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Quarterly Market Update

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Presented by:

Chris Harrington, CFA, CFP®, CPA - Chief Investment Officer

Matt Hekman, MBA - Portfolio Manager

Mike Shields, CFP® - Senior Director/Financial Advisor

US Economic Growth Slowing

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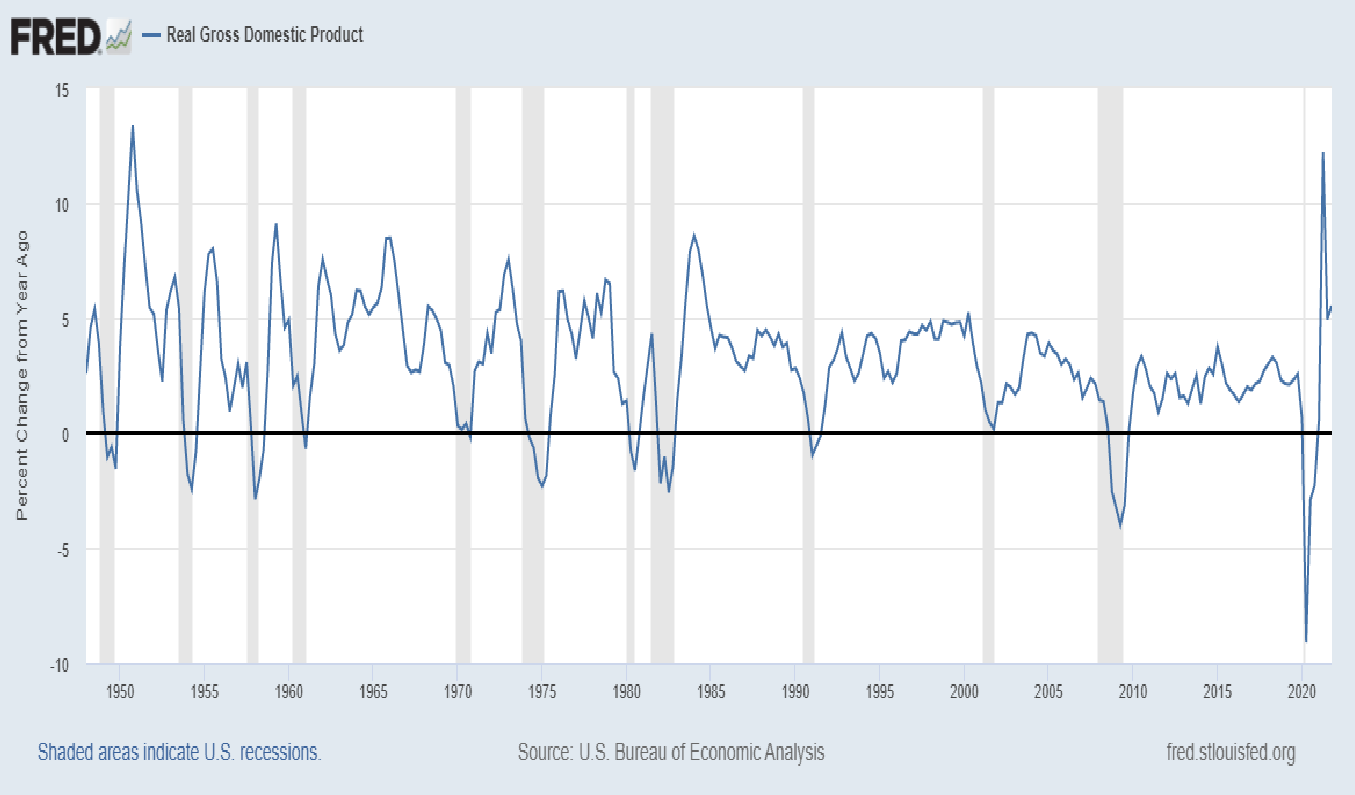
	Real GDP (YoY%)
Q4 2021 (A)	5.5%
Q1 2022 (E)	4.2%
Q2 2022 (E)	3.3%
Q3 2022 (E)	3.3%
Q4 2022 (E)	2.3%

Source: Bloomberg survey of 56 economists conducted in April ‘22



After a dramatic recovery from the COVID-19 recession of early 2020, economic growth is likely to slow significantly. In addition to normalization from the pandemic, headwinds impacting the growth outlook are numerous: Inflation, Fed Policy, Fiscal Retrenchment and Geopolitical Risk are just a few.

Inflation is Expected to Slow

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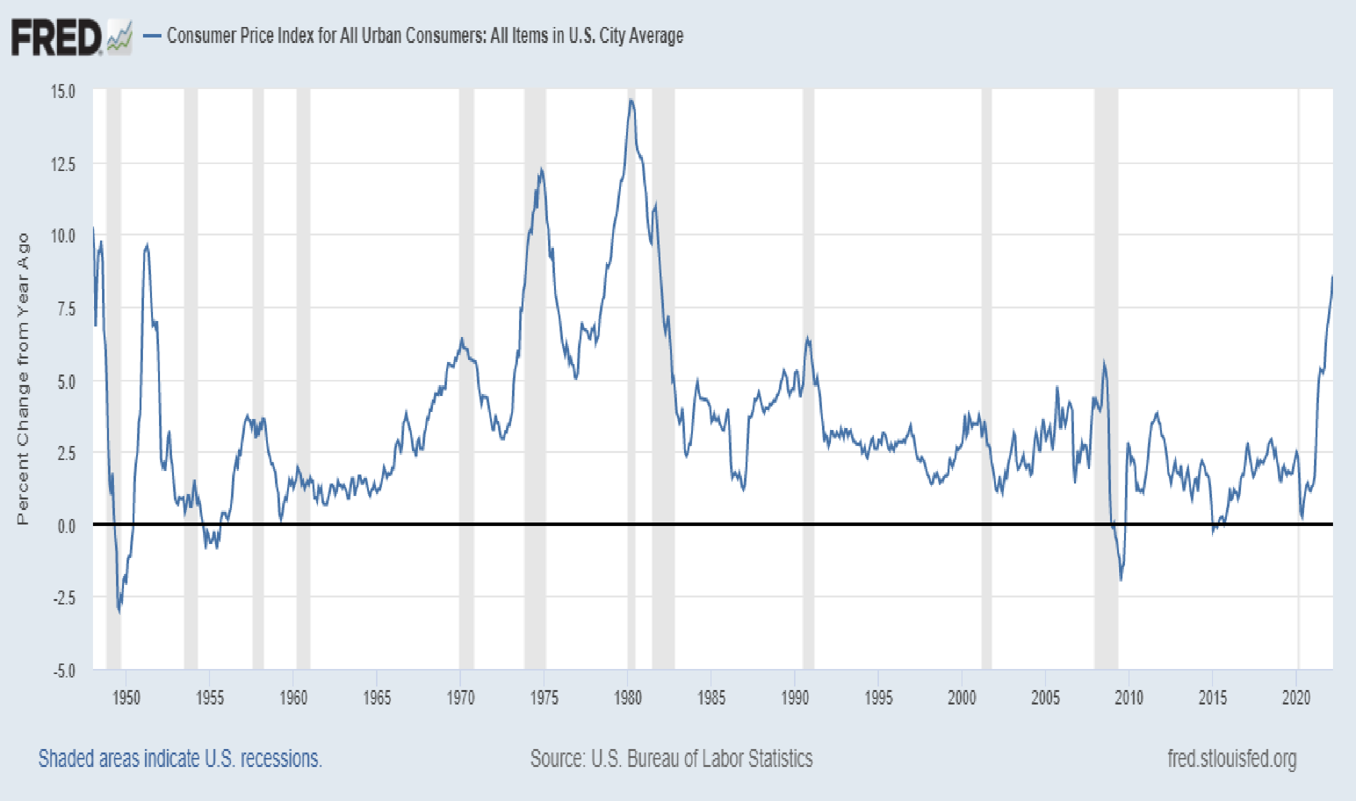
	CPI (YoY%)
Q4 ‘21 (A)	6.7%
Q1 ‘22 (A)	8.0%
Q2 ‘22 (forecast)	7.6%
Q3 ‘22 (forecast)	6.8%
Q4 ‘22 (forecast)	5.7%

Source: Bloomberg survey of 52 economists conducted in April ‘22



We are in the midst of a historic inflationary boom brought about by a confluence of drivers including: fiscal and monetary stimulus; ongoing supply chain disruptions and commodity inflation to name a few. The pace of the decline in inflation will play a decisive role in the outlook for interest rates and economic growth.

Interest Rates Heading Higher

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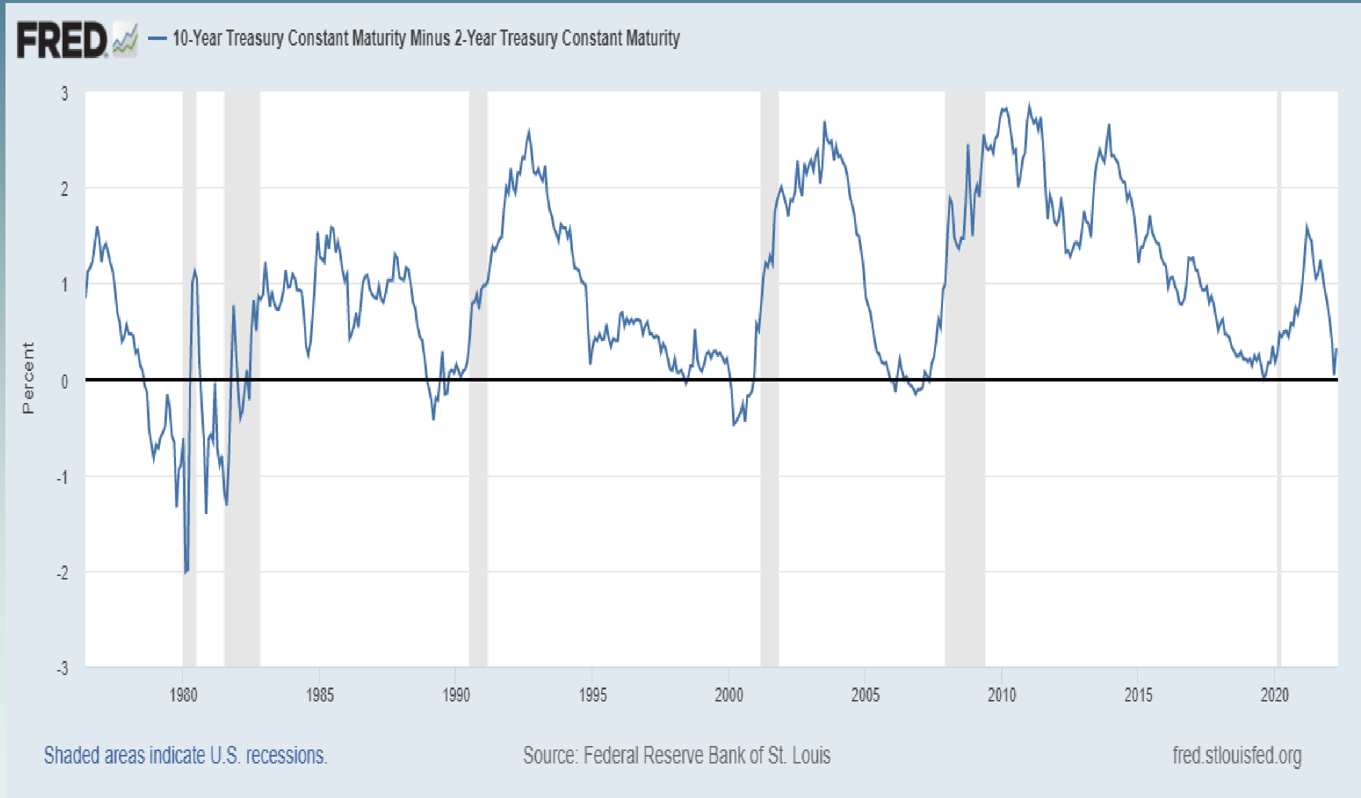
	Fed Funds Rate*
Q4 ‘21 (A)	0.25%
Q1 ‘22 (A)	0.50%
Q2 ‘22 (forecast)	1.40%
Q3 ‘22 (forecast)	1.90%
Q4 ‘22 (forecast)	2.30%

*Upper Bound
Source: Bloomberg survey of 62 economists conducted in April ’22



U.S. TREASURY YIELD CURVE

In periods of economic growth, the slope of the yield curve as measured using the 2yr & 10yr Treasury Notes is generally between 150bps – 250bps. Fixed Income markets are clearly concerned by the pace of interest rate hikes currently anticipated and its impact on economic growth. For perspective (not our outlook), using the consensus fed funds forecast, the 10yr Treasury bond should yield >4.5% (currently ~2.76%)

Credit Market Remains Calm

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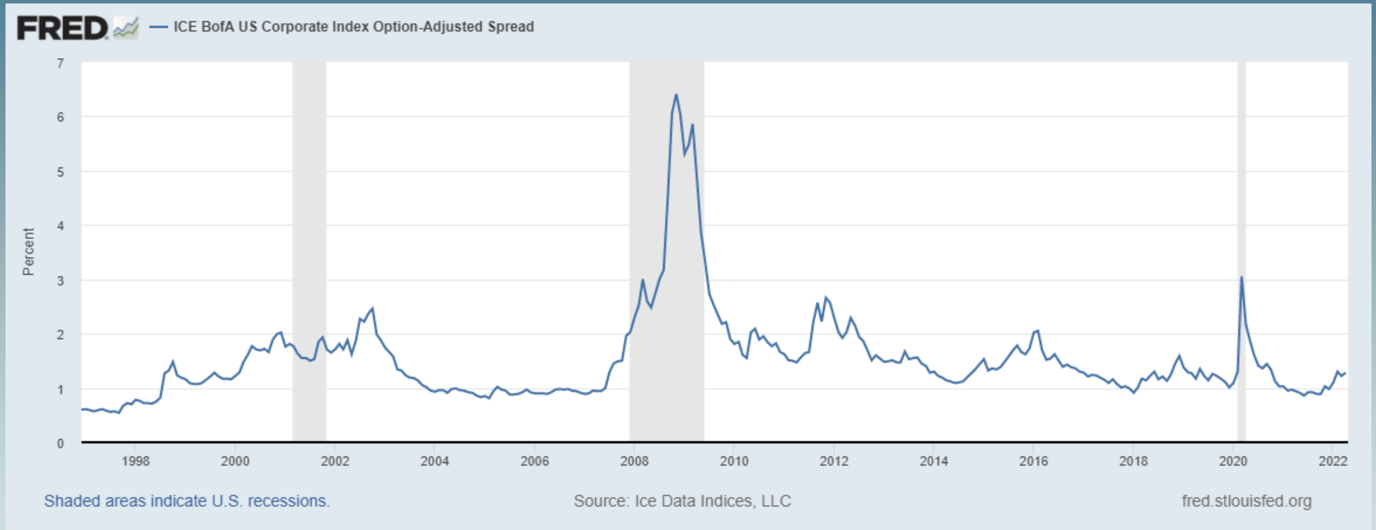

Credit Markets are an area to watch for early signals of concern over the outlook.

The ICE BofA US Corporate Index option-adjusted spread is not wide by historical standards but has been ticking up.

The ICE BofA US High Yield Index option-adjusted spread is also tight by historical standards and indicative of little concern over the near-term credit outlook.

Sentiment: A Near-Term Tailwind

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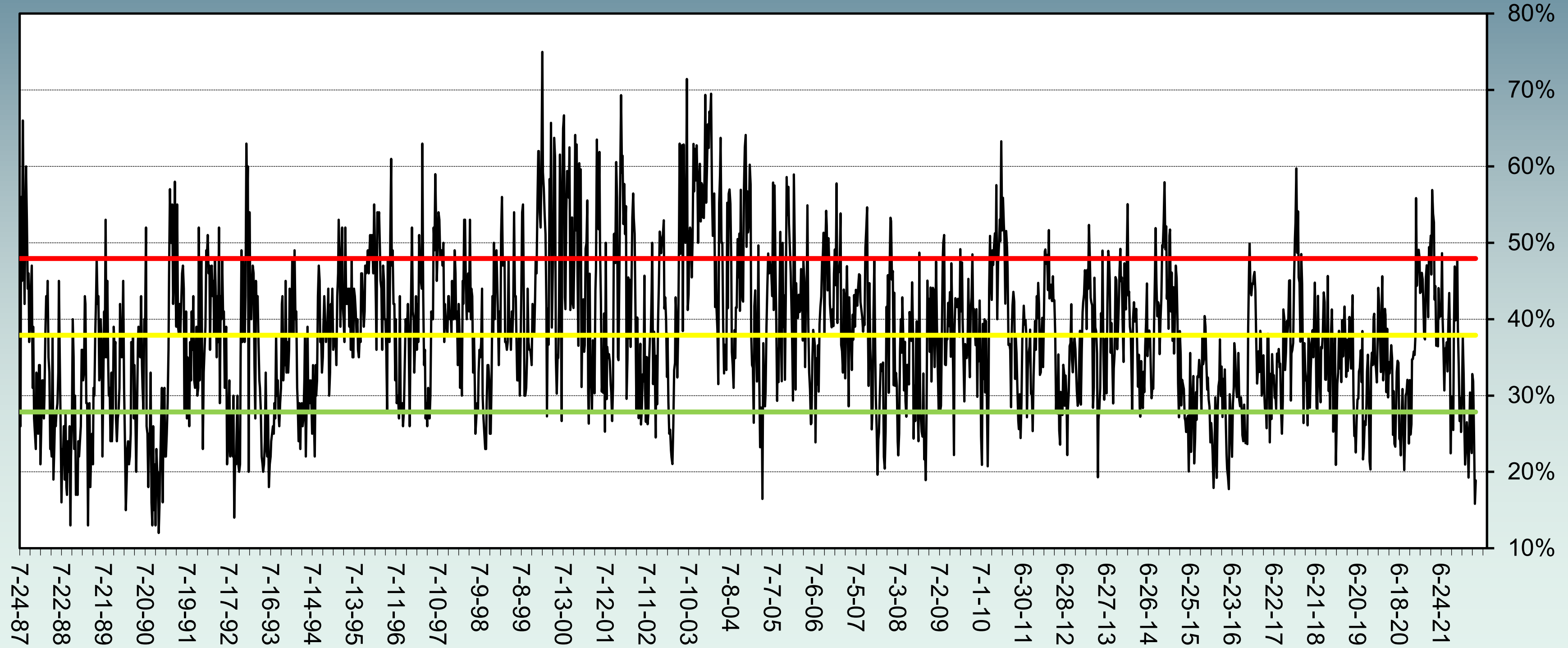
American Association of Individual Investors Sentiment Survey (www.aaii.com)

Bullish sentiment (or lack thereof) is at a provocative level. This degree of pessimism is historically unusual.



Slowing growth, elevated inflation readings and rising rates has chilled investors appetite for risk. Historically, this has been a reliable contra-indicator for 13-week-forward equity returns (source: AAII, Renaissance Macro).

China Economic Considerations

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Rolling lockdowns, Shanghai and Beijing being the most prominent cities, are impacting the economy meaningfully.

Retail Sales declined 3.5% YOY in March.

Home Sales down 26.2% YOY.

Jobless rate moving up to 6% in 31 major cities.

April economic data likely to be worse due to Covid impacts.

MSCI China Index down over 20% so far in 2022, on top of a negative 21.64% return in 2021.

Modest fiscal and monetary response to COVID compared to United States.

ANNUAL PERFORMANCE (%)

Year	MSCI China	MSCI Emerging Markets	MSCI ACWI
2021	-21.64	-2.22	19.04
2020	29.67	18.69	16.82
2019	23.66	18.88	27.30
2018	-18.75	-14.24	-8.93
2017	54.33	37.75	24.62
2016	1.11	11.60	8.48
2015	-7.62	-14.60	-1.84
2014	8.26	-1.82	4.71
2013	3.96	-2.27	23.44
2012	23.10	18.63	16.80
2011	-18.24	-18.17	-6.86
2010	4.83	19.20	13.21
2009	62.63	79.02	35.41
2008	-50.83	-53.18	-41.85

Europe Economic Considerations

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Big variance between economies reliant on fossil fuels from Russia and those that are not. Germany and Italy very exposed to Russian gas. Economic activity slowing more in those places.

2022 started off strong for Europe but confidence has deteriorated rapidly with the war.

Paying attention to whether economic stimulus will be put forth in Europe. Germany, the most reluctant to stimulus, the most exposed to Russia.

Emerging Markets ex China

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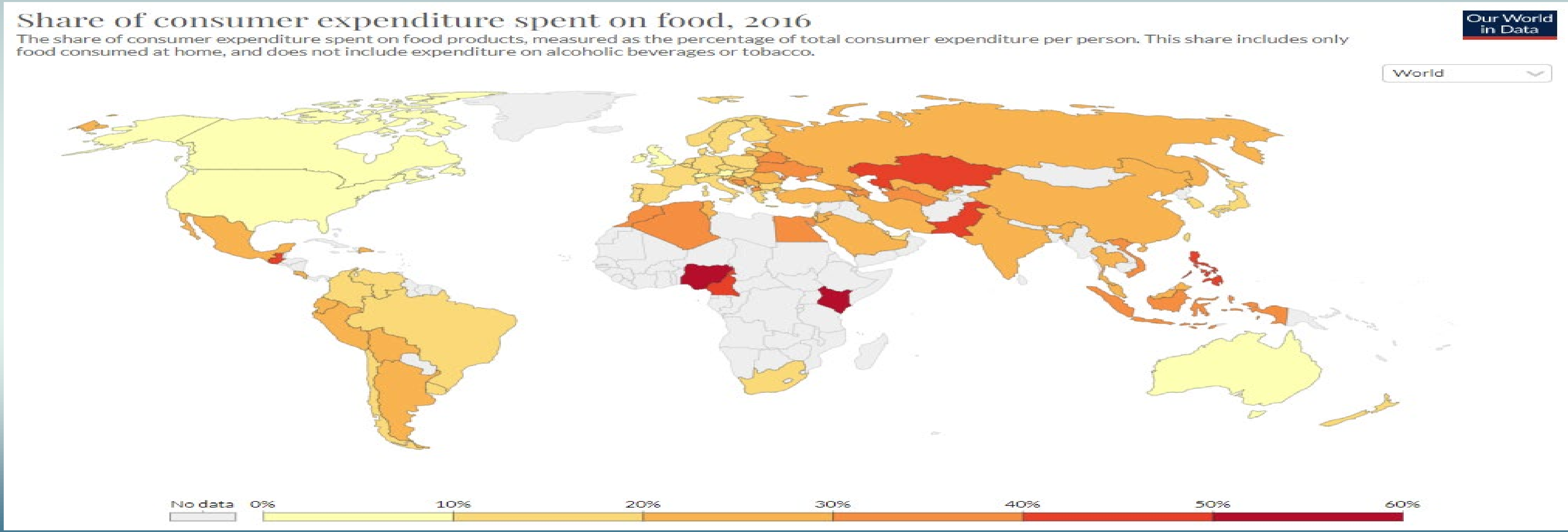
Latin America has had steadily improving economic conditions and the war has been a big benefit to the commodity rich nations of South America. This continent is largely in good economic shape and has had good stock returns in 2022.

India is projected to grow over 8% this year, making it the fastest growing large economy in the world.

The World Bank recently cut its Southeast Asia economic growth forecast to 5% but that is reasonably strong growth.

However, food and energy purchases are a bigger percentage of consumption baskets here.



Can the United States Avoid a Recession?

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The answer is yes, but it is going to require rapid slowing in inflation metrics. History is not kind to current conditions. When real hourly earnings have been negative for this long, inflation this high, unemployment this low, it has almost always coincided with an upcoming recession.

-It will require a “this time is different” dynamic, but that is very possible because Covid has created strange conditions that are still unwinding.

Consumers spending savings with a big impact from Covid freedom in the next couple months can keep the economy growing for a little bit longer but that can’t last so how can inflation slow?

Material prices impacted by the war and business confidence to raise prices are still big headwinds to slowing inflation.

Supply chain issues and industrial production are improving. Multi-family housing starts are at historic highs, consumers are starting to balk at higher prices which may dent business confidence to raise them, there is a lot of investment in automation to lower worker costs. All of these can cause a meaningful drop in prices and if there is a resolution to the war, that could have a big impact on high material prices.

Is Continued Consumer Spending a Bad Thing?

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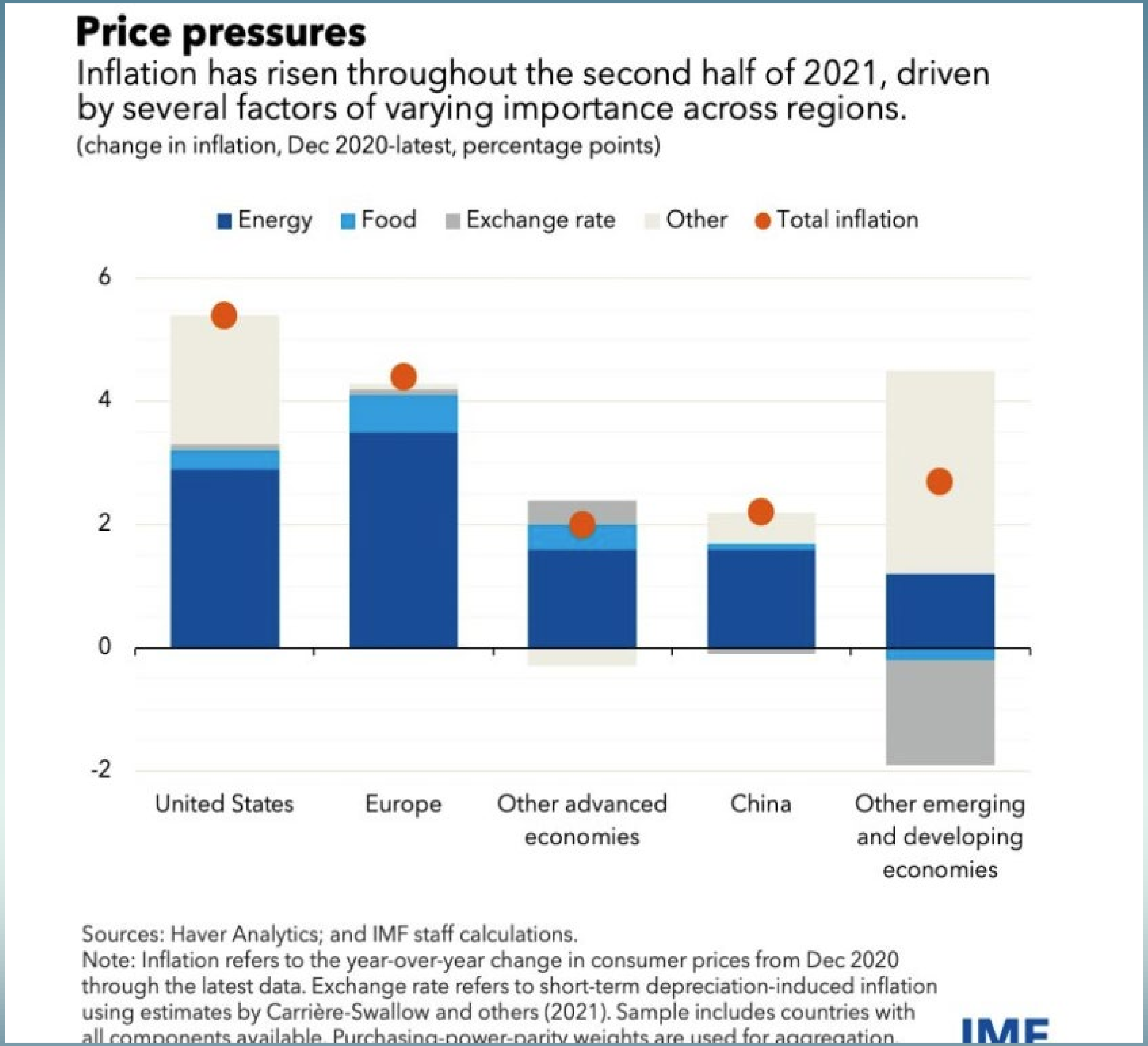
Psychological inflation has set in more so in the US than in other places where inflation is still dominated by food, energy, materials and supply chain.

The Fed needs to crush psychological inflation by trying to stop consumers from paying regardless of price (some buyers assume the price will always be higher and because of that just accept price increases) and getting businesses to not be so confident they can pass on higher input costs.

Questionable how much the Fed can actually influence this. It can if it wants to engineer a recession.



Inflation Not the Only Obstacle to Asset Prices

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Companies have largely been successful passing along increased prices to consumers. Competition has been muted. If consumers pull back, then competition will increase.

Competition is a larger threat to equity prices than interest rates or Fed liquidity. When investors realize growth projections are unrealistic to due to increased competition, high multiple growth stocks can drop very fast.

Netflix, PayPal, Meta Platforms all down 50% or more from 2021 highs. Competitive factors the largest reason for decline.

Salesforce, Adobe, Nvidia among others down close to 40% from 2021 highs. Slowing growth and competition concerns a common theme.

Allocation Considerations

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With the backup in treasury rates and spread widening in corporate bonds, corporate bonds are an asset class that now has some appeal and is worth allocating to for a portion of one's portfolio.

-Similarly, muni bonds have become a lot more attractive in early 2022 then in the past 18 or so months.

Any resolution in the Russia/Ukraine war can push markets higher in the short-term but any sustained rally will require US economic conditions to improve, namely inflation to slow considerably and real growth to pick up. Housing and stock prices still are high if US growth meaningfully drops.

While it is tough to know if stocks have bottomed, even after the strong sell-off in growth stocks, we still prefer stocks with greater near-term cash flow.

QUESTIONS

Disclosures

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