecting an imminent refund. Cumulative refunds in 2022 are expected to exceed those of recent years due to the expanded child tax credit and other fiscal programs. As a result, consumers will likely see a boost in cash over the coming months, providing a buffer against rising costs. Coming off record levels of personal savings during the pandemic lockdown period, households also have the balance sheet liquidity to maintain their purchases.

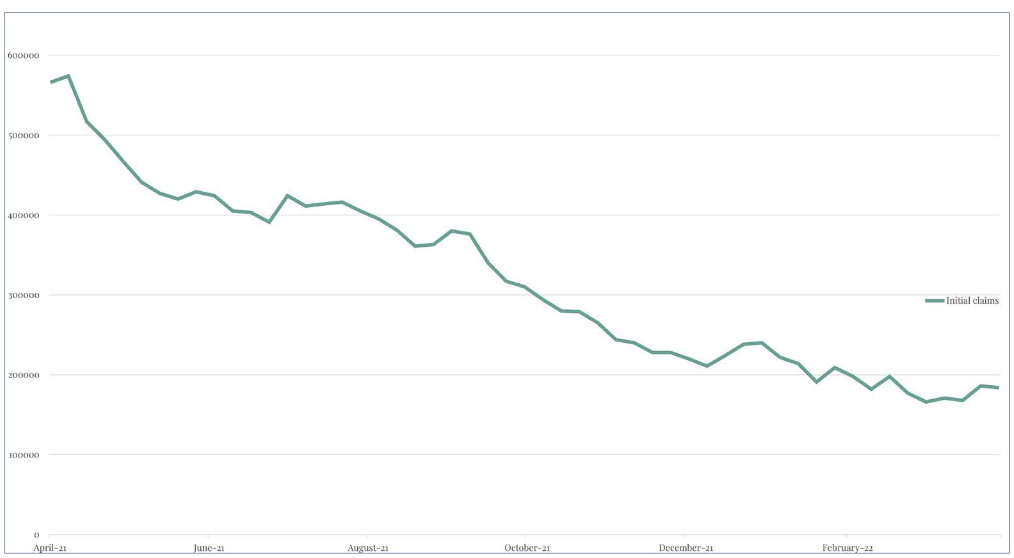
HOUSEHOLDS NET DEBT TO NOMINAL GDP (%)



Source: Deutsche Bank Research Note

Another pillar of US economic health is the US Initial Jobless Claims Report, which has steadily improved over the last 12 months. Jobless claims are near the lowest level since 1968.

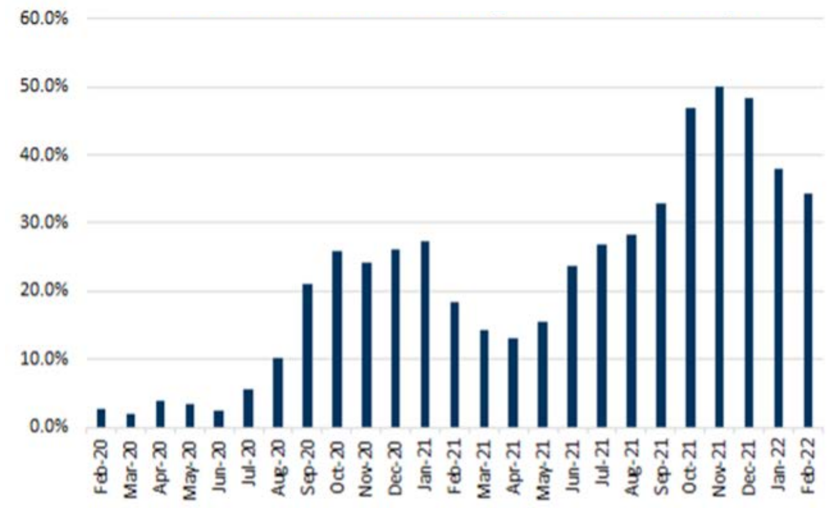
INITIAL CLAIMS (ICSA)



Source: U.S. Employment and Training Administration; St. Louis Fed

Supply shortages have made higher inflation more lasting. The US has demonstrated great momentum in the post-COVID reopening of our economy, but low inventories and the disrupted supply chain have made it a challenge to meet surges in demand. Supply chain pressure is improving however, as demonstrated by reduced turnaround times for loading and unloading container ships.

% OF CONTAINERS DWELLING MORE THAN 5 DAYS

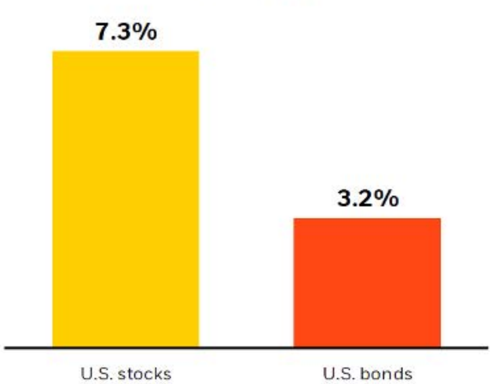


Source: Evercore/ISI

So, does the Federal Reserve policy shift make sense? The Fed's action is normalizing interest rates in response to the revival of a strong economy, one which does not require continued extraordinary stimulus. This is appropriate and doesn't mark the end of the recovery, nor does it mean that recession is nigh. Historically speaking, it should be further along a timeline of interest rate hikes when economic expansion ends, not at the initial policy moves, and we are just beginning this cycle.

AVERAGE U.S. STOCK AND BOND PERFORMANCE 12 MONTHS FOLLOWING THE FIRST FED HIKE

(2/4/94-12/31/21)



SPECIFIC PERIODS OF HIGHER INTEREST RATES

(2/4/94-12/31/21)

1st Federal Reserve rate Increase	U.S. stocks		U.S. bonds	
	Next 6 months	Next 12 months	Next 6 months	Next 12 months
2/4/94	-2.6%	2.5%	-2.7%	-1.2%
6/30/99	9.0%	8.0%	1.3%	5.1%
6/30/04	7.8%	7.5%	4.2%	7.1%
12/17/15	1.4%	11.3%	4.9%	1.7%
Average	3.9%	7.3%	1.9%	3.2%

Source: Morningstar as of 12/31/21. U.S. stocks are represented by the S&P 500 index. **Past performance does not guarantee or indicate future results.** Index performance is for illustrative purposes only. You cannot invest directly in the index.

Source: BlackRock "Student of the Market January 2022"

What does this mean for your portfolio? Inflationary environments historically favor stocks versus bonds and cash. Quality companies pass on rising costs and maintain margins and dividend payout policies. We believe US companies continue to represent the greatest opportunity for long-term total return (capital appreciation and income). Technology, for example, has been the most penalized industry by the stock market's reaction to inflation and rising rates, yet technology remains the most powerful force for productivity improvements and profitability and should remain well represented in any investment portfolio.

The unfolding Russia-Ukraine geopolitical and humanitarian crisis is complex and continues to contribute to market volatility. In this unsettled environment, maintaining the appropriate liquidity (cash reserves) for your goals and objectives is paramount. For those assets earmarked for growth and long-term appreciation, we stay the course and trust our research to identify well-managed and resilient companies.

As always, we welcome discussion and any comments you may have.