MARKET INSIGHT MONTHLY

August Update

MONTHLY COMMENTARY

UNITED BANK Wealth Management

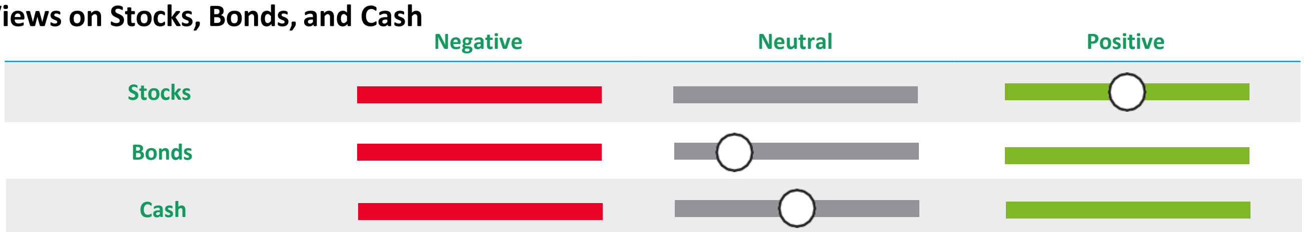
Though uncertainty and conflict reigned during the first half of 2022, the second half (while clearly just at its onset) has been much more stable and financially rewarding. Solid second quarter corporate earnings have been paired with better than anticipated forward earnings guidance for the remainder of 2022. As expected, the late July interest rate increase from the Federal Reserve was exactly in-line with projections leading to a reduction in macro-level uncertainty. Commodity prices and notably energy prices seem to have peaked. These combined variables provided the impetus for a significant positive move for U.S. based equities in July and midway through August. The S&P 500 was up over 17% from the mid-June lows and down only single digits for the year. Intermediate and longer-term interest rates have stabilized and are somewhat range bound. Since the Fed meeting in June, the aggregate bond benchmarks have shown positive returns increasing by approximately 3%. The process of investment decision making may take many different forms. But at United, our disciplined process and philosophy depends on sound economic and fundamental analysis which typically removes much of the short-term noise. While volatility arises from time to time, we believe fiduciary asset management requires that United's market opinion have a foundation in fact. True wealth and asset growth eventually follows fact, not speculation. Though mindful of market obstacles, we remain positive for the remainder of the year and into 2023.

INVESTMENT TAKEAWAYS

- As stated over the past several Insight editions, we felt the market correction during the first half of 2022 would ultimately lead investors to conclude that equity valuations were simply too compelling to ignore. United felt earnings would be stronger than anticipated, particularly here in the United States. This belief has been validated. With over 90% of the S&P 500 having reported second quarter earnings, 75% of those companies beat estimates. The S&P 500 has risen over 18% from its June low while the tech heavy Nasdaq composite has soared a remarkable 23% from mid-June to mid-August.
- The United Wealth Management investment philosophy takes market, portfolio and individual securities risk into consideration when constructing our client's portfolios. We blend diverse asset classes together so that risk is not heavily weighted towards any single asset class. United's baseline equity exposure is more heavily weighted towards large, value-oriented, U.S. based companies. We favor shorter to intermediate term duration fixed income portfolios that should not suffer value declines as precipitously when rates move higher as may be experienced with longer maturity portfolios.
- We continue to overweight equities within our total asset allocation despite evidence suggesting world economic output is slowing. Though central banks are increasing rates to stem inflation, we do not believe rates will move high enough to lure substantial funds away from the equity markets. While earnings guidance is more conservative, full year earnings for both 2022 and 2023 will likely continue to set records. We continue to favor U.S. equities.
- Our value bias within large-, mid- and small-cap companies better protects portfolios during volatile periods, as was experienced in the first half of the year. Companies with strong, less-leveraged balance sheets often are preferred during uncertain environments. Recent interest rate stability has provided growth companies the opportunity to regain momentum.
- Though developed nations' equity markets have generally outperformed those of emerging markets (EM), both segments have considerably lagged the U.S. We remain comfortable with our modest international exposure and prefer to wait for more compelling economic evidence before any re-allocation. We do note that international valuations are attractive.
- We continue to underweight our allocation to fixed income and favor short to intermediate maturities. The yield-curve moved higher over the last year but the long end is showing signs of stability as inflationary pressure may have finally peaked. Short-rates continue to move higher coinciding with Fed activity. We expect a flat yield curve and believe much of the rate increase has been factored in.

BROAD ASSET CLASS VIEWS

Views on Stocks, Bonds, and Cash



EQUITY ASSET CLASSES

For the remainder of 2022 and for longer-term time horizons, we continue to favor stocks relative to bonds. We are encouraged that interest rate stability, particularly on the long end of the curve, has allowed growth stocks to re-emerge from hibernation. Though inflation fears will remain in effect for some time, central bank actions and commentary have instilled a greater sense of security in consumers, investors and corporate boards. Second quarter earnings have been impressive given the many global economic obstacles which could have derailed growth. Investor pessimism has given way to more optimism in recent months. The correction led to the best valuation multiples in years as earnings and earnings guidance are not as negative as some had forecast. The record setting earnings of 2021 will likely carry forward into even higher earnings this year and next. We believe long-term investors will ultimately benefit from purchasing quality equities at recent levels. We continue to believe a diverse portfolio, weighted more heavily towards value-oriented, large domestic companies will weather adverse conditions well and ultimately provide long-term growth opportunity.

	Sector	Overall View	Relative Trend	Rationale
Market Capitalization	**Large Caps**			U.S. large cap stocks have been the most reliable and dependable for several years. Record earnings generated in 2021 influenced investors to continue holding and buying quality large-cap companies with strong earnings records. Growth companies suffered in early 2022 as they are generally more vulnerable to higher interest rates. The recent market correction created a valuation opportunity in both value and growth segments as many stocks offered compelling valuations not available for years. We believe investors will be rewarded by buying U.S. stocks during this recent corrective phase.
	Mid Caps			In 2021, mid cap companies' earnings and stock prices grew dramatically with powerful economic expansion. The recent 2022 correction is heavily due to the uncertainty associated with interest rate increases meant to stem inflation. Like large-caps, attractive valuations compelled investors to seize this considerable opportunity and purchase quality companies.
	Small Caps			Much like mid caps, the small cap sector has been impacted by interest rate risk. Though this segment was among the strongest performers of 2021, it is generally more susceptible to higher volatility as uncertainty increases. We feel that valuations became even more attractive due to the correction. Strong earnings growth potential through 2023 suggests we remain overweight small caps.
Style	**Growth**			Large cap growth stocks are more rate sensitive and have suffered much more heavily than value stocks during this recent correction. To some degree, this growth correction has elements of a reversion to the mean. Growth stocks have outperformed value stocks for decades. Though rates will eventually move higher, we feel that most of the current move is priced in and quality growth stocks should be well positioned for the remainder of 2022 and beyond. Growth stocks have staged an impressive rally over the summer with rate stability.
	Value			United maintains a value stock overweight to protect portfolios from unknown risks. The companies held in our value-based Large Cap Dividend Strategy maintain sterling balance sheets and are clearly preferred by experienced and disciplined investors. We continue to believe select value companies will exceed expectations and lower portfolio risk.
Region	**United States**			We see the continued potential for better performance in the U.S. stock market during the remainder of 2022 and into 2023. Investors are adjusting to this new normal as they have done in prior tightening cycles. The Fed will continue their fight on inflation by raising short rates. Some economic contraction has begun and more is almost inevitable. But they are unlikely to raise rates so fervently as to eliminate growth capability. The U.S. remains both a place of opportunity and refuge. Strong earnings are likely to set additional records. We believe the U.S. will play the lead role in moving forward. We remain overweight.
	Developed International			Developed countries around the world faced economic concerns since the start of the COVID pandemic. Though most of the world transitioned to a sustainable recovery, countries have been challenged by geographic proximity to the Russian conflict and a limited supply of goods and energy alternatives. Therefore, the economic path has become, and remains, more compromised and less certain. We maintain our baseline weight to developed country equities.
	Emerging Markets			The full impact of the pandemic still lingers in much of the EM. Though we believe in EM over the long term, government intervention often creates more obstacles than benefits. Investor sentiment can quickly change in this segment and has been affected by the higher degree of uncertainty in today's world. The new composition of the EM (ex-Russia) could present opportunity. EM may present a potential better opportunity then developed markets.

FIXED INCOME

Limit Rate Sensitivity with Intermediate Focus

Though the Fed has increased the overnight Fed Funds rate by 225 basis points this year, it is clear more rate increases will be implemented in their attempt to stem inflation. However, we are seeing some degree of success in lowering inflation expectations. The 10-year Treasury rate has declined by 40 basis points since its June peak. Though short-term rates have continued to trend higher, they are doing so in direct unison with Fed expectations - not necessarily from external price pressures. Oil, gasoline and agricultural commodity prices in general have been falling. While complete solutions have yet to appear, fixed income investors are suggesting inflation threats are being reduced, allowing relief on the long end of the yield curve. Should more certainty arise related to global inflation fears, we would expect continued relief in both the fixed income and equity markets. In our view, compensation for longer-maturity bonds remains unattractive, as rates will likely move modestly higher from current levels over the intermediate term. We continue to suggest a blend of high-quality short-to-intermediate bonds in all fixed income portfolios. Though the economy has experienced higher inflation than normal, companies and municipalities have continued to perform well across the quality and size spectrum. High yield bonds issued by stable but growing entities continue to be a productive use of fixed income capital. We do not expect the heightened probability of a recession will impact default risks at this point. We remain committed to a modest high yield position in both corporate and municipal bonds. Though inflation pressures appear to be lessening, so long as the Russian conflict exists, some inflationary fears will remain. Thus, we continue to promote inflation protection in fixed income portfolios via a position in Treasury Inflation Protected Securities (TIPS).

We favor municipal bonds for tax-sensitive accounts. Infrastructure spending, strong state revenues and the potential for higher personal tax rates provide support to municipal markets.

		Low Medium High	Rationale
Positioning	Credit Quality		Credit spreads have recently widened and are more aligned with historical averages.
		Short Int. Long	
	Duration		Concerns over rising interest rates/inflation remain viable with the prospect of a return to normalized economic growth with reduced government stimulus.

COMMODITIES

Our precious metals view remains neutral. Gold saw a pronounced increase in the early stages of the Russian conflict and then gave back all of its gains by July. Gold prices have recently risen due to dollar weakness. Broad baskets of commodities which had also increased in price for several months post-invasion have recently stabilized and shown a negative bias. Commodity indexes are down 10-15% from their highs.

The global demand for goods and services improved over the last 18 months with the world distancing itself from Covid. In 2022, the Russian conflict has dramatically impacted price stability. Much like other commodities, oil has recently reversed course and is trading substantially below its post invasion highs. WTI is currently trading just under $90 a barrel, down almost 30% or more from Q1. We expect future price movement will be directly tied to developments stemming from the war and potential changes in global economic growth.

CONCLUSION

Over the past few months, while short term rates have increased as expected, long term interest rates have stabilized and are considerably lower than their June peak. This reversal tends to indicate that the worst of inflationary threats may finally be behind us. Though the Fed will further increase short-term rates, investors have reacted by affirming a more certain outcome, recognizing the value brought on by the correction and buying quality equities. We feel this new course will remain in effect unless additional unknown events transpire. While volatility will arise from time to time, the second half of 2022 appears decidedly more productive .

Disclosures

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