Cambridge ADVISORS inc. INVESTMENT MANAGERS

INVESTMENT PERSPECTIVE — MARCH 2022

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MARKET COMMENTARY

Stocks and bonds had a rocky start to 2022. Large cap stocks in the S&P 500 dipped into correction territory with a decline of more than -13% during the quarter but rallied and finished down only -4.60%. The small cap Russell 2000 Index ended the quarter with a -7.53% loss. International stocks in developed markets recorded a loss of -5.91% while emerging market stocks recorded a loss of -6.97% for the quarter which reflected a markdown of Russian investments to zero value. Bond yields surged resulting in a larger loss for the bond market than some stock indices. The Barclays U.S. Aggregate Bond Index was down -5.93% at the end of the quarter.

It should be no surprise that energy has been the best performing sector this quarter. Oil prices surged with the Russian/Ukraine conflict resulting in a 39.0% return for the sector. Utilities were the next best performing sector with a 4.8% return. No other sectors had positive performance for the quarter. The former high flying sectors of communication services, consumer discretionary, and technology had the worst performance with respective returns this quarter of -11.9%, -9.0% and -8.4%. Unfortunately, these sectors have some of the biggest weightings in the S&P 500.

COVID cases in the US had greatly subsided by the end of March and the economy is mostly if not completely open. New York City ended their mask and vaccination mandates and even airlines are lobbying for their mask mandates to be lifted. Employment continues to improve and the unemployment rate is now only 3.6%. Since 1969, only five months have had lower unemployment. Unemployment is expected to fall to 3.4% by year end. The labor market is tight; there are 5.3 million more job openings than there are workers to fill them. The tight labor market won't likely be resolved soon and is pushing average hourly earnings higher. March saw a 5.6% year over year increase in wages.

As the COVID spotlight waned, the Russian invasion of Ukraine took center stage on investors minds. Russia and Ukraine have an effect on energy prices and food prices and are adding to supply chain disruptions. As a result, John Bilton, global strategist at JPMorgan, expects European growth to slow to near zero. In the US, inflation is likely going to stay higher for longer than originally projected by the Fed.

Fourth quarter US GDP growth was 6.9%. In 2022, growth is expected to slow to near 2% by year end. Analysts note that recession risks are still low in 2022 even though growth is slowing. They believe there is still pent up demand from pandemic shutdowns and supply chain disruptions. Recession risks rise in 2023 according to strategist David Kelly at JPMorgan, as inflation, higher interest rates, the tight labor market and rising wages naturally slow the economy.

Corporate earnings growth is also expected to slow this year. According to Zacks Investment Research, current projections are for 3.5% year over year growth for first quarter. They project full year earnings growth to be 7%.

In November, the US inflation rate reached its highest level in 40 years. Since then it has continued to rise and is now 7.9%. Energy is the largest contributor. Commodities have been the worst performer over the past fifteen years but have been the best performer this year. Commodities have been a hedge against inflation in past periods of high inflation.

2022 BENCHMARK RATES OF RETURN

INDEX	FIRST QUARTER	YTD
S&P 500	-4.60%	-4.60%
Russell 2000	-7.53%	-7.53%
International	-5.91%	-5.91%
Fixed Income	-5.93%	-5.93%
JPMorgan Diversified*	-5.20%	-5.20%

*25% S&P 500 large cap stocks,10% Russell 2000 small cap stocks, 15% MSCI EAFE international stocks, 5% MSCI EME emerging market stocks, 5% REITs, 25% Barclays US aggregate bonds, and 5% each in short term Treasuries, high yield global bonds, and commodities.

We value our relationship with you, and we are always available to meet with you in person or by phone. Please do not hesitate to call or email us with any questions that you may have. Also, if your situation has changed, please contact your advisor so we can determine if any changes are needed in your account.

At its March meeting, the Fed announced its first interest rate hike since December 2018. They are also projecting six more rate hikes in 2022 and three more in 2023 before ceasing. The 10-year Treasury bond yield rose from 1.51% at the end of 2021 to 2.33% at the end of March. This resulted in a negative returns for the Aggregate Bond Index as declines in bond prices greatly outweighed the interest earned on bonds. This will likely be the second year in a row of negative bond returns as analysts expect the longer term yields to continue to rise. David Kelly expects the 10-year Treasury bond could yield 3% or more by year end. If so, the yield curve would not be inverted even with the expected steep rise in short term rates. An inverted yield curve can signal a coming recession so investors do not want to see the yield curve invert. However, the rising yields will mean that bonds will not likely be a safe haven in 2022.

Stocks are likely to remain volatile in 2022. The second year of a president's first term has seen a -19% correction on average sometime during the year. Usually the bottom is in the third quarter before the mid-term elections. Strategas notes that of the conditions found near a market low, we've only met 3 of 8. But at the same time, they note that we've not met any of the signs of a durable rally.

Investors may need to look to new or non-traditional methods to reduce risk in portfolios. Short-term bonds will adjust faster than long-term bonds to higher yields so reducing duration of a bond portfolio is one strategy. We also continue to explore opportunities in newer asset classes. "Target outcome" or "buffer" ETFs allow investors to take part in stock market appreciation but also provide some protection if stock prices fall. Adding asset classes such as commodities and digital currency can also reduce risk through diversification. Digital currency is growing in popularity and becoming more accepted both as a currency and an investment and it has had low correlation to other asset classes. Structured products may also provide opportunities to earn a higher income stream than available in bonds for investors who can withstand some risk.

We continue to encourage investors not to try to time the market or chase returns but to align your investment portfolio with your risk tolerance. We use Riskalyze software to help us measure your risk tolerance so we can help ensure you have the appropriate risk in your accounts. We compare your risk score to the risk score of your investment portfolio to see if adjustments might be necessary. If you are unsure about the risk in your portfolio or have any questions, please talk to your advisor.

CAMBRIDGE ADVISORS NEWS

In case you missed it in our last newsletter, we wanted to share again our news that Justin Anderson is a new partner of Cambridge Advisors! Justin joined Cambridge Advisors in 2007 as an advisor and is now a Vice President as well. Justin received his undergraduate degree and MBA from UNL. He also has earned the Certificate in Blockchain and Digital Assets. Justin's ownership marks an important milestone in the succession plan of Cambridge Advisors so that we can stay an independent, employee owned firm. In our industry, consolidation is a continuing trend but we believe it is in our best interests and our clients' best interests to remain independent at this time. We believe the way we do things is best in class with the systems we use, the people we have and the services we provide, and we want to continue moving forward and remain in control of our future.

In January we also upgraded our phone system to a voice over internet platform. Our main office number remains the same. Although we strive to always have a live person answer, it is possible that you could reach a voice system—please do not hang up, you'll be given options to reach your advisor's extension or another live person who can help you with time critical needs if your advisor is not immediately available. In addition, we will soon have a system in place so that you can text with your advisor as well. Our goal is to make it easier for you to communicate with your advisor in whichever way you prefer.

We also upgraded our client relationship management software this quarter. We believe this is important so that our team is responsive to client needs and on top of outstanding items.

Thank you for the trust you place in Cambridge Advisors. It's the people we serve that make us want to keep working and growing and striving to find more and better ways to help you reach your financial goals. We value our relationships with each of you and we appreciate the referrals you have made to us so that we can help your family, friends and others who are important to you. If you know someone who could benefit from our services, please do not keep us a secret!

As a reminder, Cambridge Advisors is fully open and meeting with clients in person. We can also participate in video chat meetings if you prefer.