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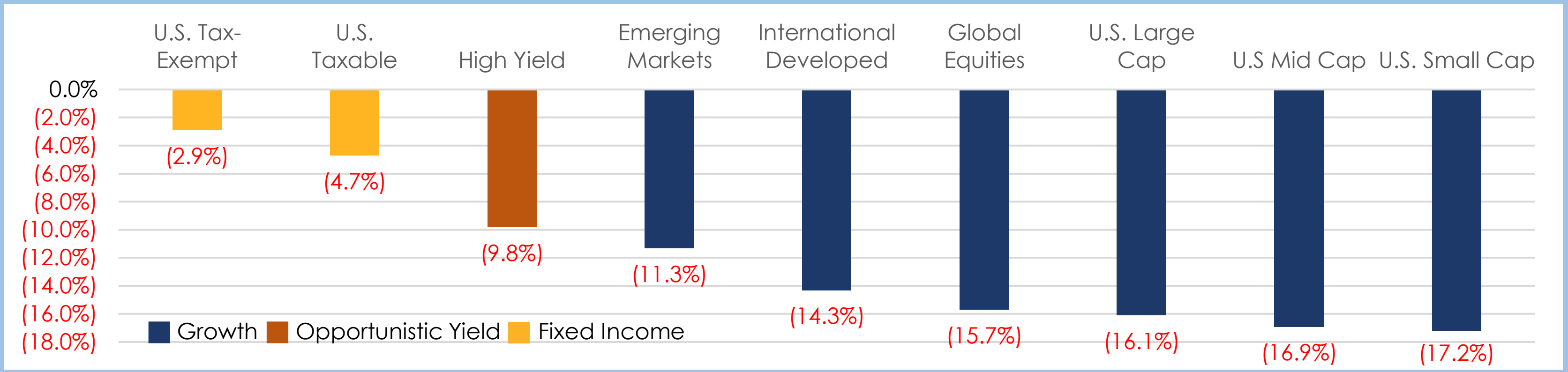
MARKET LANDSCAPE | Q2 2022

MIRACLE MILE ADVISORS

Q2 PERFORMANCE SUMMARY

Q2 Asset Class Performance



Quarterly Recap

Equity markets and bond prices sharply declined in the second quarter of 2022 with global investors suffering the worst first half in over 50 years as ongoing inflationary pressures, aggressively tight monetary policy, and fears of an economic recession led to a selloff in asset prices. Despite a strong labor market and consumer, the U.S. economy showed negative growth in Q1 due to adverse impacts from trade balance and inventories, and we could see a second negative quarter for Q2 in the coming days. Meanwhile, the Federal Reserve has been aggressively hiking interest rates to reign in stubbornly elevated levels of inflation with the first 75 basis points rate hike since 1994. While the macroeconomic environment has been challenging, corporate fundamentals have been resilient with earnings growth expected to be in the high single digits for the year. We expect volatility to remain elevated for the remainder of 2022 which will create attractive opportunities for high quality assets that have positive long-term outlooks.

Q2 2022 Economic & Market Highlights

- Global equity markets posted negative returns with the MSCI ACWI index declining -15.7% for the quarter, ending the worst first half for the index since its creation.
- The 10-Year US Treasury yield spiked higher by 68 bps to end the quarter at 3.02% as higher rates and inflation caused the entire Treasury curve to shift upward.
- US GDP unexpectedly contracted -1.6% in Q1 due to negative impacts from a decline in inventory build and an increase in net imports despite growth in consumer spending, business investment, and housing.

Refer to appendix for disclosures and data sources

Investment Outlook: Fundamental outlook for the economy and risk assets are positive, but the macroeconomic backdrop is not favorable as the Fed aggressively tightens against decades high inflation.

Economy

- **GDP Growth:** We expect GDP growth to be around 1% for 2022 given the sharp slowdown in the first half of the year due to an aggressive tightening policy and rising inflation. GDP growth will accelerate in 2023 once the Fed reaches a neutral policy.
- **Inflation:** Will ease in the 2nd half from multi-decade high levels due to a hawkish Fed and a slowing economy. However, core CPI will remain above targeted levels and is expected to be above 4.0% for the full year.
- **Corporate Earnings:** For 2022, our forecast for corporate earnings growth remains in the high single digits as profits and margins continue to be above historical levels.
- **Federal Reserve:** We expect the first Fed rate cut to occur in the second half of 2023 with the Fed completing its interest rate hiking cycle in the coming quarters.

Markets

- **Equity Market:** Our forecast calls for continued elevated levels of market volatility, but the outlook over the next 12 months is positive, led by US Equities with mid to high single digit total returns. We are constructive on large cap companies and value areas of the market.
- **Interest Rates and Fixed Income**: We anticipate interest rates to be range-bound with the curve to further flatten, which will lead to small but positive returns for the US Aggregate bond index for the 2nd half of the year. We continue to prefer Investment Grade Corporates given their attractive yields and defensive qualities.

KEY RISKS

NEAR TERM

Recession

- Recent economic data indicates a slowdown in spending, consumer sentiment and business activity. Combined with a 1.6% decline in real GDP during Q1, the possibility that we are already in a recession has increased.
- Markets have already priced in a weakening macro environment, with bond yields falling, the 2s/10s Treasury yield curve inverting, and defensive stocks outperforming. Any improvement in economic data or investor sentiment should reverse these trends.

Earnings Revisions

- Most of the decline in the S&P 500 year-to-date has been due to multiple contraction rather than a reduction in earnings. We could see negative revisions come with the report of quarterly earnings.
- Stock prices tend to move 6-9 months ahead of consensus estimates, thus a lot of these earnings pressures are already priced into equity markets. As investors start looking towards a better 2023, we could see an improving trajectory for stocks.

LONGER TERM

Higher for Longer

- Following decades of declining interest rates, central banks around the world are reversing their policies rapidly to address elevated inflation, causing havoc in financial markets.
- With inflation currently well in excess of the Fed's 2% target and expected to fall only gradually over the coming years, interest rates should remain elevated for the foreseeable future.

De-Globalization

- The pandemic forced many companies to diversify and strengthen their supply chains, a trend that has only gathered steam following Russia's invasion of Ukraine and lockdowns in China due to its zero-COVID policy.
- As corporations transition their operations away from nations that are low cost economically but high risk politically, we can expect the resulting higher costs to be borne by all participants along the supply chain and end user.

MARKET OPPORTUNITIES

KEY OPPORTUNITIES

NEAR TERM

Less Inflationary Pressures

- Signs are emerging of an easing in inflationary pressures, including improvements in supply chain bottlenecks, falling freight rates, and declines in commodity prices. A shift in consumer spending from goods to services should also aid in reigning in the prices of manufactured products.
- Any signal of a peak in inflation would help stock markets recover, as investors will have better visibility into the forward path of interest rates and Fed policy actions.

Stock/Bond Diversification

- Earlier in the year, elevated inflation and monetary tightening concerns caused stocks and bonds to fall in unison. Starting around May, as higher yields enticed buyers into fixed income markets, bonds began to act like bonds again, providing a hedge to equity downside risk while generating attractive income.
- We believe most of the Fed tightening is priced into fixed income markets and expect investment grade bonds to continue their historical role as a diversifier of risk assets within a traditional balanced portfolio.

LONGER TERM

Value vs. Growth

- Growth stocks have outperformed value stocks for over a decade, as declining rates allowed investors to focus on high growth companies whose valuations are more dependent on expected earnings further out in the future.
- In the current environment of inflation and rising rates, value stocks have historically outperformed, given their valuations are more dependent on the earnings and cash flows they are generating now.

More Alpha Opportunities

- A falling rate environment over many years, supported by the Fed, has boosted the prices of all assets, making it difficult for active managers to outperform their respective benchmarks.
- With the Fed taking a hardline approach, volatility across interest rates and stock markets should remain elevated, providing more opportunities for skilled managers to generate alpha across both traditional and alternative asset classes.

Refer to appendix for disclosures and data sources

THE BUSINESS CYCLE – FOUR POTENTIAL SCENARIOS

The Fed's "soft landing" will face its toughest test in Q3 as elevated inflation and an economic slowdown start to cross paths.

Investment Outlook: We expect the Fed to continue hiking in 2022 in hopes of taming inflation; however, we acknowledge that the economy is starting to slow. The big question remains whether inflation can be tamed before a recession forces a Fed Fund's rate reversal, but it is prudent to stay diversified and not over allocate to one potential outcome at this stage.

Economy

	Stagflation	**Contraction**	**Soft-Landing**	**Reflation**
Description	The Fed remains behind the curve in its quest to tame inflation, needing to raise interest rates as the economy starts to slow, driving the U.S. into a potential deep recession.	The damage done to the economy already will trigger cuts in corporate earnings. However, inflation will be under enough control to allow the Fed to consider interest rate cuts without reigniting inflation.	Inflation is under enough control that investors do not demand higher yields for U.S. treasury bonds, while corporate earnings can remain resilient enough to the tightening finacial conditions.	The global economy rapidly resolves inflation and supply chain disruptions, led by a resolution to the Russia-Ukraine war and a full reopening of China.
Projected Returns				
Equities	*-20%*	*-10%*	*+10%*	*+20%*
Fixed Income	*-10%*	*+8%*	*+5%*	*+3%*
Top Performers	Real assets Hedge funds Structured notes	Long duration fixed income Dividend stocks	Value sectors Quality fixed income	Growth stocks High yield bonds
Miracle Mile Probability	***10%***	***30%***	***50%***	***10%***

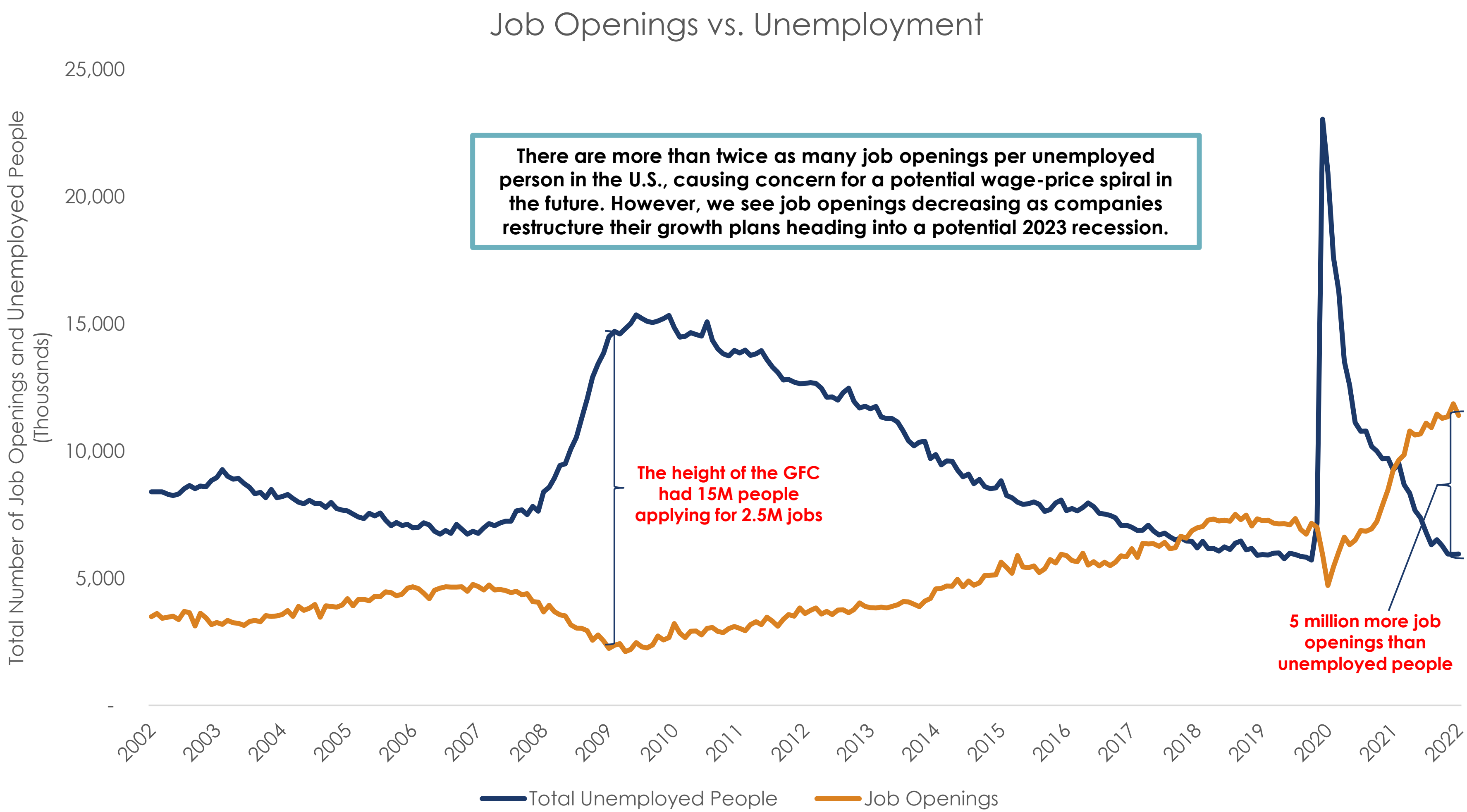
Stagflation and reflation probabilities are still low at this point, but prudent portfolio management requires an allocation to hedge these scenarios. We continue to explore real assets and discounted growth stocks to allocate appropriately as our probabilities adjust to new data.

IS THE LABOR MARKET TOO STRONG?

The "Great Resignation" continues to provide more power to employees rather than employers.

Investment Outlook: Employment is historically the biggest signal of a pending recession, which continues to be strong in this environment. While this labor marker provides a buffer against the probability of a deep recession, the economy would benefit from incremental higher unemployment or more labor market participation.

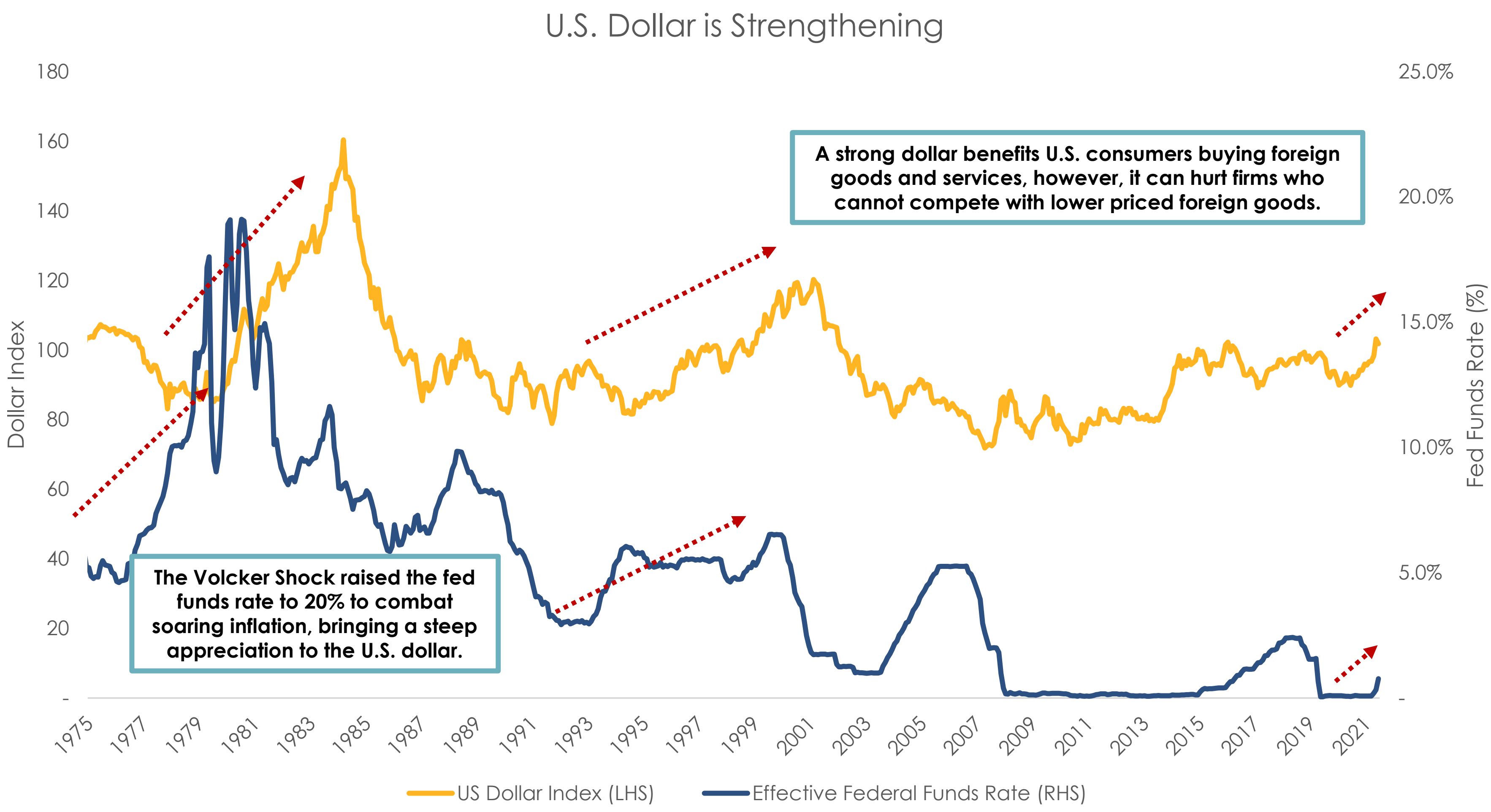
Economy



RISING RATES ARE CORRELATED WITH DOLLAR APPRECIATION

The Fed has started a new hiking cycle this year, which typically is followed by a stronger U.S. dollar.

Investment Outlook: Global conflicts and economic slowdowns have helped the reserve currency strengthen thus far, and we see this trend continuing as the Fed continues to hike interest rates, providing higher safe-haven yields for international investors. We will continue to hedge some foreign currency risk until these situations subside.



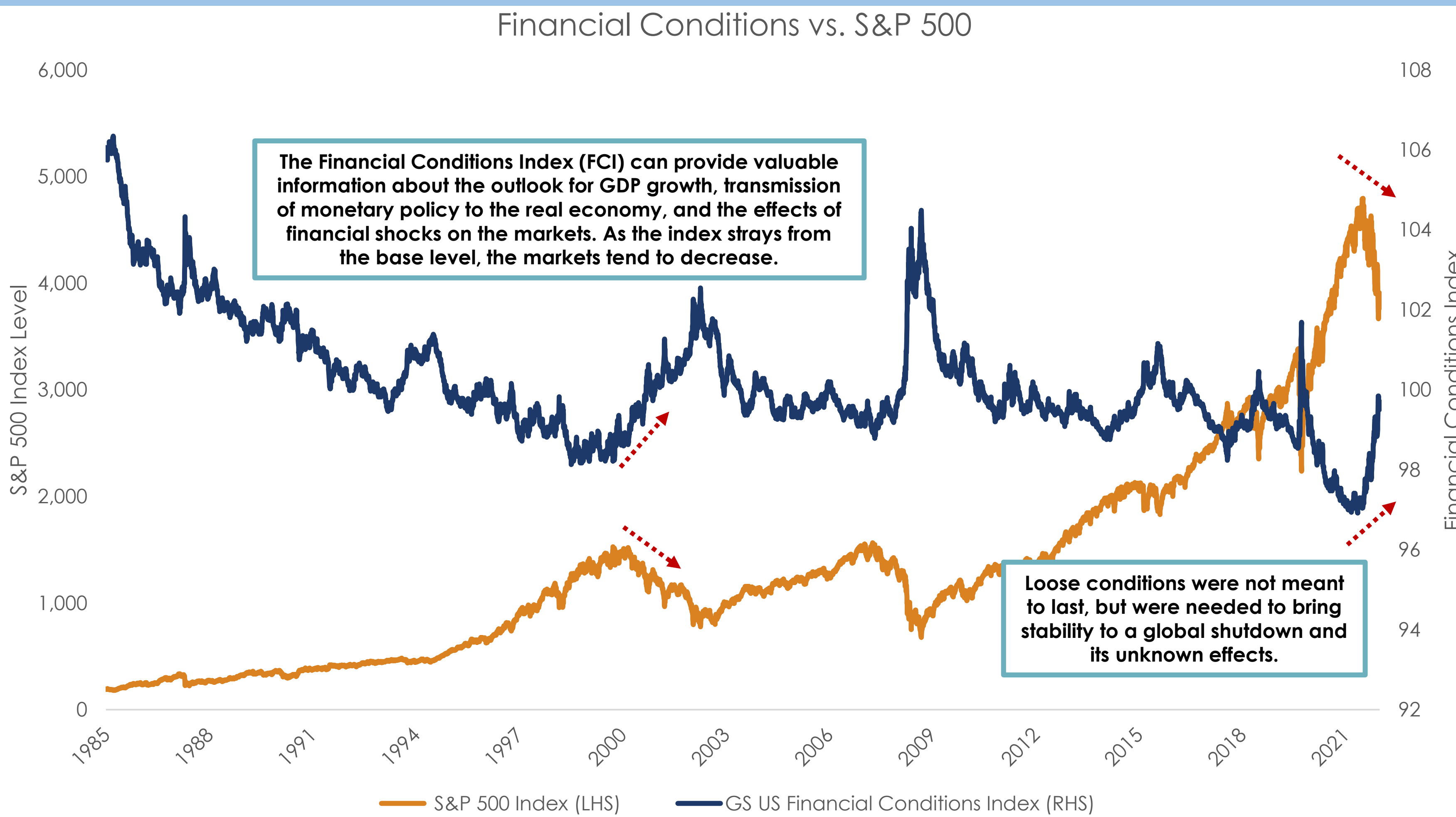
Refer to appendix for disclosures and data sources

FINANCIAL CONDITIONS ARE TIGHTENING

Bear markets are needed over time to ensure the long-term stability of the financial markets, which we are seeing this year.

Investment Outlook: Although tightening, financial conditions are close to their base index level (100), signaling that the economy is close to normalization which can provide support for markets going forward.

Economy



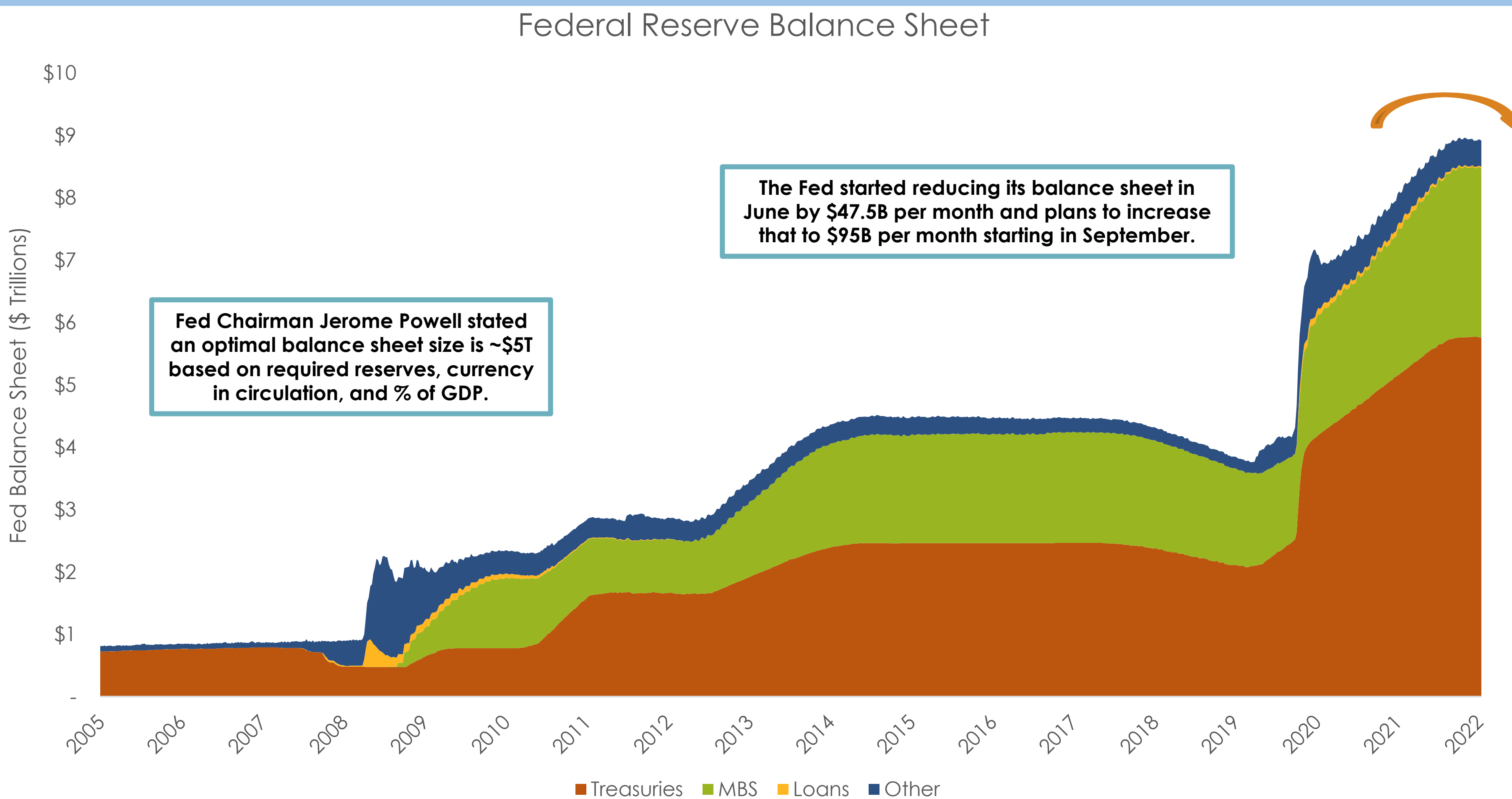
Refer to appendix for disclosures and data sources

THE BALANCE SHEET REDUCTION

The Fed started reducing its balance sheet by not reinvesting matured bond proceeds, a tactic they employed from 2018 until Covid.

Investment Outlook: Although the Fed has not started selling securities, that option is still available in the future if needed. We don't expect the Fed to be active in 2022, however, should they begin selling securities, market volatility will increase.

Economy



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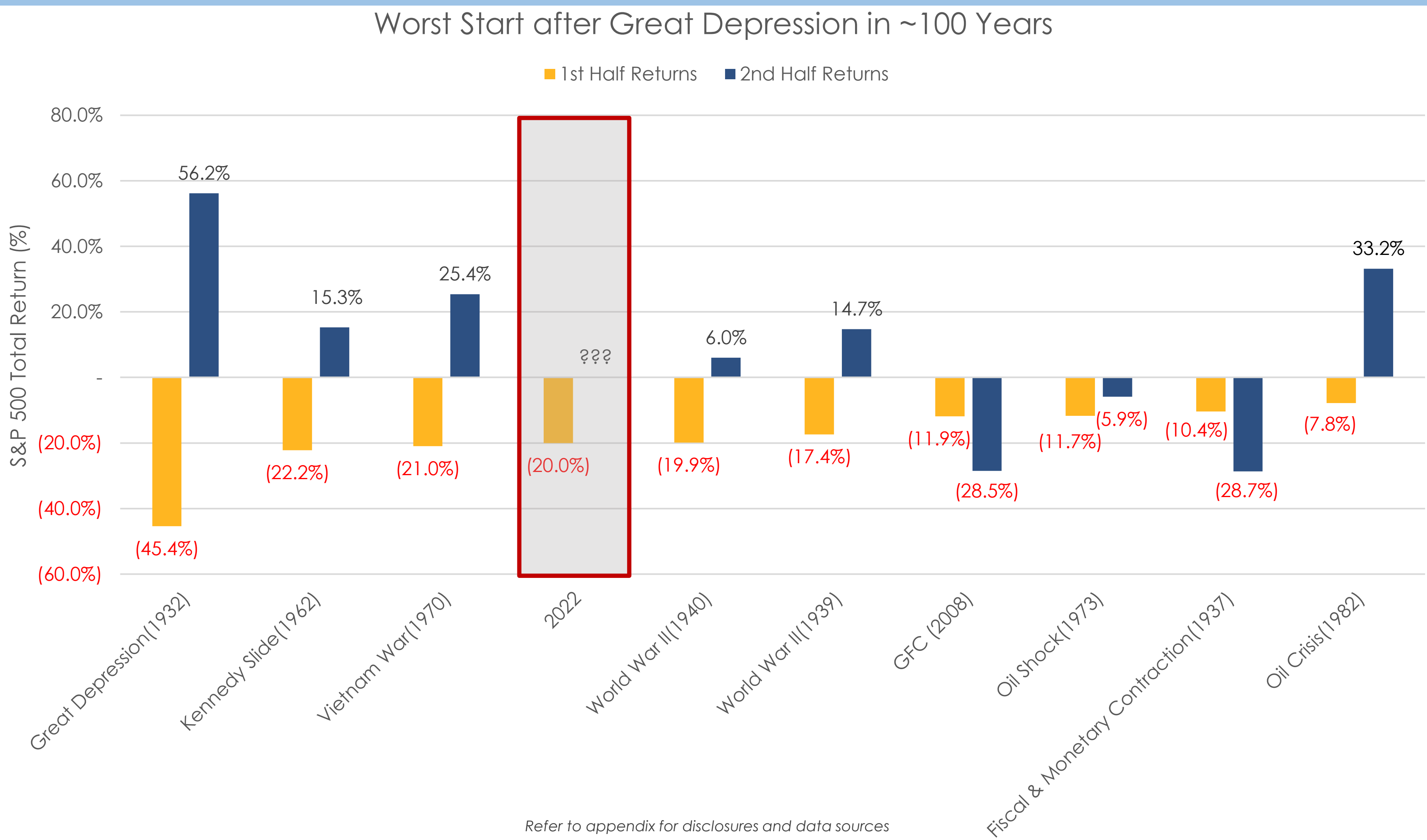
IS THE WORST BEHIND US? A LOOK AT HISTORY

A tight Fed and global conflict created pessimism during the 1st half of 2022, but the historical events below had much bigger impacts on U.S. citizens and global economy.

Investment Outlook: While there are many headwinds still ahead, markets react irrationally at times, for both the better and worse.

Markets

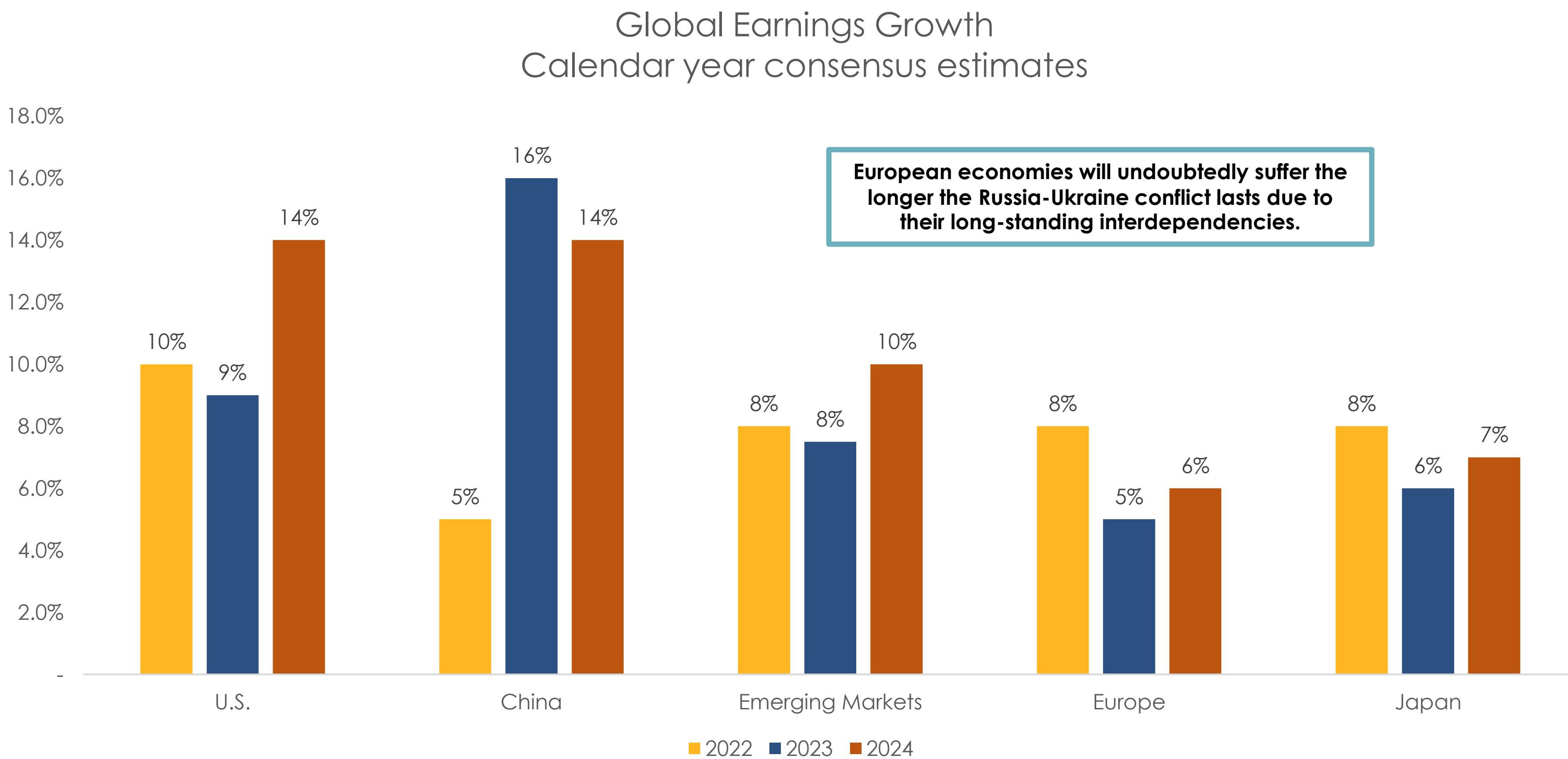


Refer to appendix for disclosures and data sources

GLOBAL GROWTH PROJECTIONS FAVOR UNITED STATES

Global earnings' estimates are being reduced as ongoing Covid variants linger and geopolitical tensions rise.

Investment Outlook: A tight labor market and resilient earnings are keeping deep recessionary fears at bay for now, which makes the U.S. better positioned to handle volatility than most economies overseas. China's economy is also looking to rebound strongly after a disastrous 18 months, which will provide attractive buying opportunities over the next year.



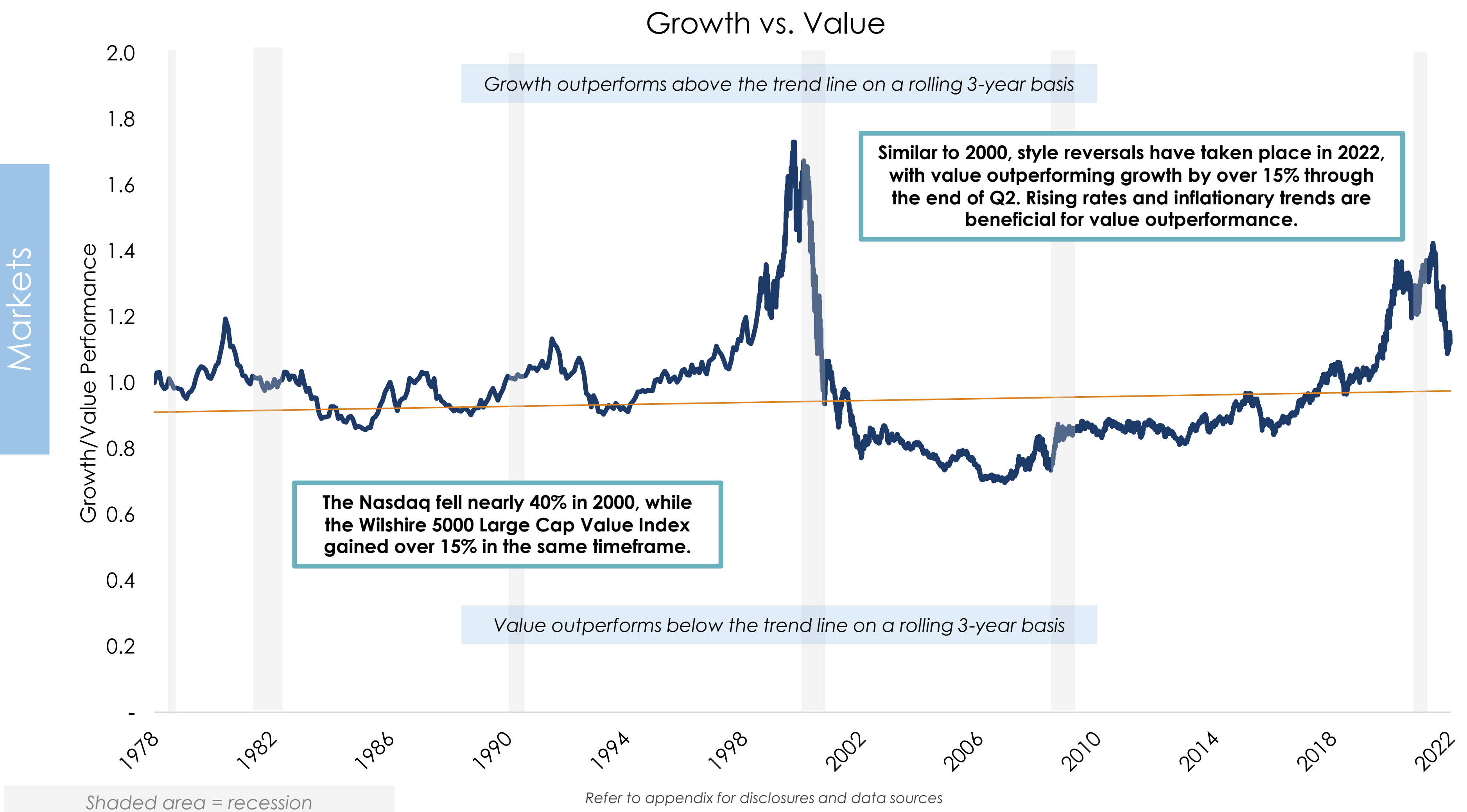
European economies will undoubtedly suffer the longer the Russia-Ukraine conflict lasts due to their long-standing interdependencies.

VALUE HAS ROOM TO RUN

The 2022 sell-off in growth stocks has investors wondering if now is the time to buy back in.

Investment Outlook: We favor value over growth during this part of the economic cycle, but we are starting to see profitable growth stocks be overly discounted, which we may look to explore at the right price over the remainder of 2022.

Markets

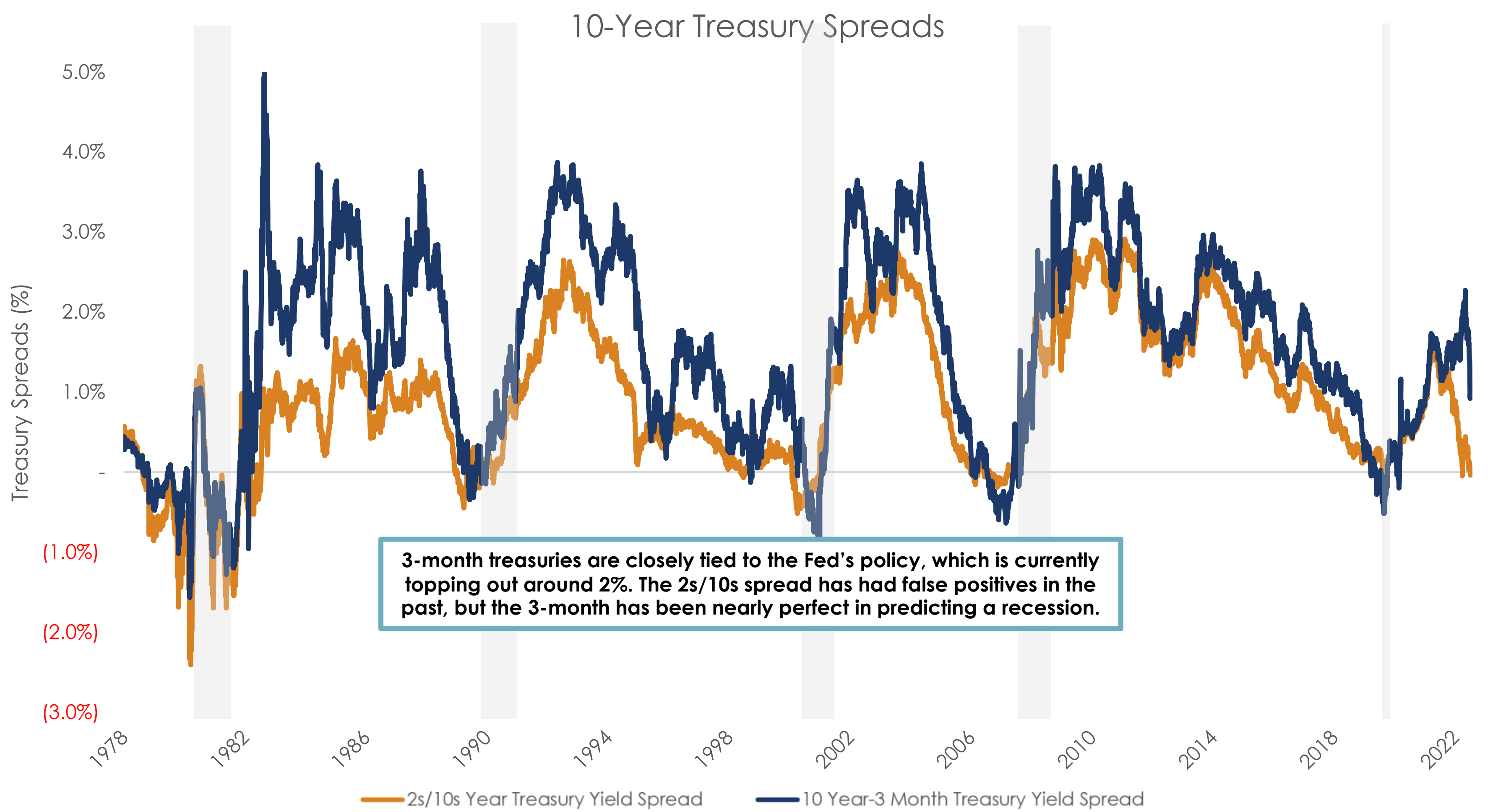


THE YIELD CURVE HAS INVERTED AGAIN

The 2s/10s Treasury yield spread has inverted to start Q3. However, the 3-Month/10-Year Treasury spread is still positive, providing conflicting views.

Investment Outlook: In the previous 6 recessions, both the 2s/10s and 3-Month/10-Year spreads have inverted before the start of the recession. While still positive, the 3-month spread has a higher accuracy in forecasting economic contractions.

Markets



Shaded area = recession

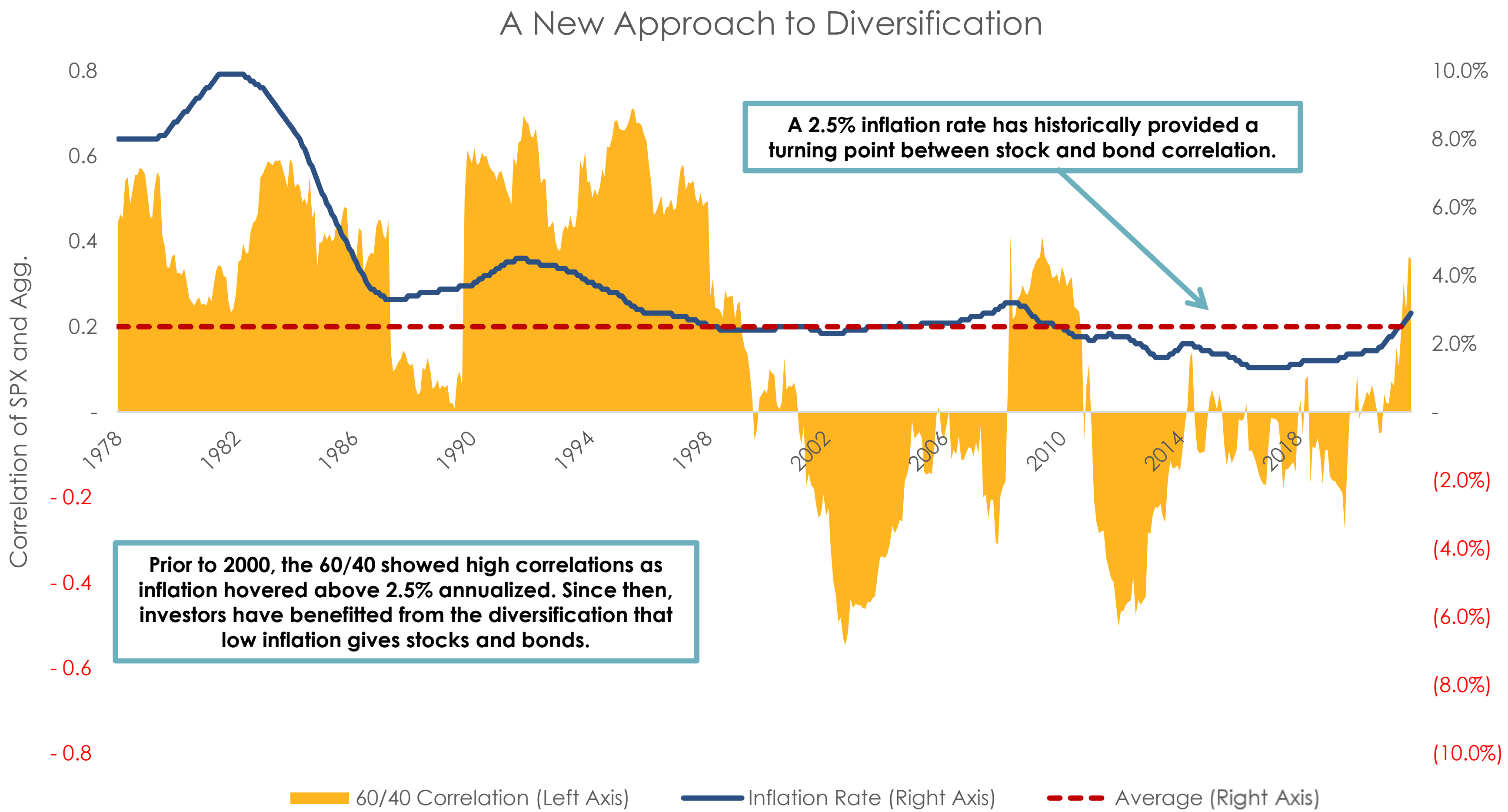
Refer to appendix for disclosures and data sources

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% with superior diversification.

Investment Outlook: A hawkish Fed will make returns harder to come by for equities, while investors could demand more yield for holding bonds to fight inflation. Alternative investments will play an important role in portfolios over the next decade, but investors must understand the unique risks that can come with these investments.

Diversification

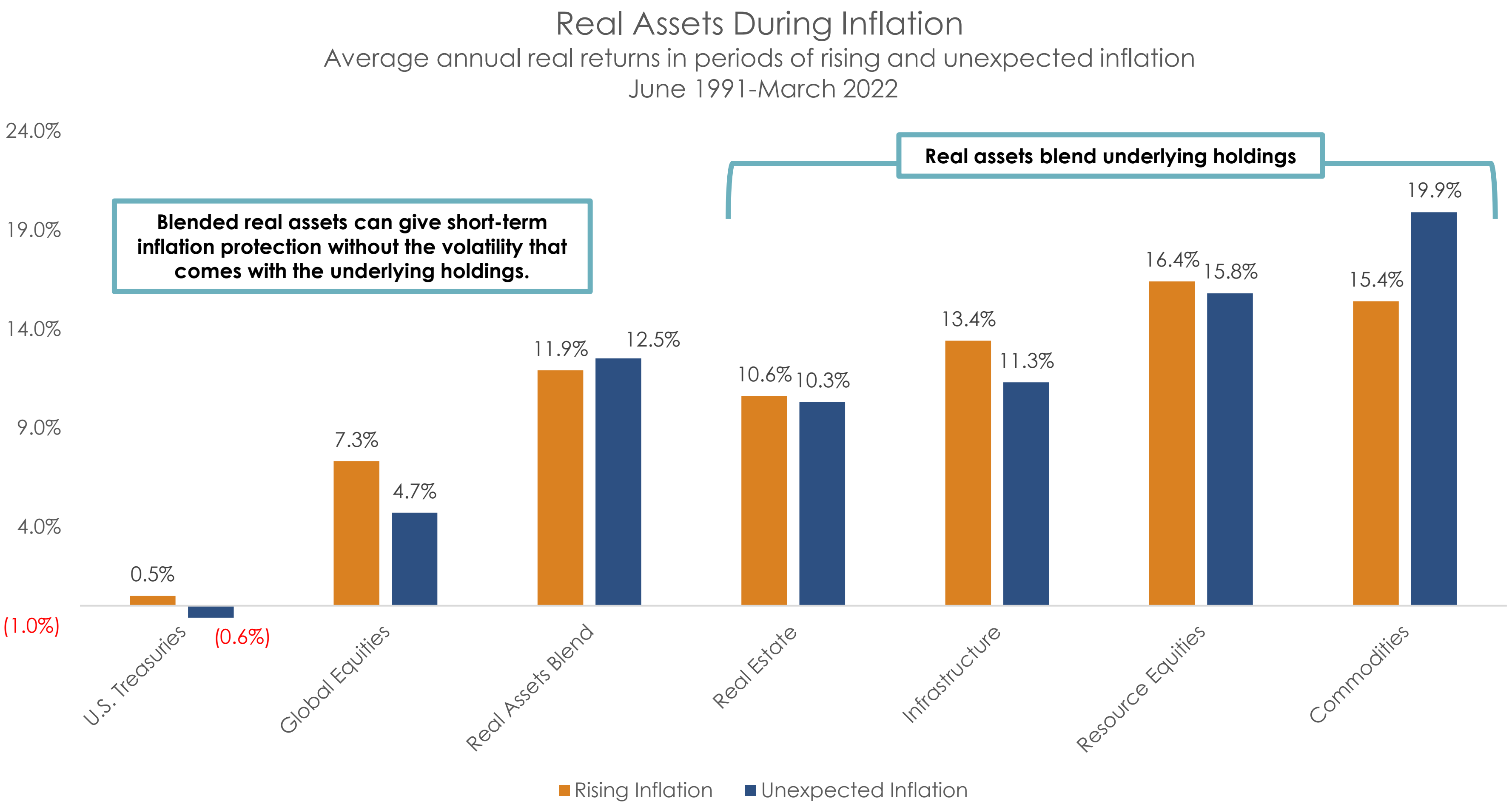


Refer to appendix for disclosures and data sources

PORTFOLIO CONSTRUCTION WITH REAL ASSETS

Real assets (commodities, infrastructure, real estate, etc.) are thought to be inflation protected assets due to their ability to pass on costs to end users. However, their relatively small investable universe and high volatility can hurt returns over the long run.

Investment Outlook: Blended real asset classes can offer the inflation protection needed without the high volatility, creating a good diversification tool if stocks and bonds continue to produce high correlations.



Diversification

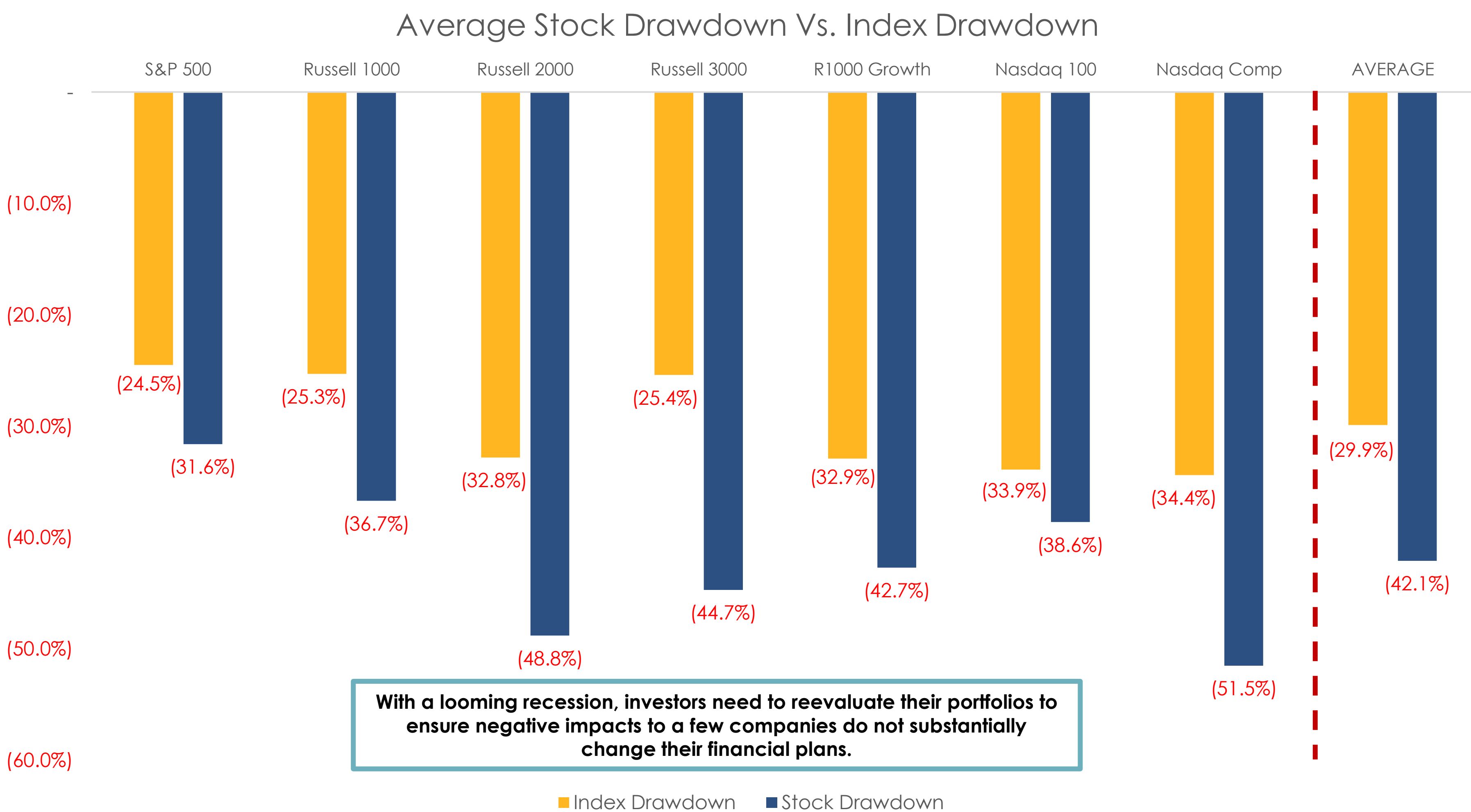
Refer to appendix for disclosures and data sources

DIVERSIFICATION PROVIDES STABILITY

Concentrated positions provided investors with superior returns during the 2010s, but that strategy will likely differ going forward.

Investment Outlook: Due to the heightened volatility, we recommend trimming concentrated positions that are exposed to idiosyncratic risk in favor of a diversified portfolio that can withstand future drawdowns.

Diversification



With a looming recession, investors need to reevaluate their portfolios to ensure negative impacts to a few companies do not substantially change their financial plans.

Refer to appendix for disclosures and data sources

ASSET CLASS PERFORMANCE SUMMARY

ASSET CLASS	PERFORMANCE		
Growth	**2022 Q2**	**2022 YTD**	**2021**
Global Equities	-15.7%	-20.2%	+16.3%
U.S. Large Cap Equities	-16.1%	-20.0%	+18.4%
U.S. Mid Cap Equities	-16.9%	-21.6%	+17.1%
U.S. Small Cap Equities	-17.2%	-23.4%	+19.9%
International Developed Equities	-14.3%	-19.3%	+7.8%
Emerging Markets Equities	-11.3%	-17.5%	+18.3%
Opportunistic Yield			
High Yield	-9.8%	-14.2%	+7.1%
Income & Stability			
U.S. Tax-Exempt Fixed Income	-2.9%	-9.0%	+5.2%
U.S. Taxable Fixed Income	-4.7%	-10.4%	+7.5%

Sources: YCharts as of 6/30/2022.

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.

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Disclosures:
Slide 2: Performance numbers from YCharts as of 6/30/2022
Slide 6: Projected returns and Miracle Mile probabilities are hypothetical and a consensus view of the Investment Strategy Group
Slide 7: Data sourced from YCharts from 1/1/2002 to 6/30/2022
Slide 8: Data sourced from YCharts from 1/1/2076 to 6/30/2022
Slide 9: Data sourced from Bloomberg from 1/1/1985 to 6/30/2022
Slide 10: Data sourced from FRED from 1/1/2005 to 6/30/2022
Slide 11: Data sourced from Bloomberg's SPX data with dividends reinvested. 1st half is until 6/30. Second half is until 12/31.
Slide 12: Estimates are sourced from JPM Guide to the Markets Q2 2022
Slide 13: Data sourced from YCharts from 1/1/1978 to 6/30/2022 for a 3-year total return
Slide 14: Data sourced from YCharts from 1/1/1978 to 6/30/2022
Slide 15: Data sourced from YCharts from 1/1/1978 to 6/30/2022
Slide 16: Data sourced from Cohen and Steers "Inflation Fighters: The Case for Real Assets"
Slide 17: Data sourced from JPM Mid-Year outlook. Drawdowns are from the 12-month high from 6/17/2022