TFC FINANCIAL
The Financial Counselors

COMMENTARY | 1Q 2022
April 2022

OUR VIEW

Global equities, as represented by the MSCI All Country World Index, fell 5.36% during the quarter.

First Quarter Review

The war and humanitarian tragedy in Ukraine was the dominant event during the first quarter. However, the war was far from the only market-moving development during the quarter: Inflation reached four-decade highs, the Federal Reserve raised rates for the first time since 2018, and China's zero-Covid policy was put to the test by rapidly rising case counts.

Global equities, as represented by the MSCI All Country World Index, fell 5.36% during the quarter. The S&P 500 Index lost 4.6%, outperforming relative to non-U.S. stocks amidst concerns that the fragile economic recovery in Europe would falter because of the war and resultant western sanctions against Russia. U.S. small company stocks lost 7.53%, continuing the slide that began the latter part of last year. Developed international stocks, as measured by the MSCI EAFE Index, fell by 5.91%. Emerging markets stocks fell sharply after Russia's invasion of Ukraine, losing 6.97%. Equity investments in Russia were revalued close to zero in response to sanctions and the elimination of Russian stocks from many emerging markets indexes.

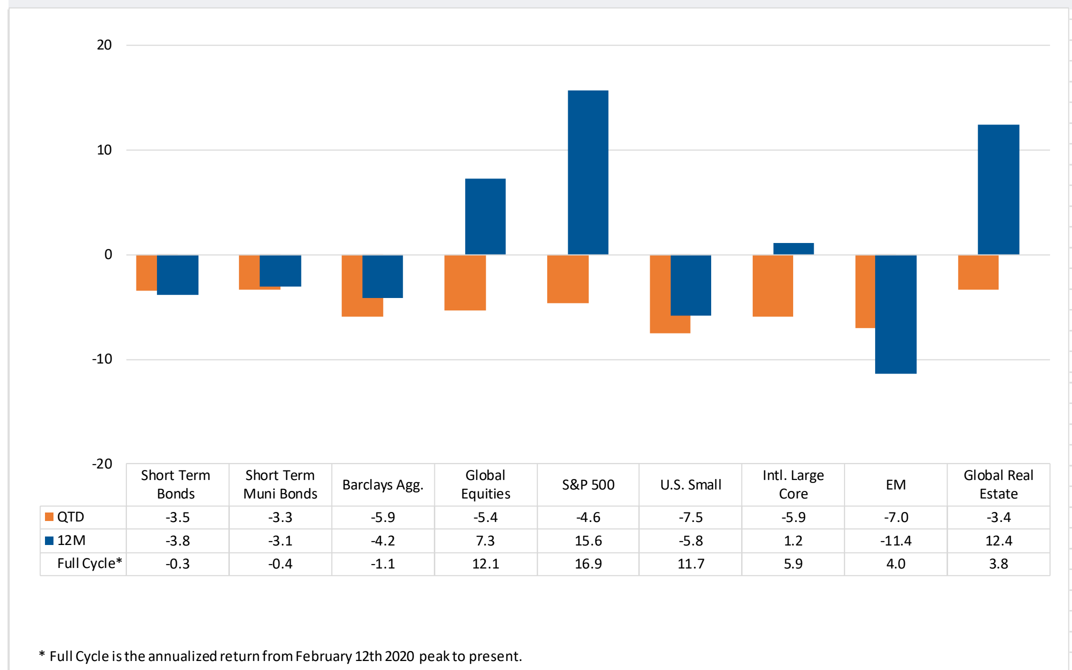
Value stocks were relative outperformers, helped by economic reopening and the surge in commodity prices. The Russell 1000 value index fell by less than 1%, in stark contrast to the loss of more than 9% for the Russell 1000 Growth Index. Many companies with promising long-term business prospects, but little or no near-term profits suffered steep corrections because of rising interest rates. Many "pandemic winners" also declined because of a slowdown of the turbocharged growth experienced during the height of the pandemic.

In S&P 500 sector terms, energy stocks gained more than 39% for the quarter; the utilities sector was the only other sector with a positive return for the quarter. Communications services, consumer discretionary and technology sectors were the worst performers during the quarter.

The bond market was equally challenging during the quarter, as interest rates rose sharply in anticipation of more restrictive Fed policy. The Bloomberg Barclays Aggregate Index lost 5.93%, the Bloomberg Municipal Index fell by 6.23%, and the shorter-duration Bloomberg 1-5 year Government/ Credit Index fell 3.45%.

Commodities boomed in response to supply constraints exacerbated by Russia's invasion of Ukraine. Natural gas gained 58%, Nickel 56%, and West Texas Intermediate Crude Oil 38%.

TFC client portfolios fell in absolute terms along with market indexes and were slightly behind client benchmarks during the quarter. TFC's value holdings were bright spots, as were real estate holdings. Many of the growth holdings that were big gainers during the height of the pandemic gave back prior profits in the first quarter.



	Short Term Bonds	Short Term Muni Bonds	Barclays Agg.	Global Equities	S&P 500	U.S. Small	Intl. Large Core	EM	Global Real Estate
QTD	-3.5	-3.3	-5.9	-5.4	-4.6	-7.5	-5.9	-7.0	-3.4
12M	-3.8	-3.1	-4.2	7.3	15.6	-5.8	1.2	-11.4	12.4
Full Cycle*	-0.3	-0.4	-1.1	12.1	16.9	11.7	5.9	4.0	3.8

* Full Cycle is the annualized return from February 12th 2020 peak to present.

Market Outlook

The near-term market outlook is among the most uncertain in recent memory.

The near-term market outlook is among the most uncertain in recent memory. The title of a recent presentation by BlackRock's Rick Rieder resonated with us: "Investing while the list of questions dwarfs the answers." There are four questions we think will have significant influence on investment performance for the remainder of 2022:

1. **What is the path of war in Ukraine?** We think the most likely scenario is some form of frozen conflict between Russia and Ukraine, worsening the humanitarian crisis and extending the economic uncertainty created by the conflict. Under this scenario, energy prices would stay stubbornly high absent a major supply boost from elsewhere in the world or a substantial downturn in demand. Food and material prices would also remain a problematic source of inflation for many countries. Unfortunately, although geopolitical events typically have not had a lasting impact on markets, this time is probably different. For example, the "peace dividend" that has

Wage growth may also slow if there is a continuation of the recent improvement in labor participation that narrows the gap between jobs available and those actively seeking work.

boosted equity market valuations in recent decades is likely to be unwound as geopolitical risk and defense spending rises.

2. What is the "new normal" for inflation? There may be better news about inflation. Although the war will contribute to inflation remaining stickier than previously anticipated, inflation should come down to more manageable levels over the next 12 months. Several factors that boosted inflation should start to reverse. Vehicle prices represent nearly 12% of the core consumer price index (CPI). New vehicle prices have risen 14% since the start of the pandemic, while used prices rose more than 50% as rental firms rebuilt their inventory. With the shortage of new and used car inventory easing, vehicle inflation should slow and could even turn negative. Wage growth may also slow if there is a continuation of the recent improvement in labor participation that narrows the gap between jobs available and those actively seeking work. Although inflation will likely remain about pre-pandemic levels, we expect the Fed to declare "victory" when inflation gets to 3%.

3. Will the Fed commit a policy error? Investors are concerned that in the haste to correct overly expansionary monetary policy the Fed will overcorrect and cause a recession. However, the most troubling aspects of today's inflation are supply side challenges largely beyond the Fed's control. The Fed can't replace the oil and gas supplied by Russia, provide wheat and fertilizer to feed the world, or unclog supply chains. Some of the inflation we're seeing is a function of the composition of demand rather than the aggregate level of demand, which is an important distinction. The Fed's recent rate hike and policy signals communicate a commitment to fighting inflation, but the central bank has left itself room to slow the pace of rate hikes and balance sheet reduction if growth slows and unemployment rises. We think the Fed's plans to tighten monetary policy are appropriate but are optimistic about the central bank's willingness to be flexible if there is a growth scare or healing of inflationary pressures.

4. How does China balance their need for growth with a mounting Covid crisis and continuing economic imbalances? Later this year, the Chinese Communist Party (CCP) will hold its 20th National Party Congress. Chinese President Xi Jinping faces a variety of challenges as he seeks a third five-year term as party leader. It appears likely that China will increase fiscal and monetary stimulus to meet ambitious growth targets, though we expect stimulus to fall far short of prior stimulus levels. China's zero-Covid policy is an obstacle to achieving growth targets, and with social unrest about lockdowns seemingly rising, there may be some softening of the zero-Covid policy before the Party Congress. Given the high degree of policy uncertainty and opaque nature of the regulatory agenda in China, the "fog of uncertainty" remains high.

We think the risk of a U.S. recession in 2022 remains low.

We think the risk of a U.S. recession in 2022 remains low. Household and corporate balance sheets are strong, households accumulated savings during the pandemic, and labor markets are tight. TS Lombard's Steve Blitz has observed that no recession has started with negative real interest rates; real rates are still in negative territory. Also, as J.P. Morgan's Michael Cembalest points out: "there has never been a recession without a large spike in jobless claims. The recent inversion of the yield curve drew a lot of attention, though the 2-10 year curve is no longer inverted. There is typically a long lag between inversion and recession. We think slower growth and stickier inflation is far more likely a scenario for the U.S. this year than a recession or outbreak of stagflation. However, the risk of recession outside the U.S. is higher than was the case before the invasion of Ukraine.

Portfolio Positioning

We expect equities to rebound from current levels, though there remains downside risk until some of the fog of uncertainty clears. Economic and earnings growth should continue to exceed pre-pandemic levels, though rising wages and interest rates will pressure corporate profit margins and valuation multiples. Valuations in the U.S. remain above long-term averages but have corrected meaningfully. In addition, valuations are much higher for the ten highest weighted stocks in the S&P 500 Index than for the remaining 490 stocks.

TFC FINANCIAL
The Financial Counselors

	Current	Average	% of avg.
Top 10	30.7x	19.9x	154%
Remaining stocks	16.6x	15.7x	106%
S&P 500	19.5x	16.4x	119%

Source: JPMorgan. 3/31/2022

With uncertainty at extreme levels and the wide range of potential answers to the questions posed in this letter it is important to balance the need for capital appreciation with the need for capital preservation.

TFC is currently positioned in line with long-term strategic targets. With uncertainty at extreme levels and the wide range of potential answers to the questions posed in this letter it is important to balance the need for capital appreciation with the need for capital preservation. Within the portfolio, there are some positioning thoughts worth emphasizing:

• Shorter-term bonds offer more value today than has been the case in recent years. 2-year Treasury Notes yield nearly 2.5% today, a year ago the yield was less than .25%. Shorter-term corporate and municipal bonds have seen similar trajectories over the past 12 months. Interest rates could go up further, eroding the value of short-term bonds, but we are more optimistic about the outlook for this segment of the portfolio than was the case at the start of the year.

• The market correction in growth and innovation-focused holdings, particularly in small company growth, has been somewhat indiscriminate. There are opportunities

International and emerging markets equities are trading at lower valuations relative to the U.S. that we've seen in decades, however, without clarity on the path forward in Ukraine and China, international and emerging markets stocks could continue to stay cheap.

in stocks that have sold off in response to rising interest rates, but until the interest rate and growth picture is more clear growth stocks will be volatile.

• Value holdings remain an important component in a diversified portfolio, particularly those that benefit from economic reopening and spending on climate change and defense.

• International and emerging markets equities are trading at lower valuations relative to the U.S. that we've seen in decades, however, without clarity on the path forward in Ukraine and China, international and emerging markets stocks could continue to stay cheap. Catalysts for a closing of the valuation gap could come if fiscal and monetary policy work together in Europe and/or if China finds a successful path away from the zero-Covid policy.

• Given our expectations that inflation will come down from current levels but ultimately remain above pre-pandemic levels, the TFC investment team is completing research into investments that provide some protection against long-term inflation trends.

As always, we welcome your comments and questions.

Sincerely,

Daniel S. Kern, CFA, CFP®
Chief Investment Officer

Renée Kwok, CFP®
President & CEO

TFC Financial Management, Inc.
260 Franklin Street, Suite 1888, Boston, MA 02110
p 617.210.6700 | f 617.210.6750 | www.tfcfinancial.com

Disclaimers:

1. This commentary may include forward-looking statements. All statements other than statements of historical fact are forward-looking statements (including words such as "believe," "estimate," "anticipate," "may," "will," "should," and "expect"). Although we believe that the expectations reflected in such forward-looking statements are reasonable, we can give no assurance that such expectations will prove to be correct. Various factors could cause actual results or performance to differ materially from those discussed in such forward-looking statements.
2. Past performance is not indicative of any specific investment or future results. Views regarding the economy, securities markets or other specialized areas, like all predictors of future events, cannot be guaranteed to be accurate and may result in economic loss to the investor.
3. This commentary is intended to provide general information only and should not be construed as an offer of specifically tailored individualized advice.
4. Any information provided regarding historical market performance is for illustrative and education purposes only. Clients or prospective clients should not assume that their performance will equal or exceed historical market results and/or averages.
5. While we believe the outside data sources cited to be credible, we have not independently verified the correctness of any of these inputs or calculations and, therefore, cannot warranty the accuracy of any third-party sources or information.

6. Specific securities identified and described do not represent all of the securities purchased, sold, or recommended for advisory clients, and the reader should not assume that investments in the securities identified and discussed were or will be profitable.
7. Investment process, strategies, philosophies and allocations are subject to change without prior notice.
8. Adviser has selected the stated benchmarks to allow the comparison of a client's performance to that of well-known indices. The benchmarks are shown for comparative purposes and to establish current market conditions. Clients cannot invest directly into an index. Clients should be aware that the referenced benchmark funds may have a different security composition, volatility, risk, investment objective and philosophy, diversification, and/or other investment-related factors that may affect the benchmark funds' ultimate performance results. Additionally, referenced indices may not include fees, transaction costs or reinvestment of income. Therefore, the Adviser's composite and investor's individual results may vary significantly from the benchmark's performance. Benchmarks used by Adviser are current as of the date indicated and may change without notice.
9. Registration with the SEC should not be construed as an endorsement or an indicator of investment skill, acumen or experience.

TFC FINANCIAL
The Financial Counselors

Notice of Availability of Updated Form ADV Part 2A Brochure, Form ADV Part 2B Brochure Supplement and Form CRS

As an SEC-registered investment adviser, we are required to update annually in the first quarter of each calendar year our Form ADV, which includes our Form ADV Part 2A Brochure, Form ADV Part 2B Brochure Supplement and Form CRS (Client Relationship Summary). If, in connection with our annual update, we make material changes to our Brochure, Brochure Supplement or Form CRS since the date of our last annual update, we are required to provide (or offer to provide) our clients with copies of them.

In connection with the just completed annual update of our Form ADV, there were no material changes to our Brochure, Brochure Supplement or Form CRS.

By this notice, we are offering to provide you a copy of our Brochure, Brochure Supplement and Form CRS. You may obtain copies by sending an email to Constance Wyllie, Chief Compliance Officer and VP of Client Service & Operations, at cwyllie@tfcfinancial.com, or by calling Ms. Wyllie at 617-210-6700.

You can also find our Brochure, Brochure Supplement and Form CRS, as well as other information about us, through the SEC's Investment Adviser Public Disclosure (IAPD) portal: www.adviserinfo.sec.gov. You can search this site by a unique identifying number, known as a CRD number. Our firm CRD number is 105062.

Please do not hesitate to call us if you have any questions.

Notice dated March 9, 2022