OUR THOUGHTS

As spring approaches, the green shoots are harder to see at the moment. Clouded by Russian aggression, democracy is under attack, global laws have been breached, and innocent lives are tragically being lost. There is not a single country or citizen that is unaffected by this conflict. While we truly hope this unwarranted action is peacefully and quickly resolved, we remain focused on economic fundamentals and the potential consequences that may impact investor behavior.

A moderate, if not radical, geopolitical change with military intervention typically creates some level of pronounced uncertainty at the onset. But, if past experiences are a guide, once the initial shock, sadness, outrage, and pessimism abate, investors return to an analysis of economic fundamentals. Though initial thoughts to reduce risk are understandable, history shows selling due to fear, without compelling economic criteria, is usually an ill-advised action. As difficult as it may be to see the green shoots through the pain and anger of war, these periods often present attractive financial opportunities for many investors.

Stocks have historically proven to be resilient despite major geopolitical events. We see no reason why an exception to this trend will occur even under current global conditions, even though the wait will be uncomfortable. Over the past 70 years, only three major geopolitical events took the S&P 500 Index more than nine weeks to recover its post-event losses: 1) Pearl Harbor (307 days), 2) the breakout of the Korean War (82 days), and 3) Iraq's invasion of Kuwait (189 days, when the U.S. economy was already in recession in 1990). None of these events seems comparable to the Ukraine conflict, although we are mindful that escalation is possible. Looking at all major geopolitical events since World War II, the average post-event loss for the stock market has been just 5%, with an average recovery time of less than seven weeks. The U.S. economy's track record of resilience and corporate America's ability to adapt are unparalleled.

However, the war in Eastern Europe will carry some, albeit modest, economic cost for the United States. U.S.-Russia trade is minimal. Our banks hold a negligible amount of Russian assets. We use very little Russian oil although higher global energy prices will clearly be felt by U.S. consumers. This conflict will also likely prolong inflationary pressures. But these concerns should not be enough to dramatically curtail U.S. consumer spending, especially as COVID-19 restrictions are eliminated. Europe will feel a greater impact and cost as the continent has a more significant reliance on Russian energy. As we have suggested for some time, the U.S. continues to present a more favorable investment landscape.

While it's impossible to know how this conflict will evolve, our positive outlook for the U.S. economy and corporate profits remains intact. Stocks have become more attractively valued following the recent correction. Interest rates remain low and the Federal Reserve is now less likely to implement aggressive rate increases due to these global concerns.

We understand that coping with tragic world events and witnessing human suffering may influence one's perception and color one's decisions. Please contact us with any concerns. As always, we want to provide you with our best thinking and continued counsel.

Sincerely,
Your United Wealth Management Team

MARKET INSIGHT MONTHLY

March Update

MONTHLY COMMENTARY

UNITED BANK Wealth Management

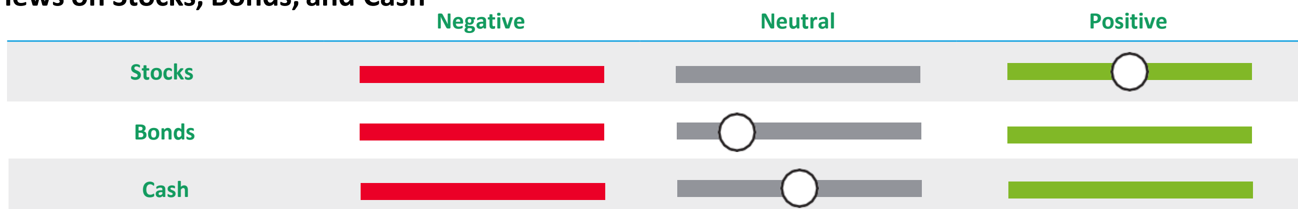
The first several months of 2022 have served to remind investors that portfolio risk comes in many forms. Though domestic economic momentum remains decidedly positive, investors have had to digest sequential threats. The very first week of the year brought news from the Federal Reserve that additional rate increases would likely be enacted to stem stubbornly high inflation levels. Once the financial markets digested this potential obstacle, the Russian invasion of Ukraine threatened global security and economic well-being. NATO members were on higher alert as the potential for military conflict escalated to levels not seen since World War II. Despite the tenacious nature of the COVID-19 virus, the pandemic impact almost seems like a distant memory as new obstacles emerge. Valuations for the S&P 500 have not looked this attractive in more than four years. Long-term U.S. economic fundamentals remain very positive. Obstacles remain a constant, but history suggests that markets will overcome this threat.

INVESTMENT TAKEAWAYS

- Despite early year volatility and modestly higher interest rates, we continue to overweight equities within our total asset allocation. We favor stocks relative to bonds based on our expectation that strong economic fundamentals remain in place. Though the chances of a recession have increased, there is currently insufficient evidence to alter our positive outlook. We still feel 2022 corporate earning will be higher than those generated in 2021.
- We favor a combination of large cap value and growth stocks. Our value bias better protects portfolios during volatile periods as is currently being experienced. Companies with strong balance sheets often pay higher dividends and are preferred during less certain environments. Growth stocks typically generate strong earnings and revenues. While subject to somewhat higher volatility, they can perform extremely well during an economic expansion.
- Our positive view of mid and small cap stocks is supported by historical evidence from prior recoveries. Our analysis shows that the current mid-cycle economic position should prompt investors to remain favorably allocated to both segments. Though valuations are in line with historical averages, mid and small companies are generally subject to higher volatility than large-cap stocks.
- Cyclical stocks relative to defensive stocks established leadership across the globe during much of the recovery. Much like the U.S., rising global interest rates and inflation will, from time to time, negatively impact investor sentiment. 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 evidence suggesting a higher allocation is warranted. We removed our slight tactical EM overweight.
- We continue to underweight our allocation to fixed income. Rates have recently moved appreciably higher over the last several months, which has negatively affected fixed income. We expect rates will move modestly higher from here. We believe much of the anticipated rate increase has already been seen.
- We favor a blend of short to intermediate bonds with an emphasis on high credit quality.

BROAD ASSET CLASS VIEWS

Views on Stocks, Bonds, and Cash



EQUITY ASSET CLASSES

The factors that influence our decision to overweight equities remain in effect. We continue to favor stocks relative to bonds. There is a general perception that all interest rate increases result in poor equity performance. But this is not the case. Evidence suggests that early-stage interest rate increases (from low real and nominal levels) has little effect on equity prices. In fact, an upward bias in the cost of money reveals generally strong demand which propels economic growth. This leads to earnings growth. The record setting domestic earnings of 2021 will carry forward into 2022. We see little evidence suggesting earnings growth will be curtailed, although the rate of earnings growth will be well less than last year. Our U.S. equity preference has proven to be both prudent and profitable. We continue to favor the U.S. We continue to monitor political/economic activities in both Russia and China as authorities in both countries engage in activities contrary to worldwide economic stability.

	Sector	Overall View	Relative Trend	Rationale
Market Capitalization	Large Caps			U.S. large cap stocks have been the most predictable and reliable equity segment for the last several years. The record setting earnings generated in 2021 influenced investors to continue holding and buying large-cap cyclical value and earnings-driven growth stocks. We remain well positioned in this segment and believe investors will be rewarded by holding quality names.
	Mid Caps			Mid-cap companies have grown dramatically with economic expansion. Despite some recent short-term volatility due to interest rate increases, mid-cap valuations remain attractive as strong earnings continue to be reported.
	Small Caps			The U.S. small cap sector was among the strongest performers of 2021. Continued economic expansion and strong earnings generated increased investor demand despite recent short-term volatility. Valuations remain attractive based on strong earnings growth prospects through 2022. We remain overweight small caps.
Style	Growth			We believe selected large cap growth stocks will continue to garner investor support from strong current and future earnings and revenue expectations. We are mindful that growth equities may be somewhat restricted by inflation and higher interest rates. But we do not feel rates will move high enough to be a long-term obstacle.
	Value			We expect most domestic cyclical value stocks to outperform defensive value stocks as the economy expands. Value stocks have lagged their growth counterparts for over a decade. We believe a reversion to the mean began in late 2020 with both mid and small-cap companies experiencing this transition more rapidly.
Region	United States			We see the potential for more gains in the U.S. stock market during 2022. Though modestly higher interest rates have already occurred, strong earnings are likely to be reported as the economy moves forward with momentum. There is no doubt that the Russian military action has created anxiety and volatility. The world has become less certain. U.S. assets are a refuge in times of distress. We expect this to remain in place until a clear position is known. U.S. stocks are our dominant position in equity portfolios.
	Developed International			Developed countries around the world have faced economic concerns since the start of the COVID pandemic. Though most of the world is now in a sustainable recovery, investors have been recently challenged by geographic proximity to conflict. Therefore, an encouraging economic path has become more compromised. We maintain our baseline weight to developed country equities.
	Emerging Markets			Chinese government intervention and continued EM pandemic health concerns cast a shadow over EM in 2021. Early in 2022, Russian aggression has resulted in de-listing Russia from EM benchmarks. Though we believe in EM over the long term, self-inflicted obstacles have weighed on investor sentiment to this segment. We have reduced our slight tactical overweight and are now neutral.

FIXED INCOME

Limit Rate Sensitivity with Intermediate Focus

The 10-year Treasury yield now stands at just over 2%. The recent turmoil in eastern Europe has made the U.S. dollar and U.S. government bonds a safe haven in a volatile world. However, depending on the exact day and the exact news, Treasury yields have been subject to unusually large swings. Had the Russian invasion not occurred, the yield path had been modestly higher on the long end of the curve and substantially higher on the shorter end reflecting the Fed's direct influence on that segment. For several months the Federal Reserve has unambiguously stated they intended to aggressively fight inflation going forward. We have stated for some time that the 10-Year Treasury rate would eventually rise and find stability between 1.75%—2.00%. We are now at or slightly exceed that level. Fixed income investors have responded rather quickly to Fed statements and decisively moved both short and long rates higher. In the absence of additional factors, it had been hoped this action would stem growth expectations and lessen inflationary concerns. The events in Ukraine have generated additional inflationary fears which may prolong relatively high inflation and delay rate stability. In our view, compensation for longer-maturity bonds remains unattractive as rates will likely move modestly, but not substantially higher from current levels. We continue to suggest a blend of high-quality short-to-intermediate bonds in all fixed income portfolios.

The continued economic expansion allows for high yield bonds issued by stable but growing companies to be a productive use of fixed income capital. We remain committed to a modest high yield position in both corporate and municipal bonds. As previously stated, inflation primarily rose in 2021 due to an expanding global economy, but one in which access to goods were compromised due to many COVID related supply chain shortages. Though this dilemma had not been completely solved, several factors appeared to suggest the worst was behind us. Unfortunately, the Russian conflict has introduced additional inflationary fears. 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.

Positioning		Low / Medium / High	Rationale
	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

Although our precious metals view remains neutral, we cannot deny that prices have seen a pronounced increase. Gold continues to hold the perception by some that it both serves as a hedge against inflation and uncertainty. The recent price increase to over $2050 an ounce was exclusively attributed to the uncertainty created by the Russia/ Ukraine conflict. Should diplomatic channels prevail, we would expect precious metals and oil to decline.

The global demand for goods and services has clearly improved over the last 18 months. Energy prices started to rise in late 2020 and continued moving higher for much of 2021 due to relatively low supply. After a slight pullback late in 2021, West Texas Intermediate Oil has once again risen to multi-year highs. Much like gold, oil has recently risen as a direct consequence of the Russian conflict. Should the threat abate, prices are unlikely to remain this elevated.

CONCLUSION

In most respects, a full economic recovery has been obtained. The Fed would not be reducing financial support and contemplating rate increases should significant economic peril be anticipated. The Russian military conflict has clearly heightened anxiety and is exacerbating already high inflationary conditions. However, the U.S. government, consumer and corporate world have been steadfast in their resolve to move forward.

As we examine market and economic risks, we understand that even well-constructed portfolios are not immune from short-term fluctuation. But over time, diverse portfolios created to withstand occasional uncertainty ultimately benefit from global economic expansion.

Disclosures

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual security. To determine which investment(s) may be appropriate for you, consult your financial advisor prior to investing.

All performance referenced is historical and is no guarantee of future results. All indexes are unmanaged and cannot be invested into directly. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment.

Economic forecasts set forth may not develop as predicted.

Investing involves risks including possible loss of principal. No investment strategy or risk management technique can guarantee return or eliminate risk in all market environments. Research material was sourced through LPL Financial, LLC.