CONFIDENTIAL

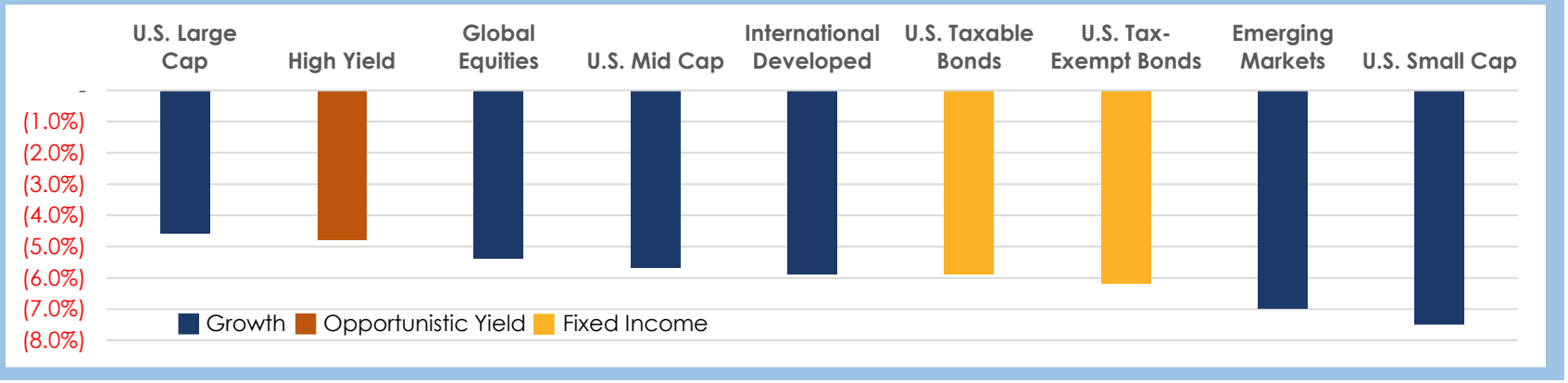
# WITH YOU EVERY MILE

MARKET LANDSCAPE | Q1 2022

MIRACLE MILE
ADVISORS

# Q1 PERFORMANCE SUMMARY

## Q1 Asset Class Performance




## Quarterly Recap

Equity markets worldwide fell in the first quarter of 2022 as pre-existing supply chain disruptions coupled with spiking commodity prices following the Russian invasion of Ukraine further fueled inflationary pressures and accelerated market expectations for a tighter monetary policy from central banks. As expected, the Federal Reserve hiked interest rates by 0.25% in March and signaled further rate increases as well as a reduction in the Fed balance sheet in coming months. While market volatility has increased, we believe the US economy can weather the headwinds and continue its post-COVID expansion.

## Q1 2022 Economic & Market Highlights

- Global equity markets posted negative returns, with the MSCI ACWI index falling -5.4% for the quarter, led by emerging markets (-7.0%) and international developed markets (-5.9%), while the US (-4.6%) fared slightly better.
- Rising inflation pushed interest rates higher, with the 10-Year US Treasury yield rising by 83 bps to 2.34% during the quarter, a new post-pandemic high. As a result, bond markets declined with the US Barclays Aggregate Bond index returning -5.9%.
- US GDP grew at an annualized rate of +5.5% for Q4 compared to the same quarter a year ago as companies replenished inventories and consumers continued to spend. Due to higher inflation and geopolitical risks, Q1 GDP growth is expected to decelerate to +4.2%.
- The yield curve briefly inverted in March, a key indicator for the past 5 recessions. However, a strong labor force and positive corporate earnings continue to support the economy. We would expect to see weakness in these areas before a recession appears.

# INVESTMENT STRATEGY GROUP OUTLOOK



**We have a positive fundamental outlook for the economy and risk assets but expect volatility to remain elevated due to the Fed's aggressive tightening policy and geopolitical risks.**

## Macroeconomic Outlook

- **GDP:** We expect GDP growth to be around 3% for 2022 as positive fundamentals are offset by inflation and tightening monetary policy.
- **Inflation:** We believe inflation will remain elevated in the first half of 2022 before beginning to ease thereafter, as supply chain disruptions are relieved. Elevated commodity prices stemming from Russia's invasion of Ukraine will remain a risk.
- **Corporate Earnings:** We anticipate earnings for the S&P 500 to grow in the high single-digits for 2022, which would be a moderation from the double-digit pace during the pandemic recovery, but still a strong increase.
- **Federal Reserve:** After the Fed's first rate hike in March, we expect further increases in interest rates along with balance sheet runoff in 2022.

## Market Outlook

- **Equities:** We have a positive view on the equity market, led by US stocks, where we see mid to high single-digit total returns for this year. We are constructive on cyclical sectors, such as energy, financials, and industrials, along with our secular overweight to technology.
- **Fixed Income:** We anticipate interest rates to remain elevated in the near-term, which will pose challenges for the bond market in 2022. We continue to prefer corporates over Treasuries.
- **Higher Yielding Assets:** Bank loans, high yield bonds, preferred stocks, and real estate investment trusts are attractive given their higher yields and lower durations relative to government bonds.

# MARKET RISKS



## KEY RISKS

### NEAR TERM

**Yield Curve Inversion**

- The 2Yr/10Yr spread briefly inverted in March, which historically has signaled an upcoming recession. However, the timing and severity of a potential recession is unknown.
- Stocks typically perform well following the initial inversion, and we believe equities offer the best risk-adjusted returns in today's market environment. As companies' earnings estimates change over the next 12 months, we will continue to track the stress signals stemming from March's inversion.

**Geopolitical Conflicts**

- The Ukraine-Russia conflict is continuing to receive headlines and sanctions on Russia are mounting from multiple countries.
- Russia's next move cannot be underestimated, and the main market risk revolves around a potential invasion of Poland, forcing NATO to get involved. Most of the sanctions will likely have longer-term impacts even after the current conflict is resolved.

### LONGER TERM

**Runaway Inflation**

- The Fed acknowledged that inflation is no longer transitory and has started increasing the Fed Funds rate to counter it. However, the Fed rarely has navigated a "soft landing" when it comes to balancing inflation and economic growth, which could prolong inflation if poorly executed.
- Since 1947, there have been 11 recessions following increases in the federal funds rate, and only 3 times where "soft landings" have been successful. Today's pandemic and inflationary environment are adding unique challenges this time around, but we will continue to monitor the risks.

**Global Impact from Sanctions**

- The Ukraine-Russia conflict raises questions about the continuation of globalization and about the ability of any country to act against the wishes of the international community with impunity.
- Trade between the United States and Russia/Ukraine is relatively insignificant, but the crisis could spill over into the United States if the European economy suffers. Additionally, these two countries are major producers of commodities that are vital for semiconductors and batteries, which could extend current supply shortages.

# MARKET OPPORTUNITIES



## KEY OPPORTUNITIES

### NEAR TERM

**Diversified Portfolios Offer Hedges**

- There are many unknowns in the market right now concerning inflation, interest rates, the Fed, equity valuations, geopolitics, and supply chains. Diversified portfolios offer protection against unnecessary risks until we get further clarity on these topics.
- If we are in a new bear market cycle for bonds and a high inflationary environment, we are likely in the very early stages and have time to capitalize on this new market regime.

**Quality at a Discount**

- Ongoing volatility stemming from the pandemic, geopolitical conflict, and inflation concerns has discounted highly profitable companies and has created attractive entry points, especially in the technology sector.
- We see opportunity arising the rest of the year as headlines may further cut valuations of quality, growth-oriented companies.

### LONGER TERM

**Energy Independence**

- Current geopolitical conflicts will increase demand for alternative energy sources produced domestically.
- Increasing our energy independence will create new job opportunities and reduce risk from potential international conflicts in the future.

**Market Corrections Bring Long-Term Stability**

- The pandemic brought swift and strong responses across all market participants, including governments, central banks, and companies. These actions resulted in nearly a 100% return of the S&P 500 since the March 2020 lows.
- We see short-term market corrections needed right now to provide long-term stability to the stock market. Market returns should rely on corporate earnings and economic growth, not just stimulus shocks as we have seen over the past two years.

# THE BUSINESS CYCLE

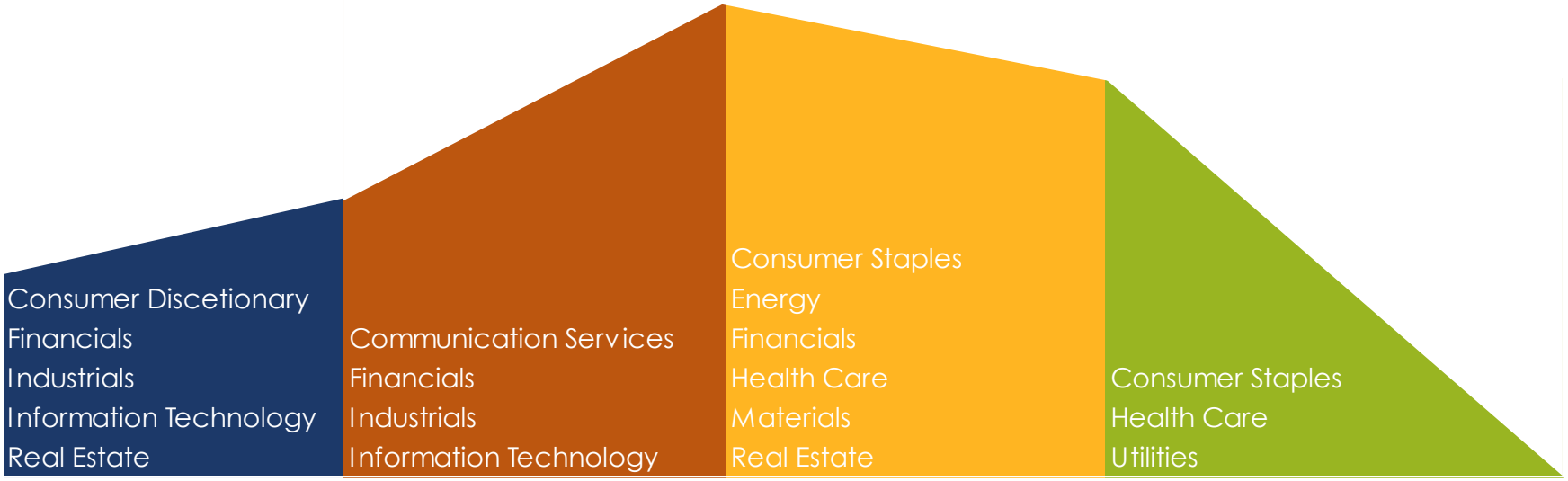


**Inflationary pressure has taken center stage, as the business cycle looks to move firmly into a late expansion phase.**

**Investment Outlook:** As noted last quarter, we saw value outperform growth during Q1. Late expansionary sectors produced 6 of the top 7 performing sectors for the quarter, and we expect this trend to continue as the Fed reduces its balance sheet.

Economy

| Early Expansion | Maturing Expansion | Late Expansion | Recession |
|---|---|---|---|
| • Economy accelerates | • Economy moderate | • Economy starts to slow | • Economy contracts |
| • Fed keeps rates low | • Fed policy neutral | • Fed becomes restrictive | • Fed cuts rates |
| • Stocks advance sharply | • Stock gains solid | • Inflationary pressure grows | • Stocks fall then bottom out |
| • Long-term rates rise | • Long-term rates rise | • Stocks peak then fall | |




*Refer to appendix for disclosures and data sources*

# RUSSIA'S CONTRIBUTION TO THE WORLD

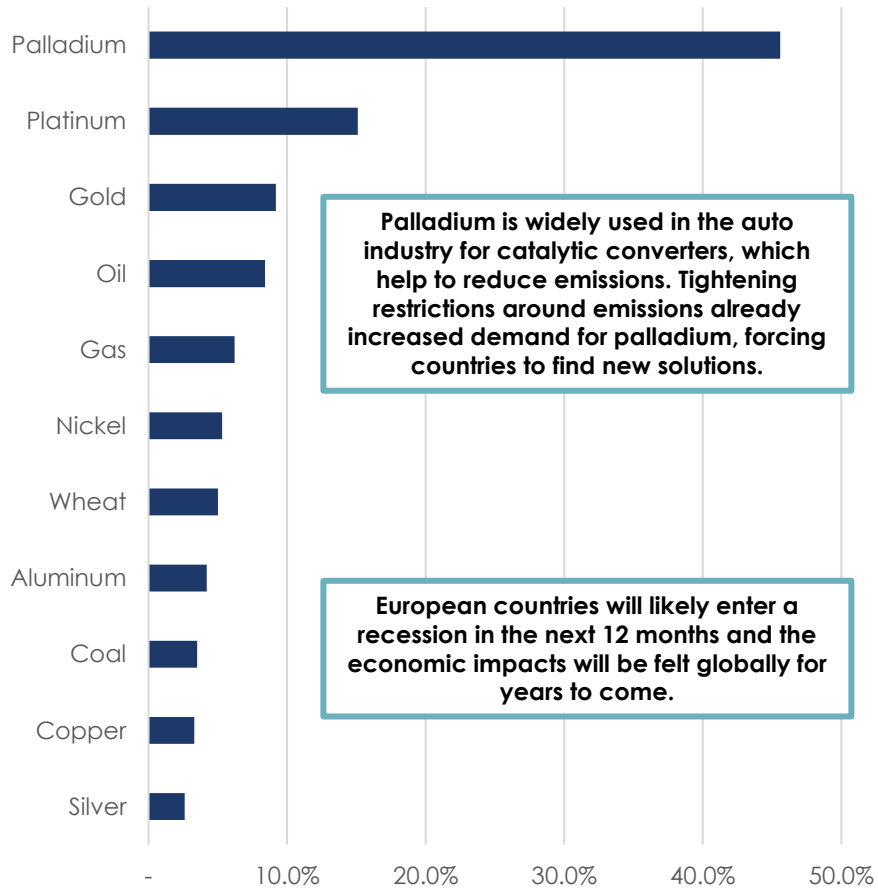


**Sanctions against Russia have put pressure on the price of key commodities causing supply side concerns for the global economy.**

**Investment Outlook:** The war between Russia and Ukraine will hopefully be short-lived, but the economic impacts will last years after the conflict's resolution. However, Russia's contribution to the US economy is relatively small compared to Europe, which will likely enter a recession soon.

Economy

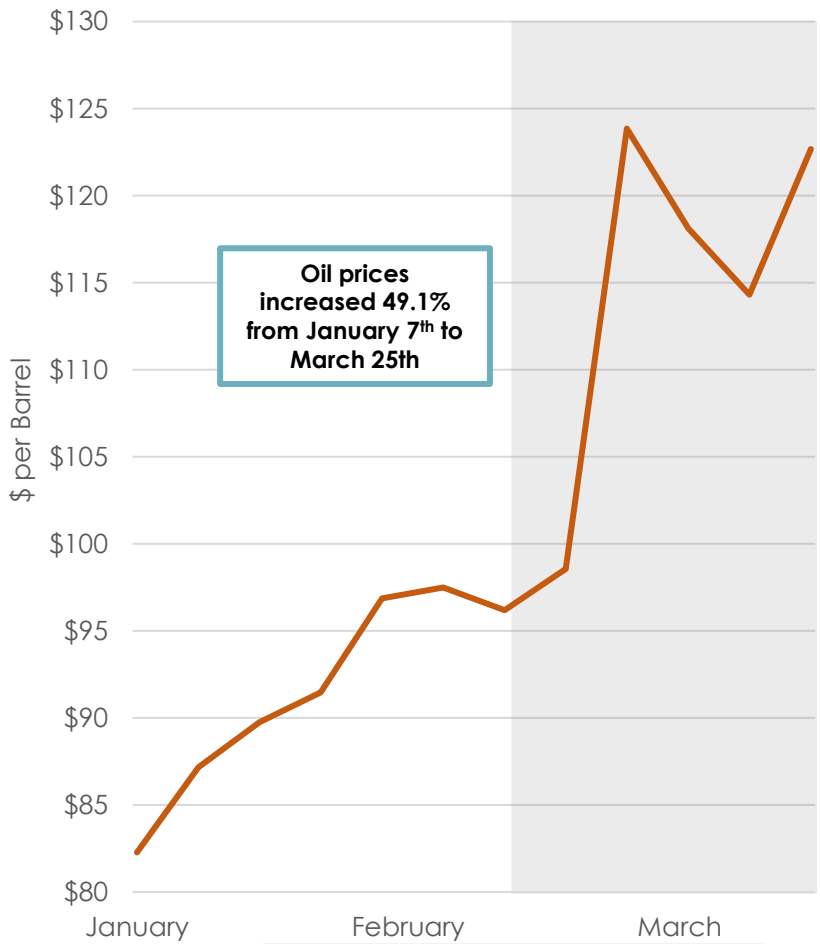
## Russia's Exports as a Share of Global Production




**Palladium is widely used in the auto industry for catalytic converters, which help to reduce emissions. Tightening restrictions around emissions already increased demand for palladium, forcing countries to find new solutions.**

**European countries will likely enter a recession in the next 12 months and the economic impacts will be felt globally for years to come.**

## Crude Oil Prices in Europe




**Oil prices increased 49.1% from January 7th to March 25th**

*Shaded area = Russian/Ukraine War*

*Refer to appendix for disclosures and data sources*

# CONSUMER SENTIMENT SHOWING BUYING OPPORTUNITY



Economy

**Consumers' concerns intensified over the quarter, led by inflation and geopolitical tensions.**

**Investment Outlook:** Looking through the noise, economic data is still supporting a growing economy thanks to a robust labor market. Market volatility over the next few months may provide discounted buying opportunities.

## Consumer Sentiment Index and Subsequent 12-month S&P 500 Returns


*Refer to appendix for disclosures and data sources*

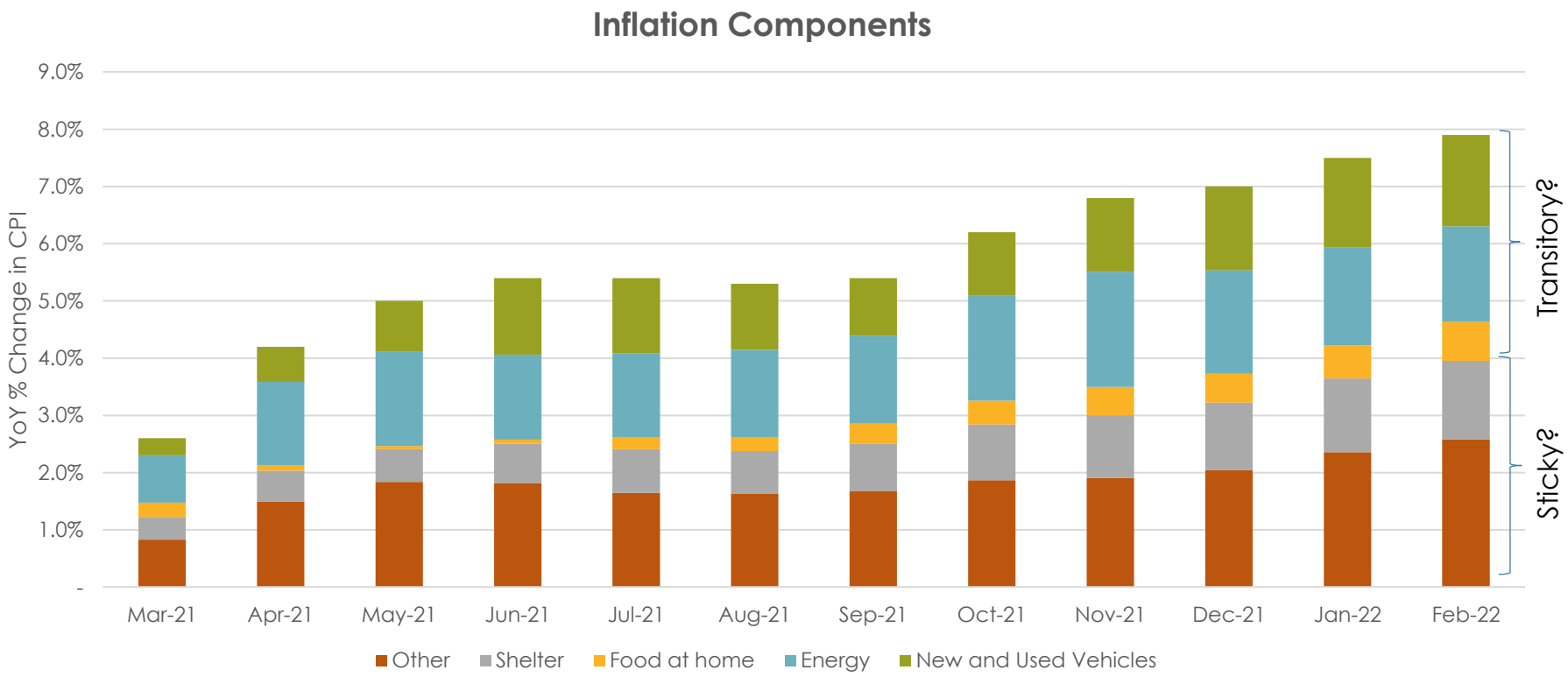
# INFLATION COMPONENTS



**The consumer price index for March rose 8.5% from a year ago, with the peak most likely coming in the next few months.**

**Investment Outlook:** Few investors understand the components of inflation. Although core components have started increasing, we are still seeing elevated transitory components, which we expect to recede during the second half of 2022.






- Inflation soared to 8.5% YoY in March, however, the transitory components are expected to return to their long-term average in the second half of 2022.
- Used car prices declined over 5.0% from their January peak with corrected supply chain issues continuing to bring the prices down.

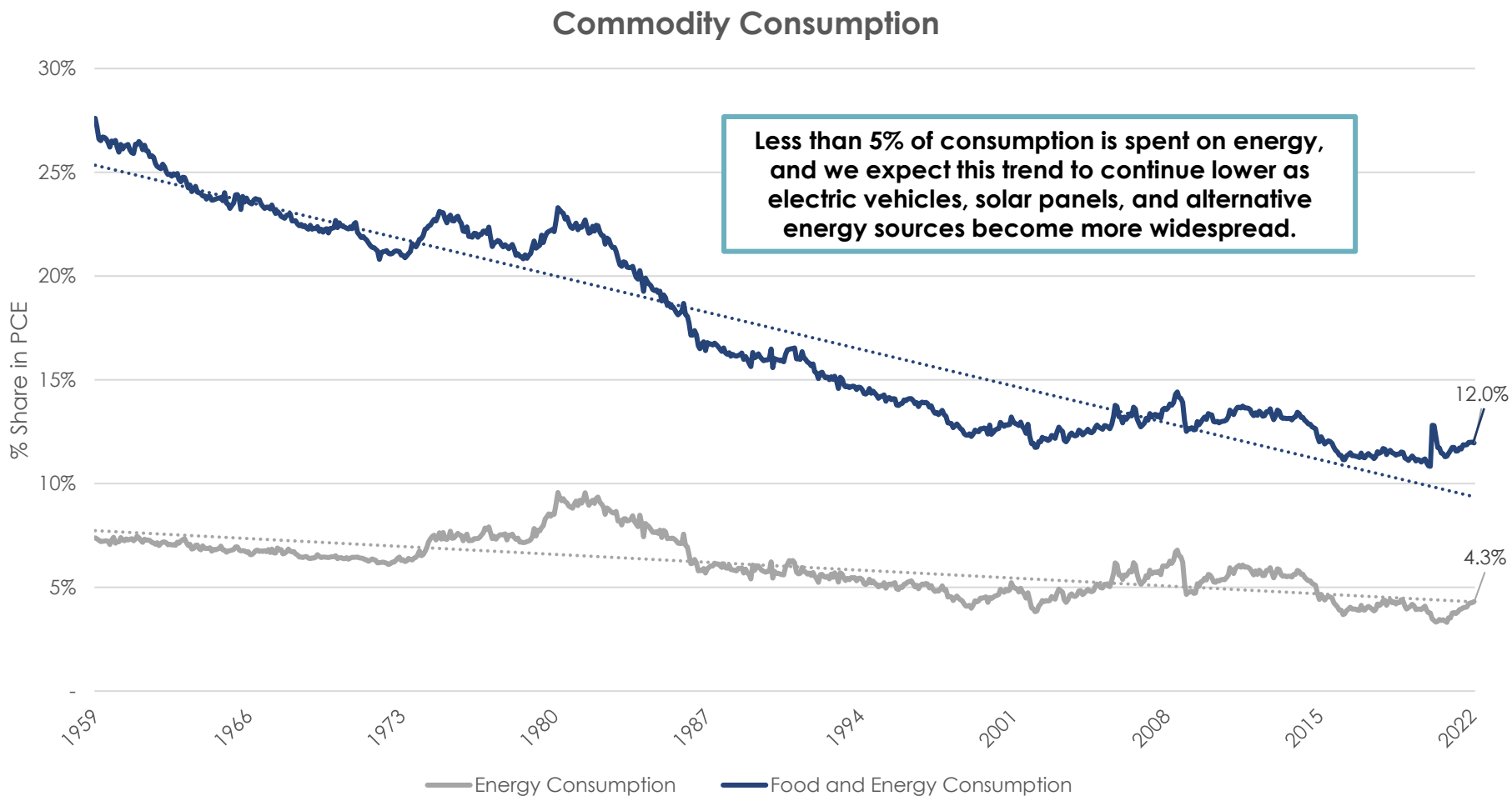
# CONSUMERS SPEND LESS ON ENERGY AND FOOD



**Energy and food prices are receiving much of the inflation attention, but today's economy is much different than the 1970s.**

**Investment Outlook:** As more transportation/food comes from alternative sources, consumers are less reliant on traditional prices as in the past. With a tight labor market and emerging technology, consumers may be able to live with higher inflation in the short-term.






*Refer to appendix for disclosures and data sources*

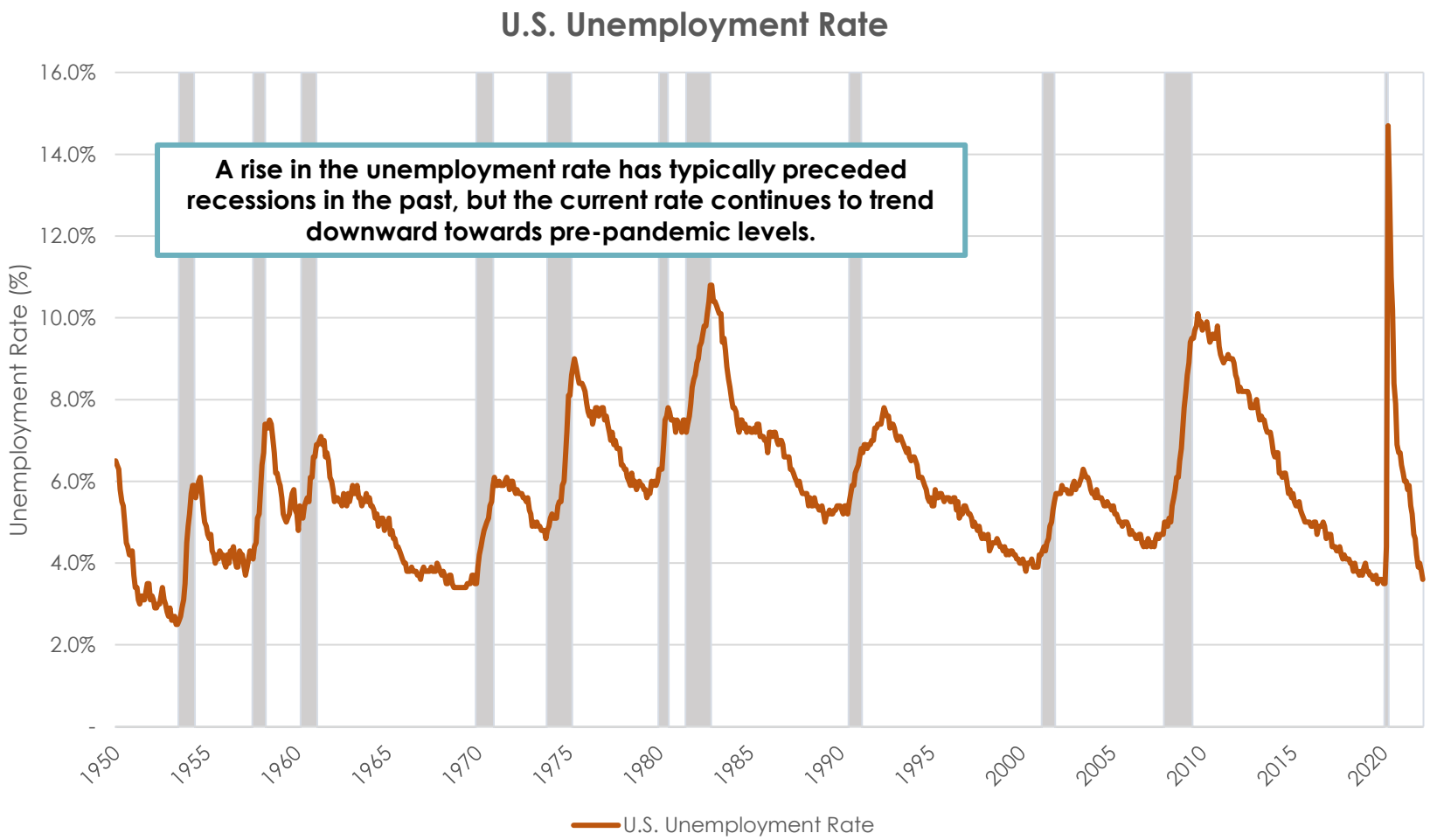
# STRONG LABOR FORCE IS KEEPING ECONOMY AFLOAT



Economy

**Some economists are predicting the U.S. unemployment rate could fall below 3% this year for the first time in nearly 7 decades.**

**Investment Outlook:** The post-pandemic labor market is favoring employees, as they are finding jobs that allow flexible conditions, locations, and benefits. We are monitoring this area, as most recessions start with a weakening labor force, which is not currently the case.




*Refer to appendix for disclosures and data sources*

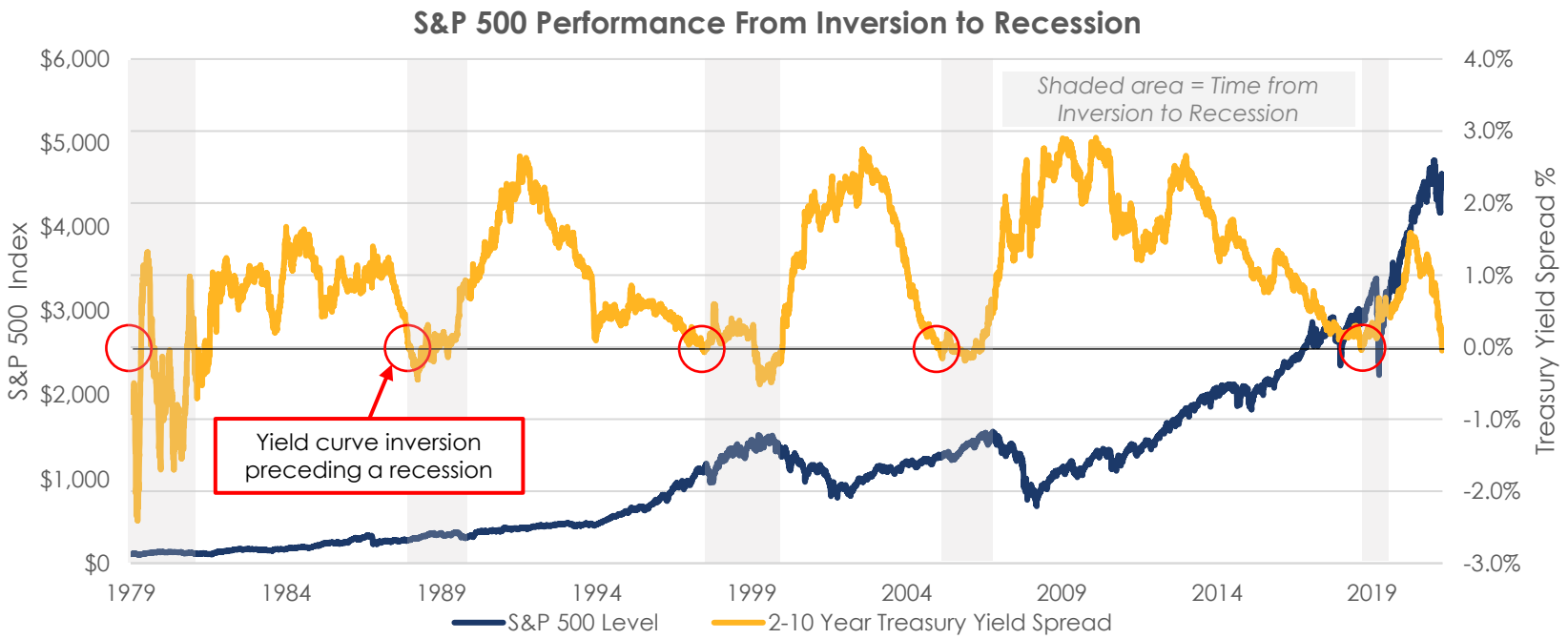
# WILL THE INVERSION BRING A RECESSION?



**The 2- and 10-year yield spread briefly inverted during March, a historically ominous forecast for the outlook of the US economy.**

**Investment Outlook:** The previous 5 recessions have all been preceded by an inverted yield curve. Although there are stresses in the system, we see strong earnings and labor markets pushing returns higher in the short term.






| Yield Curve Inversion Date | Recession Onset | Months from Inversion to Recession | S&P 500 Cumulative Return From Inversion to Recession |
|---|---|---|---|
| 8/18/1978 | January 1980 | 17 | 15.8% |
| 9/11/1980 | July 1981 | 10 | 11.6% |
| 12/27/1988 | July 1990 | 19 | 35.7% |
| 6/8/1998 | March 2001 | 34 | 15.2% |
| 12/27/2005 | December 2007 | 24 | 21.1% |
| 8/27/2019 | February 2020 | 6 | 17.5% |
| **Average** | | **18** | **19.5%** |

*Refer to appendix for disclosures and data sources*

# HEDGING INTEREST RATE RISK



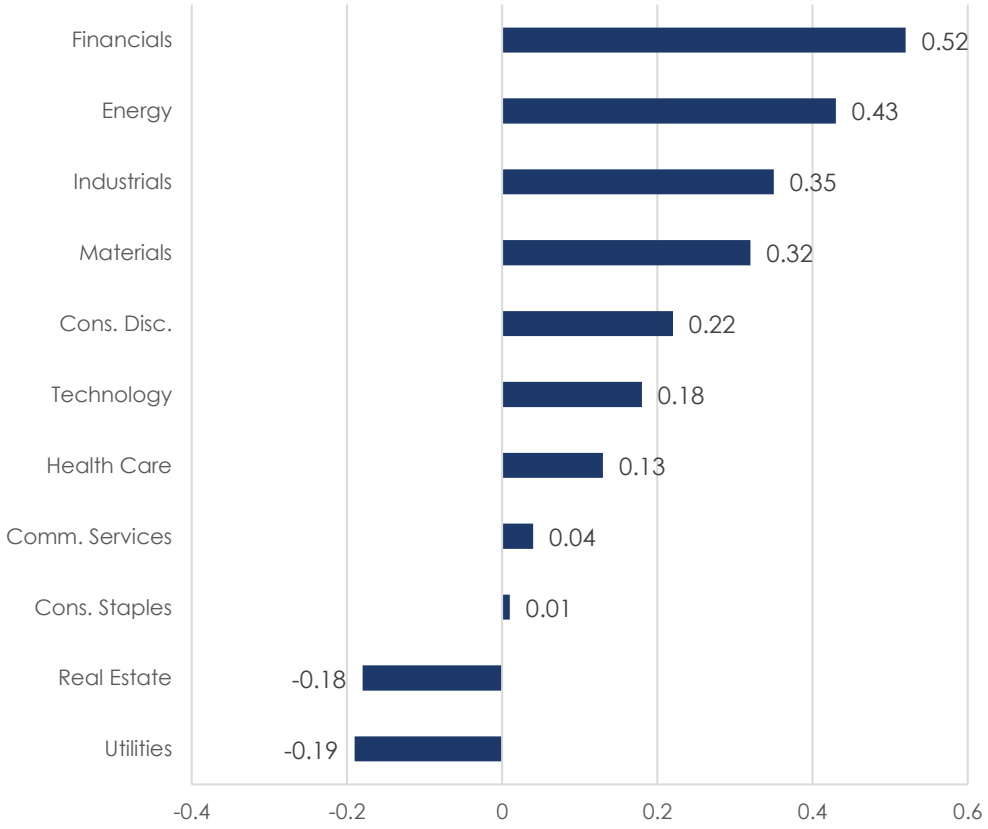
**Fixed income traditionally provides safe returns in a volatile market, but investors need to take more risk in this environment.**

**Investment Outlook:** Value sectors including financials, energy, and industrials help to offset the rise of interest rates and we continue to favor these areas over the course of 2022.



**S&P 500 Sector Correlations to U.S. 10-yr. Treasury Yield**

10-yr correlations, monthly moves in yield vs monthly price returns




- The 3-month/10-year yield curve spread is at its steepest level in more than 5 years, a favorable sign for bank profits and the overall financial sector for the remainder of 2022.
- Investors need to keep in mind that these higher ranked sectors are only moderately correlated, and there are risk factors that need to be considered. The energy sector is a very small component of the S&P 500, with nearly half of its market cap connected to Exxon and Chevron.
- We believe a diversified portfolio with tactical overweights generates the highest risk-adjusted returns over the long-run.

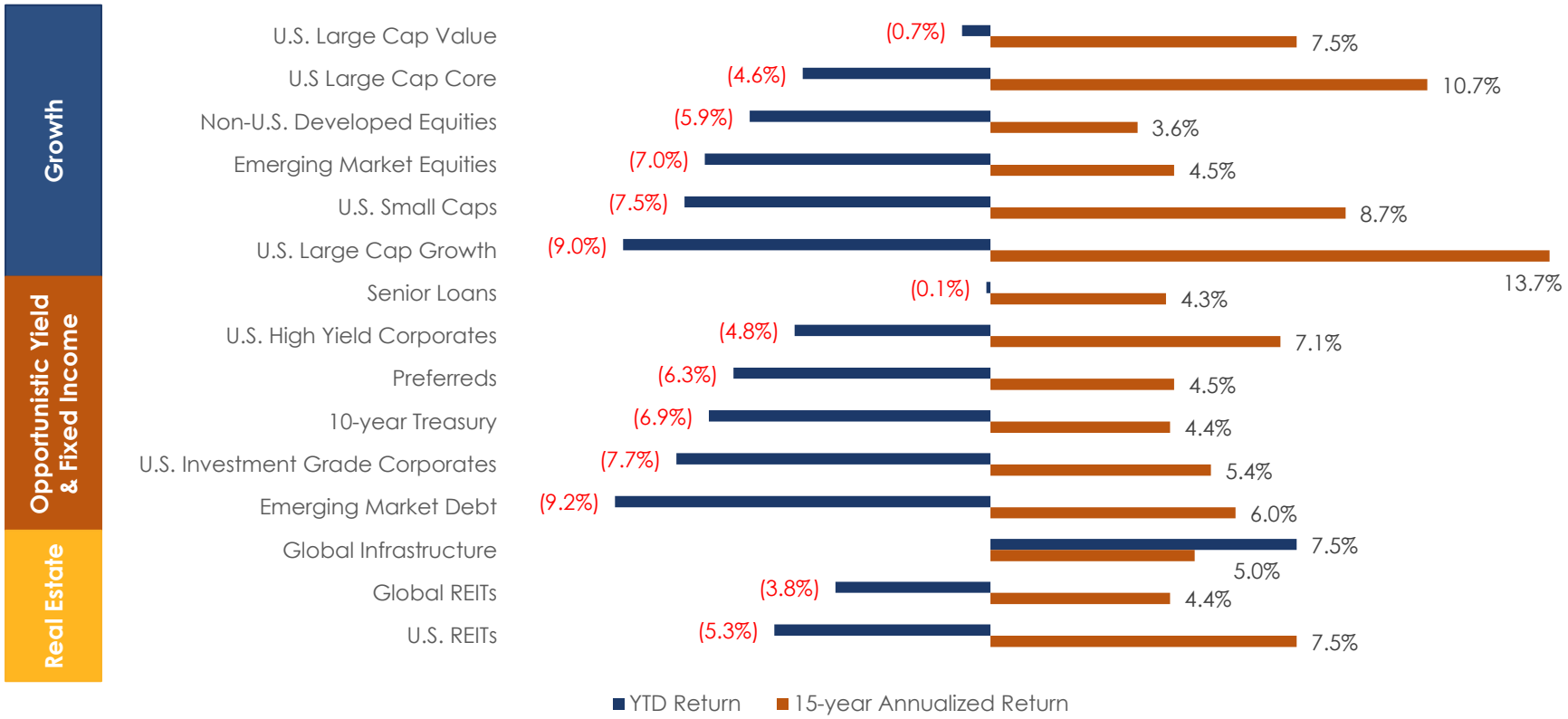
*Refer to appendix for disclosures and data sources*

# BRINGING NEW LIFE TO THE 60/40 PORTFOLIO



**The 60/40 portfolio, a combination of 60% equities and 40% bonds, historically generated returns over 6%.**

**Investment Outlook:** A hawkish Fed will make returns harder to come by for equities, while interest rates attempt to keep up with inflation. Investors must understand the unique risks in alternative niche asset classes, which will continue to generate attention.




- Investors had nowhere to hide in Q1 2022, as both equity and fixed income asset classes suffered declines to varying degrees. We see quality, value-oriented areas as favorable within equities, while allocating appropriately to shorter duration investments in fixed income.

*Refer to appendix for disclosures and data sources*

# A LOOK AT THE INVESTMENT UNIVERSE

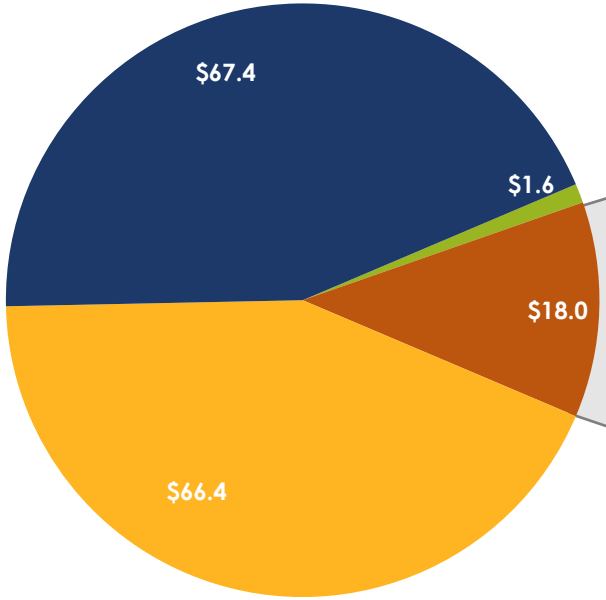


**Stocks/bonds remain the bulk of investable assets, but new structures and relaxed regulations are starting to offer expanded options.**

**Investment Outlook:** Despite being just 12% of the investment universe, alternative investments are expected to produce half of the industry revenue in just a few years. Investors need to understand their liquidity needs in order to capitalize on this trend.

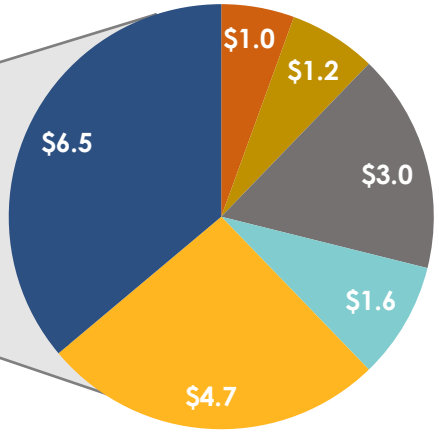
60/40 Portfolio

## Global Assets ($Tn)




- Cash, 1.0%
- Alternative Assets, 11.7%
- Global Bonds, 43.3%
- Global Equities, 43.9%

## Alternative Assets ($Tn)




- Private Debt, 5.6%
- Natural Resources and Commodities, 6.7%
- Infrastructure, 16.7%
- Real Estate, 8.9%
- Hedge Funds and Liquid Alts, 26.1%
- Private Equity, 36.1%

- Inflation concerns, interest rate risk, and concentrated equity markets are all bringing new attention to alternative assets, which we expect to garner more attention over the remainder of 2022.
- A new age of portfolio construction is coming where investors may need to accept less liquidity to achieve similar returns.
- Advanced financial planning and in-depth investor education will be crucial for continued acceptance of the illiquidity.

*Refer to appendix for disclosures and data sources*

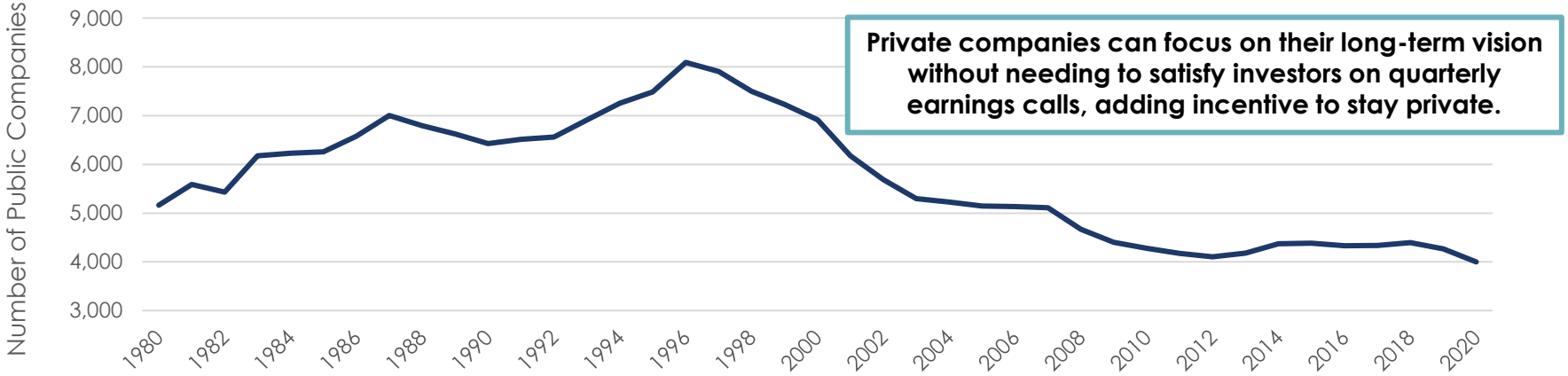
# WHERE ARE THE PUBLIC COMPANIES GOING?



**Small and mid cap companies historically offered high return potential, but these same companies are now staying private longer in today's world.**

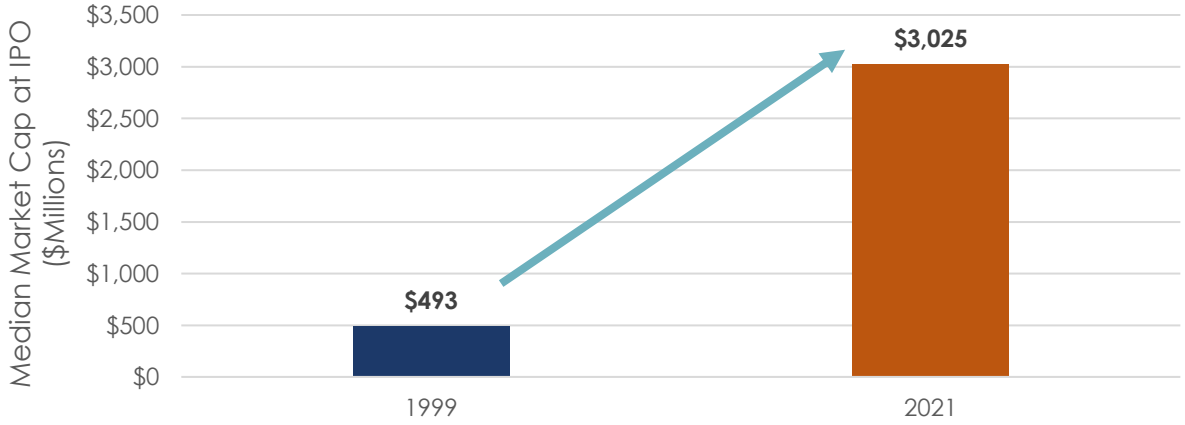
**Investment Outlook:** Late-stage venture capital and private equity companies can provide an added boost to portfolios looking for alpha. Investors, however, need to be comfortable with added fees, illiquidity, and less transparency in the private markets.

## Number of Domestic Companies Listed on U.S. Exchanges




60/40 Portfolio

## Companies are Staying Private Longer




- Companies on average are staying private 8 years longer today compared to 20 years ago, creating a missed opportunity in the public markets. These 8 years are typically a high growth period for companies with established product lines.

*Refer to appendix for disclosures and data sources*

# ASSET CLASS PERFORMANCE SUMMARY



| ASSET CLASS | PERFORMANCE | | |
|---|---|---|---|
| **Growth** | **2022 Q1** | **2021** | **2020** |
| Global Equities | -5.4% | +18.5% | +16.3% |
| U.S. Large Cap Equities | -4.6% | +28.7% | +18.4% |
| U.S. Mid-Cap Equities | -5.7% | +22.6% | +17.1% |
| U.S. Small-Cap Equities | -7.5% | +14.8% | +19.9% |
| International Developed Equities | -5.9% | +11.8% | +7.8% |
| Emerging Markets Equities | -7.0% | -4.6% | +18.3% |
| **Opportunistic Yield** | | | |
| High Yield | -4.8% | +0.5% | +7.1% |
| **Income & Stability** | | | |
| U.S. Tax-Exempt Fixed Income | -6.2% | +1.5% | +5.2% |
| U.S. Taxable Fixed Income | -5.9% | -1.5% | +7.5% |

Sources: YCharts as of 3/31/2022.

Performance values are the returns of the respective indices and are not inclusive of management fees: Global Equities = MSCI All Country World Index, U.S. Large Cap = S&P 500 Composite, U.S. Mid Cap = Russell Midcap, U.S. Small Cap = Russell 2000, International = MSCI EAFE Net, Emerging Markets = MSCI EM (Emerging Markets) Net, U.S. Tax Exempt Fixed Income = Bloomberg Barclays U.S. Municipal Index, U.S. Taxable Fixed Income = Bloomberg Barclays U.S. Aggregate Index, High Yield = Bloomberg Barclays U.S. High Yield Corporate Index. Past performance is no guarantee of future results.

# IMPORTANT DISCLOSURES



Miracle Mile Advisors LLC ("MMA") is a registered investment advisor. Advisory services are only offered to clients or prospective clients where MMA and its representatives are properly licensed or exempt from licensure. The views expressed in this commentary are subject to change based on market and other conditions. These documents may contain certain statements that may be deemed forward-looking statements. Please note that any such statements are not guarantees of any future performance and actual results or developments may differ materially from those projected. Any projections, market outlooks, or estimates are based upon certain assumptions and should not be construed as indicative of actual events that will occur.

These materials are solely informational, based upon publicly available information believed to be reliable, and may change without notice. Our views may change depending on market conditions, the assets presented to us, and your objectives. This is based on market conditions as of the printing date. Miracle Mile Advisors, LLC shall not in any way be liable for claims relating to them and makes no express or implied representations or warranties as to their accuracy or completeness or for statements or errors contained in, or omissions from, them. All information has been obtained from sources believed to be reliable, but its accuracy is not guaranteed. There is no representation or warranty as to the current accuracy, reliability or completeness of, nor liability for, decisions based on such information and it should not be relied on as such. Legal, accounting and tax restrictions, transaction costs and changes to any assumptions may significantly affect the economics of any transaction.

The information provided is for educational and informational purposes only and does not constitute investment advice and it should not be relied on as such. It should not be considered a solicitation to buy or an offer to sell a security. It does not take into account any investor's particular investment objectives, strategies, tax status or investment horizon. You should consult your attorney or tax advisor. The information and analyses contained herein are not intended as tax, legal or investment advice and may not be suitable for your specific circumstances; accordingly, you should consult your own tax, legal, investment or other advisors, at both the outset of any transaction and on an ongoing basis, to determine such suitability. Miracle Mile Advisors, LLC does not render advice on tax and tax accounting matters to clients. This material was not intended or written to be used, and it cannot be used by any taxpayer, for the purpose of avoiding penalties that may be imposed on the taxpayer under U.S. federal tax laws. These materials do not constitute an offer to buy or sell any financial instrument or participate in any trading strategy. No investment strategy or risk management technique can guarantee returns or eliminate risk in any market environment. All investments include a risk of loss that clients should be prepared to bear. The principal risks of MMA's strategies are disclosed in the publicly available Form ADV Part 2A. Past performance shown is not indicative of future results, which could differ substantially.

Disclosures:
Slide 2: Performance numbers from YCharts as of 3/31/2022
Slide 5: S&P 500 returns from YCharts as of 3/31/2022
Slide 6: Sector performance from YCharts as of 3/31/2022
Slide 7: Russia global contribution sourced from JPMorgan as of 12/31/2021, Europe crude oil prices from St. Louis Fed as of 3/31/2022
Slide 8: Consumer Sentiment from YCharts, 1/1/1970 to 3/31/2022
Slide 9: Inflation components from BLS as of 3/31/2022, contributions include the BLS methodology on table 7 of the CPI report
Slide 10: BEA as of 3/31/2022
Slide 11: Unemployment rates from 1/1/1950 to 3/31/2022
Slide 12: Data from 1/1979 to 3/31/2022, table data sourced from Bloomberg and Morningstar Direct
Slide 13: S&P correlation as of JPM Guide to the Markets Q1 2022
Slide 14: Data sourced from Nuveen over a 15-year period ending 12/31/2021, YTD is 1/1/2022 to 3/31/2022
Slide 15: Data published from CAIA's "Portfolio of the Future" dated March 2022
Slide 16: Domestic companies sourced from the Private Shares Fund from 1/1/1980 to 12/31/2020, companies staying private longer chart sourced from The Private Shares Fund