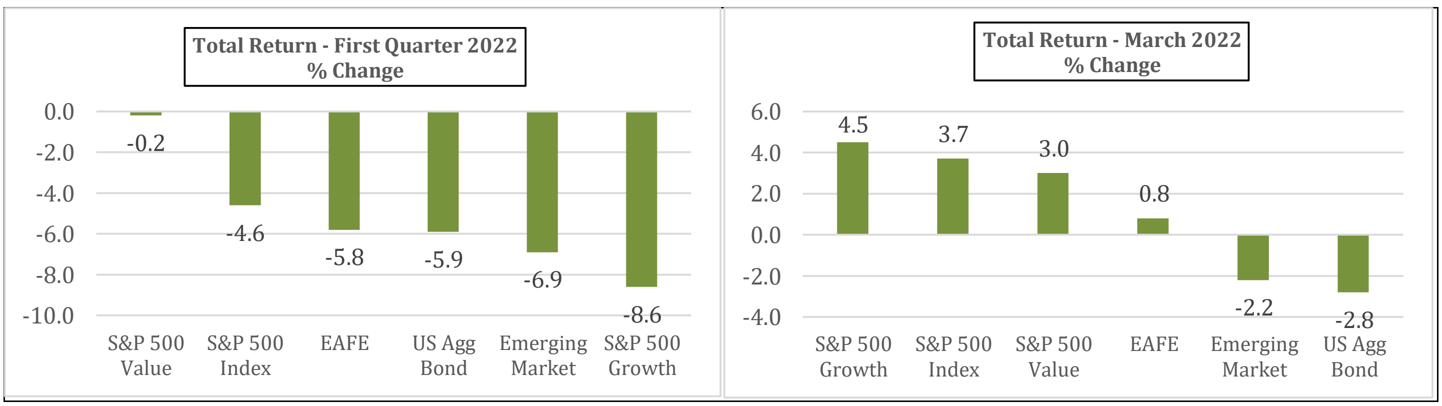
Asset Strategies, Inc.

Dear clients and friends, April 2022

After a strong rebound in stocks post the pandemic lockdown in 2020, and consistently strong equity returns in 2021, the first quarter of 2022 painted a very different picture. As you can see in Figure 1, the S&P 500 Index declined 4.6% in the first quarter, on a total return basis. The decline was led by growth stocks, which suffered as rising rates disproportionately impact valuations of growth stocks. By contrast, value stocks held up relatively well, down just 0.2% for the quarter. On a positive note, all the core United equity strategies beat their respective benchmarks in the first quarter, and our Value Plus and High Dividend mandates generated positive returns for the quarter!

Figure 1: Returns by Segment



Source: Standard & Poor's

As shown in the second chart in Figure 1, equity returns in March rebounded, with the S&P 500 Index up 3.7% for the month, led by growth stocks, which were up 4.5%. Value stocks continued to edge higher, up 3.0% for the month. Two asset classes that were down both for the quarter and for the month of March were emerging market stocks (United's strategies have minimal exposure to EM stocks) and bonds. To this last point, the diversified US Agg Bond index was down 2.8% in March and down 5.9% for the first quarter, as the bond market bore the brunt of the shift in Fed policy. While interest rates moved higher, credit spreads also widened, and Municipal bond funds experienced outflows, causing additional price pressures. It is fairly unusual for both stocks and bonds to decline simultaneously for an entire quarter. In fact, since 1976, there have been 185 quarters on record and only ten of those quarters have experienced declines in both asset classes. Encouragingly, in only four of those quarters have declines in both stocks and bonds persisted for the following quarter.

Climbing a Wall of Worries

Inflation & the Fed: Entering 2022, inflation was uncomfortably high as year-over-year CPI readings began coming in above 6%. While the Fed had viewed much of this as transitory, it signaled its intent to gradually remove monetary accommodation. As the first quarter progressed, inflation concerns not only persisted but were further compounded by the Russian invasion of Ukraine, which resulted in sharply higher commodity prices. This put additional pressure on inflation readings, as well as on the Fed to act more aggressively. In response, interest rates were hiked, and the Fed signaled that it planned to continue doing so throughout the year. Plans to unwind the balance sheet were also released. This resulted in sharply higher interest rates, as eight quarter-point rate hikes were priced in by investors.

There is a glimmer of hope that inflationary pressure may be peaking, as growth in the core CPI reading has decelerated, and there are some signs that bottlenecks that have contributed to inflation are trying to clear. It is notable that used car prices have started to decline. That being said, sanctions and disruptions related to Russia's ongoing war with Ukraine continue to pressure commodity prices, and the outcome in terms of timing and in ultimate impact are difficult to quantify.

Economic Recession: With inflation at historically high levels, actions taken by the Federal Reserve to cool the economy could lead to an economic recession. One area of concern is housing, which has been strong for the past few years as rates remained persistently low. More recently, however, the move-up in rates has impacted mortgage rates, as depicted in Figure 2 below. The move in the 30-year mortgage rate from sub-3% in 2021 to greater than 5% now is beginning to have an impact. For example, mortgage applications are down for five straight weeks, and the NAHB Housing Index has turned down recently. While housing demand trends warrant attention, the lack of housing inventory should help to soften the impact on pricing.

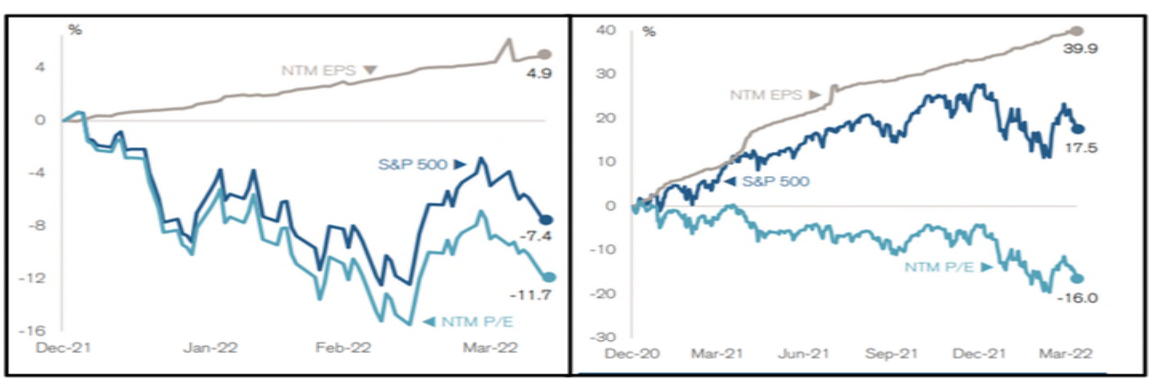
Figure 2: U.S. MBA 30-Year Mortgage Rate

Source: Trading Economics

While housing is a concern, there remains a solid underpinning to the economy from the labor market, as recessions typically don't occur during strong labor markets. In addition, some recent data have turned upward, including US Industrial Production and the NY Manufacturing Index. The Fed's goal in raising rates is to slow the economy to combat inflation, and we are watching this closely to determine whether the Fed will successfully orchestrate a soft landing.

Corporate Earnings & Valuation: After the significant earnings declines suffered by corporations during the lockdown and subsequent shutdowns in 2020, comparisons for 2021 were very easy, resulting in 2021 earnings growth that meaningfully exceeded long-term averages. Looking to 2022, while those comparisons get tougher, earnings are still forecasted to grow close to 9% for the year, driven primarily by solid revenue growth. Notably, this growth is expected to be back-end loaded, with the current 1Q22 earnings estimate around +5%. Importantly, analyst estimates for the next twelve months have moved higher this year. That earnings increase, coupled with the decline in the S&P 500 Index, has resulted in reduced valuations. This is evident is Figure 3 below, which shows that valuations have contracted both year to date and even more meaningfully since year-end 2020. For example, stocks have risen by 17.5% since year-end 2020, while next twelve-month earnings have increased by 39.9%, resulting in a 16% contraction in the price-to-earnings ratio for stocks. This contraction has taken some of the valuation premium out of stocks, moving closer to the moving averages.

Figure 3: Valuations Contracting



Source: Credit Suisse

Summary: After two years of strong returns, volatility has returned across most asset classes. Our active portfolio teams have gotten more defensive, which has dampened volatility for client portfolios and provided downside support. Please don't hesitate to reach out for additional details as to how United continues to help to navigate these more volatile waters.

Respectfully submitted by the Professional Staff at United Asset Strategies

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Strategy Review and Positioning – First Quarter 2022

FIXED INCOME UPDATE

Many of United's fixed income strategies entered the year with cash and floating-rate securities in anticipation of buying opportunities. To this end, we have taken the opportunity to invest a lot of this cash in municipal, corporate, agency and Treasury bonds at improved price points relative to 2021. While interest rates have been rising, and inflation readings are high, the following observations support our decision to add duration to bond portfolios: yields and spreads are higher, which offer investors more income and price appreciation potential; the Fed is working to combat inflation; the 10-2 Treasury yield curve recently inverted, with many past inversions coinciding with lows in bond prices; and the March CPI report showed a moderation in goods prices, pointing to a moderation in pandemic-related price pressures.

GROWTH & INCOME STRATEGY (GI)

Overview: Growth & Income (GI) is our most utilized strategy, primarily by clients seeking growth with income while minimizing risk. Individual stocks are used, with mutual funds strategies that mirror the GI strategy for smaller accounts.

Update: During the quarter, the team shifted exposure within defensive and cyclical sectors, added to gold, and reduced European exposure. These moves were done in an effort to best position the portfolio for inflation and the next leg of the reopening (to services vs. durables), while limiting exposure to the geopolitical tension in Ukraine. We ended the quarter with 7% in cash and 1.5% in gold.

HIGH DIVIDEND EQUITY & HIGH DIVIDEND PLUS STRATEGY (HDIV & HDIVPL)

Overview: This strategy is recommended for clients seeking a steady stream of income with a modest amount of trading activity. By seeking positions that are dividend growers, HDIV aims to beat the average yield of stocks within a given sector and to provide a hedge against rising interest rates. HDIVPL includes a 20% allocation to growth.

Update: In HDIV, the team took advantage of the market volatility by improving the quality and coverage of the portfolio while reducing the overweight to more volatile sectors. In HDIVPL, the team continued to add high-quality secular growth stocks, taking advantage of the volatility to add these high-quality stocks at a valuation discount.

VALUE PLUS EQUITY STRATEGY (VAPL)

Overview: This strategy is recommended for clients seeking a value-based equity strategy with a beta below that of the overall market. This strategy seeks to invest in mispriced stocks with attractive fundamentals in a diversified portfolio.

Update: The team executed a few in-sector swaps into stocks trading at more attractive valuations, while adding inflation protection through gold and a REIT position. Risk management: 2.0% cash, 3.0% hedge and 5.0% gold.

GROWTH PLUS EQUITY STRATEGY (GP)

Overview: This strategy is recommended for clients seeking a growth-based equity strategy with a beta above that of the overall market. Higher growth names across the various sectors are selected using a two-part screening process.

Update: During the quarter, the team reduced the underweight to Communication Services and Technology, using proceeds from reductions in Energy, Healthcare, REITs and small-cap growth. Risk management consists of 3.5% cash.

TACTICAL OPPORTUNITIES PLUS EQUITY STRATEGY (TOPS)

Overview: This strategy is recommended for clients seeking to take advantage of opportunities created by timely investing decisions from evolving trends and themes. The strategy seeks to combine growth with downside protection.

Update: During the quarter, the team increased Energy and Financials exposure, while decreasing weight to the Discretionary and REIT sectors. Additionally, the team increased the allocation to risk management to a current level of 1.5% cash and 3% gold.

ESG STRATEGY (ESG)

Overview: This strategy is recommended for clients seeking a values-based equity strategy that invests in companies that rank well on environmental, social and governance criteria, while being expected to generate attractive returns.

Update: The team sold a few positions that no longer met the ESG criteria and bought stocks in the same sectors that screened successfully in both the ESG and fundamental screens. Risk management: 5% cash, 2% hedge and 3% gold.

EXCHANGE-TRADED FUNDS STRATEGIES (ETF)

UDAA: This strategy utilizes artificial intelligence strategies designed to generate a risk-adjusted return exceeding a 60/40 equity/fixed income portfolio. At quarter end, the allocation consisted of 20% equities, 80% fixed income and 0% cash.

Momentum Plus®: This is a dynamic strategy that utilizes technical indicators, such as relative strength and momentum, to make sector selections. The team reduced exposure to Technology, Discretionary and REITs, while increasing the weight to Energy, Materials, and Financials and taking a position in a Canadian ETF. There is no cash or gold at present.

***Risk-Based ETF*:** This strategy seeks to identify relative value opportunities for investment. The team reduced equity exposure in large caps, small caps and REITs while adding to gold (5%) and a hedge (5%).