AUREUS
ASSET MANAGEMENT

January 2022

2022 Global Asset Allocation Review

Introduction

The Aureus annual asset allocation review evaluates the risks and opportunities available in global financial markets and their potential impact on the investment portfolios of our clients. Our Asset Allocation Policy describes our positioning for the coming year and may be adjusted as market conditions evolve.

Beyond this annual perspective on global allocation, Aureus also develops a customized investment policy for each client based on their specific goals and objectives.

Summary

The Aureus 2022 global asset allocation review combines critical interpretations of global market factors with a focus on the following:

2022 Analysis			
Market Factors	▪ US Economy ▪ Global Economy ▪ Corporate Profitability ▪ Interest Rates & Inflation ▪ Geopolitics	**Asset Classes**	▪ Lower Risk ▪ Moderate Risk ▪ Higher Risk

Asset classes are grouped by three risk categories: Lower, Moderate and Higher. The allocation presented below represents a 'base case' composite for portfolios. In practice, each client is adjusted based on risk and return factors specific to their investment objectives.

2022 Asset Allocation Summary

Risk Category & Asset Class	Risk Level	2022 Allocation	2021 Allocation	2020 Allocation	2019 Allocation	2018 Allocation
Lower Risk		23%	23%	26%	28%	27%
Cash	Lowest	↑				
Absolute Return	Low	↑				
High Quality Bonds	Low	↓				
Moderate Risk		9%	8%	6%	6%	9%
Directional Strategies	Moderate	=				
Private Credit Strategies	Moderate	↑				
High Yield Bonds	Moderate	=				
Higher Risk		68%	69%	68%	66%	64%
US Equities	High	↓				
Int'l Developed Equities	High	↑				
Int'l Emerging Equities	High	↑				
Total		100%	100%	100%	100%	100%

2022 Asset Class Commentary

This year's asset allocation reflects the following adjustments compared to 2021.

Lower Risk: Lower risk assets are maintained at 23%.

Treasury Bill yields (6 month) closed 2021 at 0.2%, rendering them unattractive from a return perspective. The Fed has indicated three rate increases in 2022 in response to rising inflation. As these increases are applied, we may finally see some return on "cash"; however, it will continue to provide a negative real rate of return. Some measure of cash is helpful to reduce volatility, provide for distributions if needed, and serve as a reserve for adding to equities in the event of a market correction. Cash allocation in the 4% range is appropriate for 2022.

Absolute Return investments are designed to provide a 5-7% return, or inflation plus 2-3%, with less volatility than equities and a lower correlation to interest rates than other fixed income. Given these characteristics, our lower cash allocation, and the unfavorable outlook for longer duration fixed income investments, we continue to favor this asset class in the lower risk allocation. Absolute Return is a reasonable replacement for fixed income and an allocation in the 15-16% range is appropriate for many clients.

The return on high-quality fixed income investments was negative given the rise in interest rates from 0.9% at the end of 2020 to 1.5% at the end of 2021 for the 10-year US Treasury note. With inflation recently hitting 7% and the Fed reducing stimulus and targeting increases in short-term rates, we think less of the opportunity in this area than a year ago. Rates of return will most likely be negative for fixed income in this environment. As a result, we continue to underweight quality fixed income with an allocation of less than 5% for total-return oriented portfolios.

Moderate Risk: Moderate risk assets are increased slightly for 2022 to 9%.

We have added an allocation to private credit strategies for 2022. With corporate balance sheets in good condition and higher interest rates available to investors in private markets, we believe returns will be above those of higher quality fixed income. The credit quality of these investments is in the BBB range, but they are not "junk" bonds.

We continue to like an allocation to Directional Strategies. Generally, these strategies are "hedged" meaning they should participate in periods when equity markets move higher and protect on the downside when equity markets correct. Our positive investment outlook for global equities is somewhat tempered by the exceptional returns over the last three years and Directional Strategies should help if we experience corrections in the equity markets.

Our 9% allocation to Moderate Risk assets is split two-thirds to Directional Strategies and one-third to Private Credit. We maintain our 0% weighting to High-Yield investments given the very narrow spread to higher quality bonds.

Higher Risk: Higher risk assets are decreased for 2022 to 68%.

US Equities have had an exceptional last 3 years with the S&P 500 rising 28% last year, 18% in the 2020 pandemic year and 31% in 2019. Valuations remain near the high-end of historical ranges, although given strong corporate earnings in 2021, below those of a year ago. We expect positive economic growth, earnings growth and returns in 2022, but do not expect returns like the last few years.

International equity markets from a valuation perspective are cheaper than they were twelve months ago. Economic growth is returning to these markets after lagging the US coming out of the pandemic. We are positive on both developed and emerging markets as a continued global economic recovery should benefit these economies.

Of our 68% weighting, we suggest a 45% weighting to US equities with the remaining 23% to international equities split evenly between developed and emerging markets.

2021 – Year in Review

Investment Return Summary

Asset Class/Index	Asset	Calendar Year 2021	2020	2019	2018	2017	Annualized 3 Year	5 Year	10 Year
Cash									
BofA ML U.S. Treasury Bills	Treasury Bills	0.1	0.7	2.3	1.9	0.8	1.0	1.2	0.7
Fixed Income									
Barclays US Aggregate	US Fixed Income	-1.5	7.5	8.7	0.0	3.5	4.8	3.6	2.9
Barclays US Intermediate Agg.	US Fixed Income	-1.3	5.6	6.7	0.9	2.3	3.6	2.8	2.4
ICE BofA High Yield	US High Yield Bonds	5.3	6.2	14.4	-2.3	7.5	8.6	6.1	6.7
Global Equities									
S&P 500	US Large Cap	28.7	18.4	31.5	-4.4	21.8	26.1	18.5	16.6
Russell 2000	US Small Cap	14.8	19.8	25.5	-11.0	14.7	20.0	12.0	13.2
MSCI EAFE	Developed International	11.3	7.8	22.0	-13.8	25.0	13.5	9.6	8.0
MSCI EMF	Emerging International	-2.5	18.3	18.4	-14.6	37.3	10.9	9.9	5.5
Alternatives									
HFRX Equity Hedge	Equity Hedge Funds	12.1	4.6	10.7	-9.4	10.0	9.1	5.3	4.1
HFRX Global Hedge Fund	Hedge Funds	3.7	6.8	8.6	-6.7	6.0	6.3	3.5	2.6
S&P GSCI	Commodities	40.3	-23.7	17.6	-13.8	5.8	8.0	2.8	-5.5
S&P GSCI Gold	Gold	-4.3	20.9	18.0	-2.8	12.8	11.0	8.4	0.7
Inflation									
CPI-U (Less Food and Energy)	Inflation	5.5	1.6	2.3	2.2	1.8	2.1	2.0	2.0

Best performing   Worst performing

In many ways, 2021 was a continuation of 2020 as COVID-19 continued to be headline news with Delta and Omicron variants impacting social behavior and economic activity. Inflation concerns became a primary focus as a combination of continued government stimulus, commodity prices, supply chain issues and labor shortages contributed to a significant year-over-year increase of 7%. Initially deemed transitory, several elements including wages and new Covid variants, have prevented inflation from moderating. In the US, the economy grew a healthy 5.5% over 2020, the unemployment rate fell from 6.7% to 3.9% and corporate earnings rose 34% to record levels.

Global equities led the performance table – as with the last 3 years – with US large caps delivering the highest return. Unlike the volatility experienced in 2020, the US stock market moved steadily higher in 2021 posting a gain of 28% and closing at 70 new "all-time" highs along the way. Compared to 2020, when we experienced a 34% correction (bear market), the largest correction during 2021 was only 5%. Commodities posted a strong return led by oil prices rising 60% during the year. Interest rates on the 10-year US Treasury rose from just under 1% a year ago to 1.5% providing slightly negative returns for bonds in 2021. Alternative asset class returns were positive in 2021 but again failed to keep up with equity market returns.

2022 Model Factors

Model Factor 1 - Fundamentals

Key considerations include economic prospects, inflation expectations, and the corporate earnings outlook.

Economic Overview

Global Pandemic – Year 3

A year ago, we wrote about the devastating human and economic impact of the COVID-19 pandemic. Despite the extraordinary development/delivery of vaccines, improved treatment protocols, and continued preventative measures, the onset of the Delta and Omicron variants in 2021 have extended the impact to global economies. The end to this pandemic remains elusive given uneven country vaccination rates, vaccine availability in developing countries, potential for additional variants, and ability of the variants to spread globally (and quickly). At this point, it is hard to forecast the course of the virus and even harder to know when we will have a return to pre-2020 “normal.”

Updating the chart below, it is apparent that economies have recovered, or are recovering, from the 2020 global recession. However, the US and China standout as countries that have already exceeded their pre-Covid GDP levels. In Europe and Japan, growth has resumed but not fully recovered, and we would expect their respective central banks to remain accommodative for longer as a result.

Annualized % Change in Real GDP from Prior Quarter

Country/Region	2019 y/y	Q1 2020	Q2 2020	Q3 2020	Q4 2020	2020 y/y	Q1 2021	Q2 2021	Q3 2021	Q4 2021E	2021 y/y
United States	2.3	-5.1	-31.2	33.8	4.5	-3.4	6.3	6.7	2.1	5.5	5.6
China	6.0	--	--	--	--	2.3	--	--	--	--	8.1
Japan	0.0	-2.2	-28.1	23.5	11.8	-4.6	-4.1	1.5	-3.0	6.2	1.8
Germany	1.1	-6.9	-34.4	41.4	3.0	-4.9	-7.3	8.3	7.0	3.1	2.9
United Kingdom	1.7	-10.4	-58.1	90.2	4.5	-9.7	-5.3	23.9	5.1	4.6	6.9
France	1.8	-20.9	-43.9	97.3	-4.3	-8.0	0.3	5.3	12.6	3.1	6.8
OECD Total	***1.7***	***-7.0***	***-35.7***	***43.4***	***4.4***	***-4.7***	***2.7***	***7.0***	***3.8***	***4.3***	***5.3***

Source: OECD

COVID-variant spread has unevenly impacted countries and regions, although most are expected to post economic growth over last year. The willingness of countries to enact lockdowns during case-rate spikes combined with dramatic year-ago comparisons were responsible for most of the variability in YoY growth by quarter.

A return to life as normal did not happen in 2021, although it seems much closer than a year ago. Long-term pandemic concerns of extended unemployment, widespread corporate bankruptcies, weak consumer and business demand, permanent changes to real estate markets (both commercial and residential), appear to have ended. Discussions now focus on shifting central bank policies away from monetary stimulus, managing through inflation worries, fixing supply chain disruptions, and addressing labor shortages.

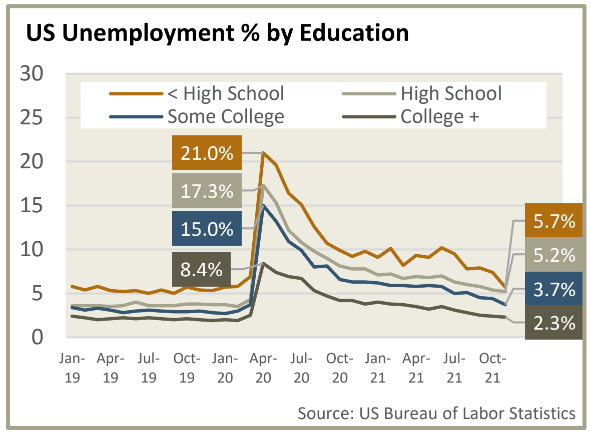
The New Administration

It was probably not the start the Biden administration was hoping for, mainly because of variant-driven Covid surges, which extended the government response to controlling the virus. However, the administration was able to pass $1.9 trillion in Covid relief, a $1 trillion infrastructure bill, make progress on vaccinations, and see the US unemployment rate drop to 3.9%. The ‘Build Back Better Act’ a roughly $2 trillion package focused on reinvigorating the US economy, expanding affordable health & childcare, and pursuing climate-change initiatives, appears stalled. Several widely discussed revenue components such as increasing capital gains tax rates, reducing lifetime gift exclusion levels, increased individual and corporate tax rates, taxing carried interest, and changes to grantor trusts were not part of the submitted bill. It included a surtax on high-income taxpayers (>$10 million) and a corporate minimum tax. Given thin majorities in Congress coupled with election season this fall, it may be sidelined for some time. Even without the 'Build Back Better Act', the total fiscal policy response of the government to the Covid crisis is nearly 25% of GDP (vs. the ~10% decline in the economy at the height of the pandemic).

Consumer Economy

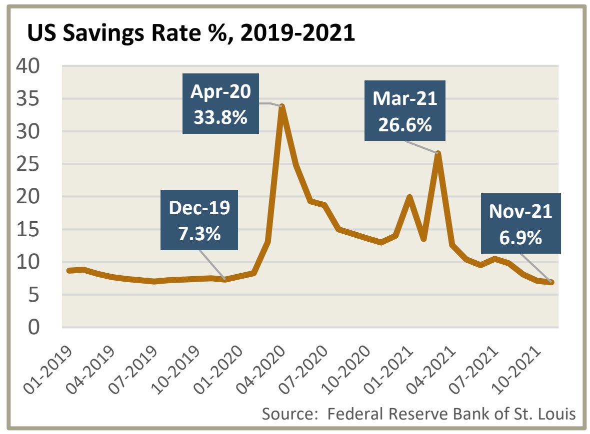
Unemployment

The national unemployment rate continued to move lower every quarter in 2021 as businesses reopened and currently sits at the 3.9% level. There were 11 million job openings in November compared to 6.9 million unemployed – an indicator of the labor shortage experienced in many industries and geographies. This updated chart from last year's piece highlights the continued reduction in unemployment across education levels. We expect unemployment to remain low and continue to put upward pressure on wage levels.



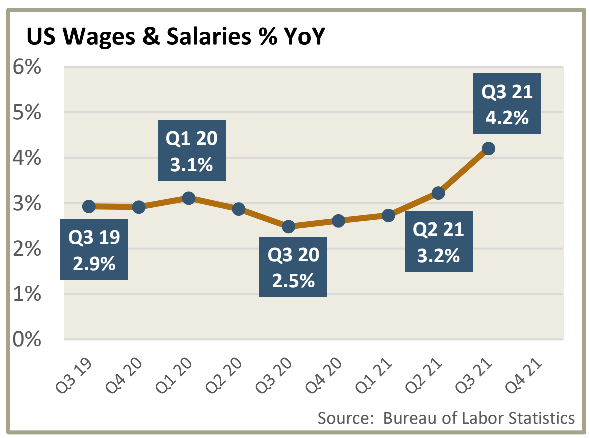
Savings

With the expiration of government stimulus checks and reopening of the economy, the US Savings rate made a rapid return to pre-pandemic levels. Increased consumer spending was a major contributor to the economic recovery in 2020 and continued in 2021. However, that appears to have ended and the focus now shifts to growth in employment and wages to continue to drive demand.



Wages

Wages for all employees have increased 4-5% over the past 12 months, an extremely strong pace of growth, which should help drive the labor participation rate higher in 2022. Overall payroll income increased ~8% in 2021 reflecting the combined strength of job growth and wage growth. Job openings ended the year at historically high levels, which, when combined with an already low unemployment rate, explains why we believe wage inflation could prove more durable vs. supply shortage driven inflation, in 2022.



Global Monetary Policies

A year ago, the situation was one of unprecedented central bank efforts to provide easy money, leading to negative yields on over one-third of world sovereign bonds and massive money supply infusions. Not much has changed from a central bank policy standpoint in most countries.

The stubbornness of COVID-19 to run its course and allow a return to normal has largely led to a continuation of the massive support to keep economies moving. This extended monetary and fiscal stimulus has worked as most global economies grew nicely in 2021. The next act is a transition to tighter monetary policies as a response to inflation pressures and expanding fiscal deficits. Not all countries are at the same point in this cycle. The US is clearly in the lead and the Fed has been signaling its intention to raise target rates throughout 2022. The US appears poised to begin a gradual tightening program early in 2022, with other countries following suit as they deem appropriate.

Oil Prices

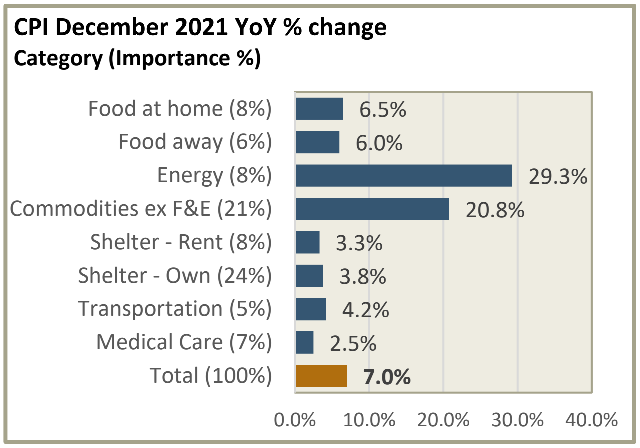
Since May of 2020, oil prices have risen from $16 per barrel to $77 at the end of 2021. The global recovery and resulting increase in demand has been a major contributor to the current price level. With US production still below 2019 levels and OPEC unwilling to fill the void, the expectation is for prices to remain near these levels for the foreseeable future.

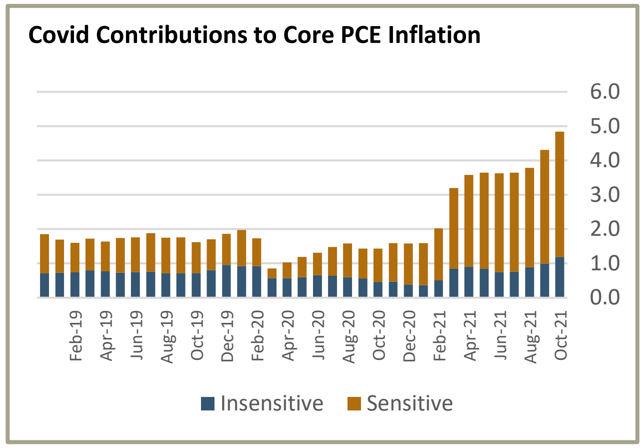
Inflation

The Consumer Price Index ("CPI") finished 2021 with a 7% year-over-year increase, the largest in 40 years. There are numerous explanations and contributors to the current high rate of inflation and many of them are linked to the pandemic in one way or another. These include:

- Supply-chain disruptions due to Covid driven factory closures, employee absences, and shipping congestion
- Atypically strong consumer demand for durable goods
- Fiscal stimulus contributions to household income
- Labor shortages due to lower labor force participation and an increase in retirements
- Fewer immigrant workers
- Lapping depressed prices from the earlier in the pandemic (commodity prices in particular)

Data supporting the concept that Covid is responsible for the current inflationary environment comes in the form of a research effort from the Federal Reserve Bank of San Francisco that looks at contributions to Core Personal Consumptions Expenditures (“PCE” - another measure of inflation). The analysis divided goods into Covid sensitive and Covid insensitive components and showed that inflation rates for Covid insensitive components are still in-line with pre-Covid rates of inflation while Covid sensitive components are trending well above pre-Covid levels. This suggests that the persistence of higher inflation may be most easily explained by the persistence of the pandemic and the appearance of Delta and Omicron variants. Most experts now expect inflation to fade in mid-2022 due to waning Covid disruptions and easier YoY comparisons. The Fed has also begun to take steps to combat the inflationary environment, emboldened by the strong labor market to begin reducing monetary stimulus and broadcasting plans for interest rate hikes to beginning in 2022.





Corporate Earnings

Unlike the prior two years, businesses will be increasingly forced to rely on their fundamental strengths to drive growth as we head through 2022. Record fiscal and monetary stimulus helped stave off a severe recession following the arrival of the pandemic. This stimulus continued through 2021 through a combination of direct payments to businesses and individuals, and easy monetary policy from central banks. Heading into the first quarter of 2022 we will begin to lap the last substantive stimulus checks sent to households. The Fed will also be tapering its bond purchases over the next several months, culminating with the start of a new rate hike cycle in mid-2022. Momentum heading into the year, a healthy consumer, select industries continuing their Covid recoveries (e.g., medical devices, travel & entertainment), and easing supply chain disruptions through the year all suggest we are in for another double-digit earnings growth year. However, barring new variants, 2022 may mark the gradual transition back to a more normalized business operating environment. Earnings growth for the S&P 500 is expected to range between 10% and 15% in 2022. This is meaningfully lower than the 30%+ earnings growth experienced in 2021 due to lapping early pandemic earnings declines. However, it is important to remember that the market is forward looking and finding exceptional businesses that can thrive without the stimulative environment of the past two years will be important.

Economic Growth

United States:
Real GDP in 2021 is expected to show growth of 5.5%. Expectations for 2022 are for more moderate growth in the 3.5-4.5% range. While slightly lower, they are above pre-pandemic levels. The pace and magnitude of the Feds shift to tighter monetary policy, the potential persistence of higher inflation, and the path of COVID infections are key elements to monitor.

Factors	Influence
▪ COVID infection rates and variants	-
▪ Government fiscal spending	+
▪ Inflation	-
▪ Employment	+
▪ Fed policy shift to higher short-term rates	-
▪ Supply chain challenges	-
▪ Consumer spending	+

Europe and Japan:

Factors	Influence
▪ Post-pandemic Improving economic growth	+
▪ Supportive central banks	+
▪ Inflation pressures	-
▪ German leadership change	=
▪ Trade and China Impact	+

European economies should enjoy relatively strong growth once COVID headwinds subside. Global supply chains are expected to normalize throughout 2022, supporting the recovery in the region. Fiscal policy will likely stay supportive, and the ECB keeps its purchasing program for the time being while keeping an eye on inflation, especially from the most recent surge in energy prices. With high vaccination rates and low infections, Japan's economic recovery and gradual price increases are expected to continue in 2022. Prices have begun to rise in Japan's consumer sector – adopting a more pro-spending attitude which is likely to reinvigorate the domestic economy.

Emerging Markets:

Factors	Influence
▪ Post-pandemic global growth recovery	+
▪ More reasonable equity valuations	+
▪ China government intervention	=
▪ Delayed exit from the pandemic	-
▪ Dollar Weakness	+

Most economies in EM should grow in 2022, but the recovery from the COVID-related downturn is not complete and some sectors continue to operate below capacity. Following the sharp deleveraging in China, expect policy easing in 2022, with stronger infrastructure and manufacturing capex offsetting slower property activity. However, the course of growth across China and other EMs will be linked to the path and government responses to the pandemic, whether inflation is truly transitory, and the state of global politics.

Model Factor 2 - Valuation

Key considerations are valuation and yields, viewed historically in absolute and relative terms.

Equities

Global Equity Valuation Comparison

	10 Year P/E Ratio			Jan.	Jan.	10 Year Price/Book Ratio			Jan.	Jan.
Country/Region	High	Low	Avg.	2022	2021	High	Low	Avg.	2022	2021
US	24.1	11.3	16.9	21.5	22.8	4.5	1.8	2.9	4.5	4.0
Europe	19.1	9.0	14.0	14.8	17.4	2.0	1.1	1.6	1.9	1.7
Japan	19.4	10.9	14.5	14.4	18.7	1.5	0.8	1.2	1.3	1.3
Emerging Markets	18.9	10.4	14.1	15.5	17.8	2.4	1.4	1.8	2.3	2.2

Source: FactSet, January 2022. Forward P/E and P/B ratios.

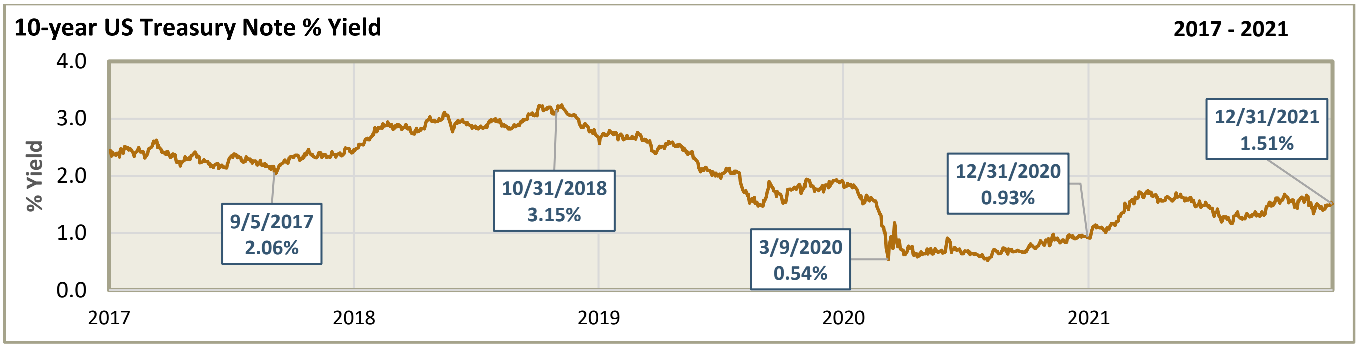
The US market price/earnings ratio stands at 21.5x forward earnings, near the high end of the historical range but below 22.8x one year ago. Given the S&P 500's 28% return during 2021 one might expect the multiple to be higher. The explanation is earnings grew at 34% and the P/E multiple contracted 6%, producing the 28% return. It is difficult to argue that the market is attractively valued, but like last year the counterweights are projected earnings growth of 10-15% for 2022 and the low absolute level of interest rates. Low interest rates support higher equity valuations, and relative to fixed income and other asset classes, equity valuations still appear attractive.

Equity valuations in Europe, Japan, and emerging markets also improved compared to one year ago. Europe because of a significant earnings rebound, Japan and emerging markets because of marginal earnings growth combined with flat returns for 2021. Multiples continue to be well below the US, which has been true for many years. However, the magnitude of the difference makes international markets relatively more attractive than recent periods.

Bonds

2022 is expected to mark the turn of US Fed policy toward a more normal path as little, if any, stimulus is needed at this point. Higher inflation and strong economic growth are forcing the Fed to taper their bond buying program at a faster pace and begin the process of raising short-term rates. Expectations are for three and perhaps more increases beginning in the spring. 10-year Treasury yields have moved from 0.93% in January 2021 to 1.51% in anticipation of these actions. We expect this yield to continue higher and would not be surprised to see a yield of over 2% at some point in 2022. Given this expected rise from current levels, we believe bonds offer very little in terms of competitive return.

With the exception of the UK, most developed market bonds outside the US continue to have rates at or below 0% reflecting the attempts of global monetary authorities to stimulate economic growth. While their central banks may act to reduce monetary stimulus and raise rates at some point, their economic recoveries have been less consistent than the US and may require additional support in 2022.



Model Factor 3 - Geopolitical

Key considerations are government and political conditions in specific geographies that may impact economies and investment markets.

United States

President Biden arrived with a key goal of improving foreign relations with many traditional allies and cooling tensions with non-allies of China and Russia. Tariff wars with China are no longer headline news, but have been replaced by a potential military conflict over Taiwan and impact of the new regulatory and social agenda put forth by the Chinese government. Russia also presents the US (and other European allies) a potential military conflict over activities on the border with Ukraine. Should Russia take action in Ukraine it is expected that additional economic sanctions would be the initial response.

Europe

Brexit became effective December 31, 2020, less than a year into the pandemic. Progress has been made on trade and immigration issues between the UK and EU, but implementation differences remain. COVID continues to require restrictive and fluid travel policies impacting countries where tourism plays a larger role.

Asia ex China

China continues to play a major role in the outlook for many of these countries. Given its economic weight and possible military ambitions these countries look more cautiously on China.

China

China continues to be a global force and their problems can have far-reaching impact. Dissent is not favored by the government as evidenced by responses in Hong Kong and the recent implementation of new regularity oversight of companies (state intervention) and the required support of the social agenda. Economic growth appears to have returned, but concerns remain related to property sector.

Model Factors – Summary Table:

Region	Economic Fundamentals	Valuation & Risk	Geopolitical
US	▪ Strong consumer balance sheets and job market support consumer spending power in a consumer driven economy ▪ Fed will begin monetary tightening, but absolute and real interest rates remain supportive of growth ▪ Election year means the window to pass Build Back Better is shrinking and political rhetoric should heat up ▪ Fading Covid impacts will be a relief for many businesses looking to move past disruptions and satisfy pent up demand for services	▪ With one more year of outsized corporate earnings growth from Covid catchup and expectations for higher interest rates, currently elevated price-earnings multiples should continue to re-rate toward historical averages ▪ Rising interest rates and the negative implications for bond values means TINA ("there is no alternative" – to stocks) behavior should continue to support equity inflows	▪ Geopolitical tensions will remain persistent with China, Russia, and North Korea. ▪ The "decline of democracy" globally remains a long-term issue to watch ▪ Reopening borders for travel should help mark a shift away from the isolationist policies of the pandemic
Developed Markets	▪ Uncertainties tied to COVID remain in the short term, but the European economies are set for higher than average growth ▪ After decades of failing to overturn deflation, Japan might finally contend with a bout of inflation ▪ Central bank policies will remain stimulative but will keep an eye on inflation	▪ Historic inflation numbers could potentially undermine recovery ▪ Fairly low equity valuations should provide tailwinds for European and Japanese equities	▪ The pandemic and its socio-economic consequences ▪ Higher energy prices ▪ Growing populism in Europe ▪ Tensions with Russia
Emerging Markets	▪ Activity appears to be rebounding strongly across EM Asia ▪ Pick up in EM manufacturing is a welcome sign for the rest of the world – helping to ease supply chain issues	▪ China's regulatory cycle seems to be slowing, which would be helpful for equities ▪ Tighter monetary and fiscal policy might increasingly weigh on growth	▪ US-China relations ▪ Climate change is seen as national security threat ▪ China's growing global influence ▪ Strong USD hinders growth

Expected Returns

2022 Asset Allocation: Expected Returns

Asset Class	Risk Level	Expected Nominal Return	2022 Allocation	Expected Nominal Return Attribution
Cash	Lowest	0.0% – 1.0%	4%	0.0% – 0.0%
Fixed Income	Low	1.0% – 3.0%	3%	0.0% – 0.1%
Absolute Return	Low	5.0% – 7.0%	16%	0.8% – 1.1%
Directional Alternatives	Moderate	5.0% – 9.0%	6%	0.3% – 0.5%
Private Credit	Moderate	5.0% – 8.5%	3%	0.2% – 0.3%
US Equities	High	5.0% – 10.0%	45%	2.3% – 4.5%
International Developed Equities	High	5.0% – 10.0%	11.5%	0.6% – 1.2%
International Emerging Equities	High	5.0% – 11.0%	11.5%	0.6% – 1.3%
Total Portfolio Nominal Return			100%	**4.7% – 9.0%**
Less Expected Inflation				(3.0%)
Total Portfolio Real Return				**1.7% – 6.0%**

Calculating expected returns is mainly a quantitative exercise to establish a range of returns for both asset classes and an overall "average" portfolio. History has shown that rarely will these asset classes deliver these expected returns during any one calendar year given the cyclicality and volatility of individual asset classes. For example, US equities returned -4.4% in 2018, followed by 31.5% in 2019, 18.4% in 2020, and 28.7% in 2021 delivering a four-year annualized return of 14.2%. Over longer periods these more volatile one-year returns are smoothed and returns generally move toward longer-term asset-class averages. The expected nominal returns in the table above incorporate factors specific to our view of the current market environment and allow us to express our assumptions and apply them to a client's portfolio.

For 2022, we expect positive returns from US equities and International equities. However, the range of returns are slightly wider for equity assets given lower valuations than a year ago. In a base-case portfolio implementation, we would expect a diversified portfolio to generate expected nominal returns in the 4.7% to 9.0% range, with inflation estimated to be 3% (higher than 2021) the real return could be in the range of 1.7% to 6.0%.

As always, we remain diligent in our approach to the financial markets and the management of our client's investment portfolios. As new information becomes available, we will update our models and, when market conditions warrant, adjust our allocations.

We appreciate the opportunity to share our views and welcome your questions and comments.