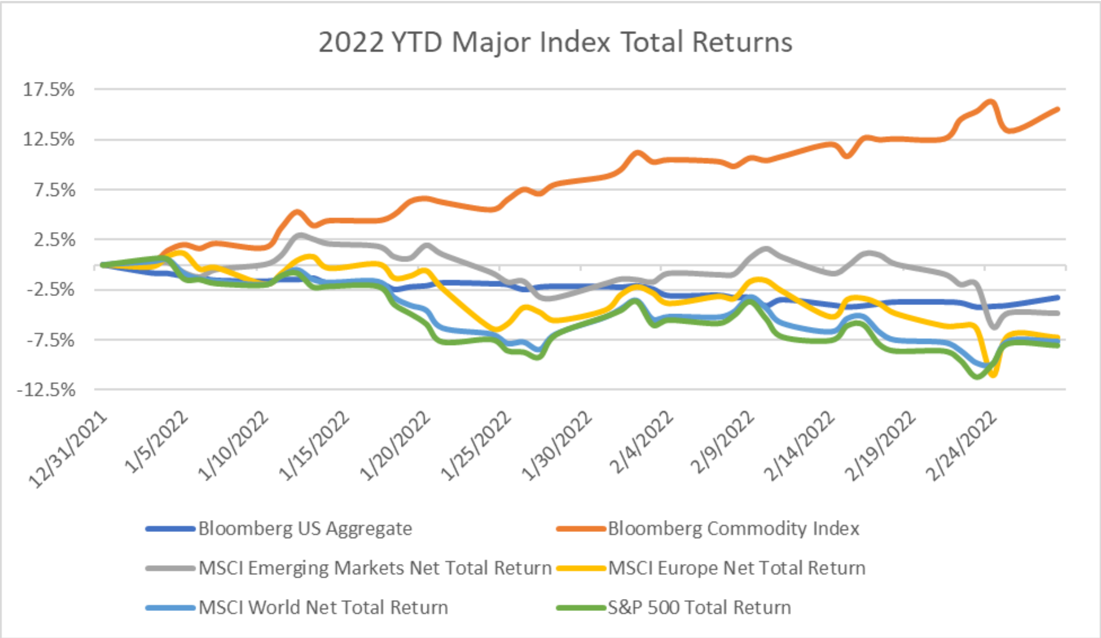
ENCORE INVESTMENT ADVISORS

FEBRUARY 2022 MARKET REVIEW

Market Recap: During February, global equities fell 2.5%, while US bonds fell over 1.1%, as measured by the MSCI World and Bloomberg US Aggregate indices. Macroeconomics and geopolitics came together to drive higher market volatility over the latter half of the month. Increasing global interest rates hurt both stocks and bonds, but the major story during February was clearly the ongoing military conflict between Russia and Ukraine. This conflict, and the resulting economic and social sanctions, has the potential to alter the geopolitical landscape for years to come, while increasing investor apprehension in the near term. We strive to remain apolitical in philosophy while acknowledging the impact that geopolitics have on markets, and we strive to manage for and protect against market tail-risks. We have spoken with several geopolitical strategists over the past 6 months who have anticipated a conflict between Russia and Ukraine, but the timing and magnitude of the conflict were uncertain, making it difficult to position for the ensuing market reaction. Complicating matters, Russia only comprises approximately 3% of global GDP but is a major global force due to its massive military budget and commodity production; Russia supplies approximately 10% of global crude oil consumption, 40% of the EU's natural gas imports, and is an important player in the agricultural commodity landscape.

One ramification of this conflict has been a pullback in the Euro Area's recent equity outperformance, relative to the S&P 500. Thus far in 2022, European equities have performed well on a relative basis, however the gap between Europe and US stocks has unsurprisingly narrowed over the past several weeks. We fully expect higher volatility across all markets, especially those markets closer in geographic and trading proximity to Russia and Ukraine until the hostility ceases. Markets seem to be reacting in real time, with daily wild reversals in an environment similar to that of the early Covid crisis.

How does this impact our perspective? The risks to portfolios are the increasing probability of a European recession stemming from the Russia/Ukraine conflict and coinciding spike in commodity prices, as well as central bank policy errors. Our 2022 thesis has been predicated on stronger global growth than prior cycles and moderating, but still elevated, levels of inflation which play out in a way that will benefit both value-based sectors relative to growth sectors, and international markets relative to US markets. We are reducing our conviction of further European outperformance, as this conflict will negatively impact companies with any exposure to Russia and Ukraine, not to mention the possibility of counter-party risk within the European banking industry. We have not made any material changes to client portfolios over the past several weeks. One minor change we did make was adding in a small position in longer duration fixed income, as this is proven to perform well in a risk-off environment where interest rates fall. Earlier in the year we also introduced an allocation to the US Aerospace & Defense sector which has performed well so far, and which we continue to advocate for.



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