QUARTERLY MARKET REVIEW

FIRST QUARTER 2022

EXECUTIVE SUMMARY

2021 finished on a high note with the strongest annual GDP growth since 1984. Taking into account the Russian invasion of Ukraine, COVID-19 trends, and ongoing supply chain issues, consensus GDP forecasts for the first quarter of this year have been lowered to the 1.5% range. The global economic backdrop has materially changed in the wake of Russia's invasion of Ukraine with higher commodity and food prices, global financial repercussions from sanctions, and elevated levels of geopolitical risk. Slower global growth is likely as these issues persist.

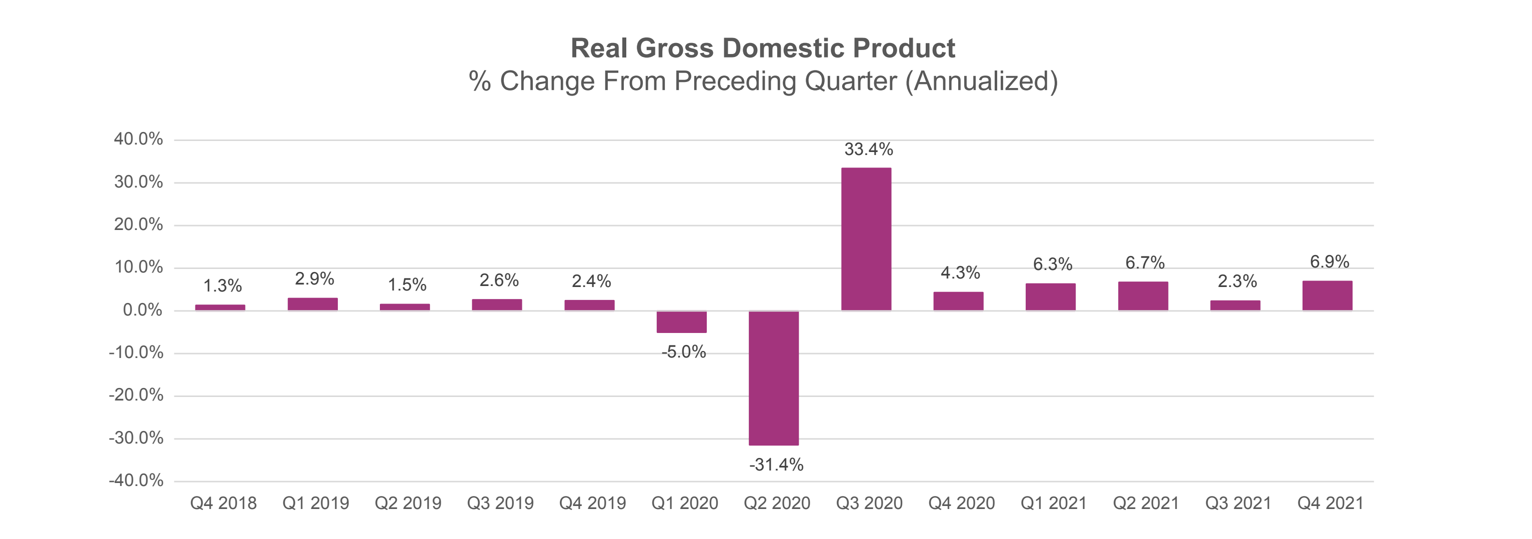
Both equity and fixed income markets encountered volatility in the first quarter of the year, as the previously mentioned headwinds caused investors to reduce risk. The Change to S&P 500® fell by -4.6%, rallying strongly in the last two weeks of the quarter to partially recover from a loss that was -12.5% year-to-date in early March. The aggregate bond market fell by -5.93% as surging bond yields drove negative returns.

ECONOMIC PROJECTIONS LOWERED

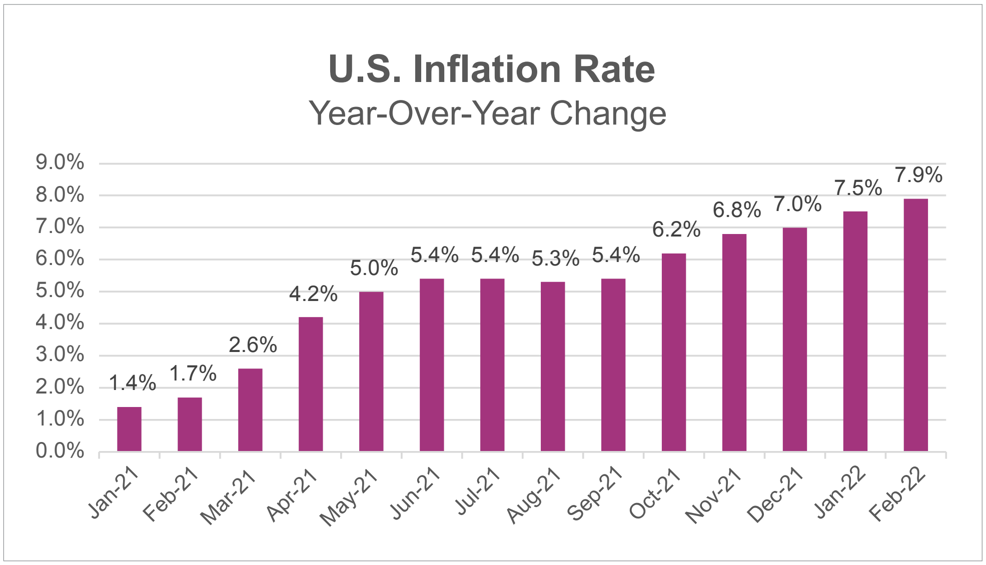
2021 ended on a strong note, with annualized growth of 7% in the final quarter of the year. Considering full-year growth in 2021, the economy advanced 5.7%, the most since 1984. The services sector led the increase in GDP for the year, up 6.6%. Goods-producing industries increased 5.1%, and the government sector rose by 1.5%. The acceleration in the fourth quarter was led by an increase in exports, as well as accelerations in inventory investment and consumer spending. COVID-19 continued to influence activity at year's end as the highly contagious Omicron variant spiked. Mounting absences among workers infected with COVID-19 slowed operations and stretched staffing levels thin for manufacturers. Companies also redoubled recruiting efforts to fortify workforces already strained by high turnover in a tight job market.

The most recent data suggests that GDP in the United States is still expanding, though at a slower pace. Trends have been positive in recent weeks as the impact of the Omicron variant has peaked. The domestic employment environment is in better shape than it was a year ago, although consumer confidence trends are mixed. Auto sales have recovered from pandemic lows and are growing again as the industry works to manage supply chain issues. Business activity is still expanding. While higher prices have cooled the market, many metrics remain positive. Taking into account the Russian invasion of Ukraine, COVID-19 trends, and ongoing supply chain issues, consensus GDP forecasts for the first quarter of this year have been lowered to the 1.5% range.

The global economic backdrop has materially changed in the wake of Russia's invasion of Ukraine. Beyond the suffering and humanitarian crisis, the entire global economy will feel the effects of slower growth and higher inflation. At this point, a wide range of outcomes is possible, depending on the duration of the conflict and potential for further escalation, as well as policy responses and their effectiveness. The military conflict and ensuing sanctions on Russia will have spillover effects on the rest of the world through three major channels: commodity and food price shocks at a time when inflation is already high and supply constraints remain a challenge globally; financial repercussions from sanctions, suspension of business activity in those countries, and financial market volatility; and additional security challenges in a scenario of an escalating or wider military conflict, or through Russian cyberattacks. Heightened security and geopolitical risks will exert economic costs and weigh on the economy by eroding investor sentiment. Neighboring economies will contend with disrupted trade, supply chains, and remittances as well as a historic surge in refugee flows. Global growth expanded at a rate of 5.9% in 2021. More recent forecasts for global growth have been reduced following the Russia/Ukraine conflict and currently reflect an outlook that global growth will expand by 2.6% in 2022. One of the biggest detractors is Russia, which is currently projected to experience a deep recession in 2022. Significant slowdowns in growth are expected in parts of Western Europe and Central, South, and Southeast Asia. There are already clear signs that the war and resulting jump in costs for essential commodities will make it harder for the world's policymakers to strike the delicate balance between containing inflation and supporting the economic recovery from the pandemic. There were signs of progress in peace negotiations between Ukraine and Russia



late in March, with Russia reportedly offering to scale back military operations near Kyiv and elsewhere in northern Ukraine as a confidence-building measure. For its part, Ukraine has agreed to maintain neutral status but with appropriate international security guarantees.



The ISM Manufacturing Purchasing Managers Index (PMI) for the U.S. rose for a second straight month to 58.6 in February of 2022 from 57.6 in January. This reading showed that the overall economy expanded for the 21st consecutive month. New orders and production continued to increase at a solid pace as COVID-19 infections subsided, though hiring at factories slowed, contributing to keeping supply chains snarled and prices for inputs high. Manufacturing output rose 1.2% in February. The indexes for durable and nondurable manufacturing moved up 1.3% and 1.1%, respectively. Capacity utilization for manufacturing, a measure of the amount of potential output realized, improved to 78% in February. Recent data, such as the March flash PMI, have been surprisingly resilient despite the steep inflation rate and increased geopolitical uncertainty. The U.S. moved further into expansion territory at 58.5. A reading above 50 indicates expansion in business activity, while below 50 points to contraction. Despite closer geographic and economic ties to the conflict, Eurozone and U.K. growth held steady at 54.5 and 59.7, respectively.

The S&P Global U.S. Services PMI rose to 58.9 in March of 2022 from 56.5 in the previous month. The latest reading pointed to the strongest expansion in the service industries since last July.

INFLATION SURGES IN RECENT MONTHS

Rising energy, food, and services prices pushed already elevated U.S. inflation to a 7.9% annual rate in February, a 40-year high. Oil and commodity market disruptions from the Ukraine crisis are expected to add more cost pressures. The consumer-price index, which measures the cost of goods and services across the economy, hasn't been at this elevated level since January 1982, when it was 8.4%. At that time, the United States was in a recession and battling inflation that had remained in the double-digit range from March 1979 through October 1981.

Russia and Ukraine are major commodities producers, and disruptions have caused global prices to soar, especially for oil and natural gas. Fertilizer prices were already high before the war, but they have now reached record levels amid a precipitous drop in Russian supply. Food costs have jumped, with wheat, for which Ukraine and Russia make up 30% of global exports, reaching a record. Gas prices have risen for 12 straight weeks, recording the biggest month-over-month price increase in March since the oil price shocks in the mid-1970s. Fortunately, the United States is now much better situated to endure oil price shocks than in the 1970s. We are now the world's largest producer of oil, automobiles are more energy-efficient, and our economy is significantly less oil intensive than it was in the 1970s.

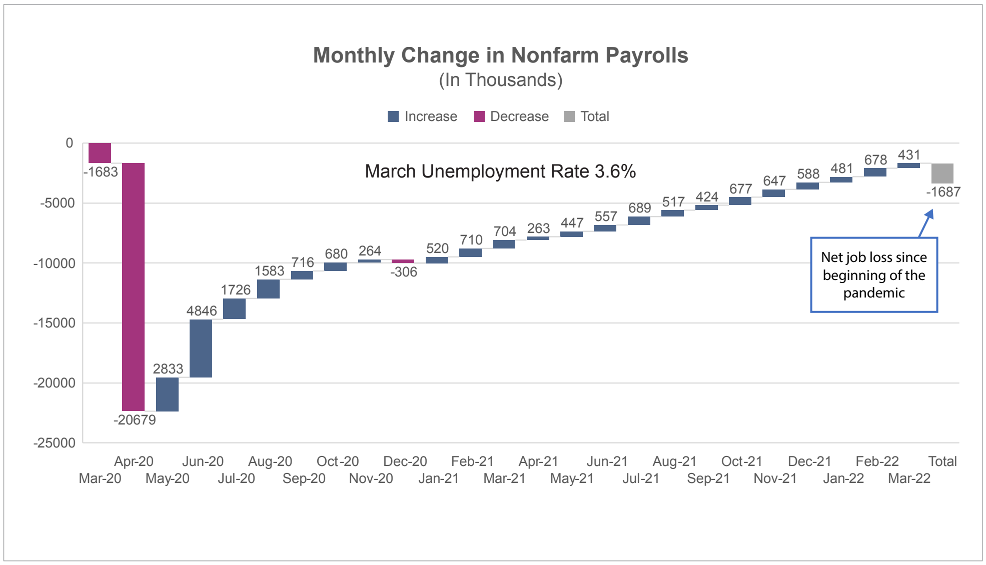
FEDERAL RESERVE ACTS TO COMBAT INFLATION

As was widely expected, the Federal Reserve voted in March to increase the federal funds rate by .25% to a target of .25% to .50%. This is the first change in policy since the rate dropped to zero on March 16, 2020. The federal funds rate influences consumer and business borrowing costs, including rates on loans, mortgages, savings accounts, and corporate debt. When the Federal Open Market Committee (FOMC) raises rates, they use it as a tool to moderate consumer prices by making borrowing more expensive and saving more attractive. The Federal Reserve has been highly transparent about its plans to raise rates, with Chairman Powell taking the unusual step of publicly stating his support for a .25% increase in advance of the March meeting. More recently, several Fed officials warned investors that the FOMC may raise the federal funds rate by more than .25% if the economy's outlook warrants it.

Even before the Ukraine invasion, financial conditions were tightening in anticipation of the imminent reduction in monetary policy support. As the magnitude and persistence of the increase in inflation became increasingly obvious over the second half of last year, and as the job market recovery outperformed expectations, the FOMC pivoted to progressively less accommodative monetary policy. The new supply shock only adds to inflation fears, raising the pressure on the FOMC and other central banks to tighten monetary policy more aggressively. While such a policy action will not prevent higher energy and agricultural commodity prices from driving up inflation, higher interest rates will reduce the risk of high inflation getting entrenched through wage and price-setting channels. However, regulating policy to perfection will be difficult. There are risks on both sides — inadvertently falling behind by not raising rates fast enough and tightening too aggressively and causing a recession.

As of mid-2021, the median FOMC participant projected that the federal funds rate would remain at its effective lower bound through the end of 2022. Currently, the median FOMC member is signaling six additional hikes expected this year, pushing the federal funds target range to 1.75–2.00% by December 2022. The latest FOMC statement also indicates that the Committee expects to begin actively reducing the size of the balance sheet in the coming months. The current FOMC projection materials reflect a revised median real GDP growth projection for 2022 of 2.8% from 4% in December 2021.

The recently released 2023 fiscal year budget puts tax hikes back on the table as the Democrats push portions of their climate and health care spending initiatives over the finish line ahead of the mid-term elections. The budget offsets additional spending with "tax reforms," some targeting ultra-high net worth Americans with more than $100 million in wealth. A corporate tax rate increase to 28% is proposed but partially offset by incentives for job creation and capital investment. Also included is an increase in the top individual tax rate (married couples with taxable income above $450,000) to 39.6%, income tax on carried interest, and an end to tax deferrals from like-kind exchanges. Many doubt that the proposal has sufficient support to pass, but we will closely monitor the conversation. As has been the case many times, the threat of tax increases in 2021 caused changes in investor behavior that is driving record-high tax revenues in 2022.



EMPLOYMENT GROWTH REMAINS STRONG

The labor market has substantial positive momentum. Employment growth powered through another difficult wave of COVID-19, adding 1.59 million jobs over the past three months. The unemployment rate has fallen to 3.6 percent, near historical lows, and has reached this level much faster than anticipated by most forecasters. Strong job gains continued in leisure and hospitality, professional and business services, retail trade, and manufacturing.

By most practical measures, the labor market is extremely tight, significantly more so than the very strong job market just before the pandemic. There are far more job openings going unfilled today than before the pandemic, despite the current unemployment rate being higher. As of March, there are 6 million people who are unemployed and actively seeking work. As of the end of February, there are an estimated 11.3 million job openings across the United States. Indeed, there are a record 1.9 posted job openings for each person that is looking for work. There are another 5.7 million potential workers who want jobs but are not currently actively looking for work. Record numbers of people are quitting jobs each month, typically to take another job with higher pay. Nominal wages are also rising at the fastest pace in decades, with the gains strongest for those at the lower end of the wage distribution and among production and nonsupervisory workers. Despite higher wages, net income is lower due to the high rate of inflation. In a recent NBC News poll, 65% of respondents said their family's income is falling behind the cost of living.

Key Rates

	12/31/2020	12/31/2021	03/31/2022
2-yr U.S. Treasury	0.12%	0.73%	2.32%
10-yr U.S. Treasury	0.92%	1.51%	2.33%
30-yr Fixed Mortgage Rate	2.91%	3.29%	4.94%
Fed Funds Target Rate (upper)	0.25%	0.25%	0.50%
U.S. Dollar Index	89.92	95.64	98.36
Crude Oil	$48.41	$75.39	$100.90
Gold	$1,903	$1,829	$1,941
Unemployment Rate	6.7%	3.9%	3.6%

Source: *The Wall Street Journal*

U.S. consumer confidence, as reported by the University of Michigan Consumer Sentiment survey, has declined every month since December and now sits at the lowest level since August 2011. Consumers' estimates of both current conditions and future expectations are lower. Inflation is the primary culprit for the rising level of pessimism, reflected by an expected year-ahead inflation rate of 5.4%. More consumers mentioned reduced living standards due to rising inflation than any other time except during the two worst recessions in the past 50 years.

Retail sales edged .3% higher in February after a jump of 4.9% in January. The largest component of the February increase was at the gas pump. Net of that increase, retail sales fell .2%. As compared to a year ago, retail sales are up 17.6%.

Housing activity remains above the pre-pandemic trend, but elevated home prices and rising mortgage rates are likely to pressure demand. The S&P CoreLogic Case-Shiller National Home Price Index, which measures average home prices in major metropolitan areas across the nation, rose 19.2% in the year that ended in January. The inventory of homes for sale at the end of January slid to the lowest level in records that date back to 1999. The war in Ukraine, rising oil prices, and higher inflation have accelerated the increase in mortgage rates and are expected to have a dampening impact on home sales. This is particularly true for first-time homebuyers, who are challenged by both elevated home prices and higher interest rates. The average interest rate for a 30-year mortgage contract has risen to 4.94% from a recent low of 3.0%. Most estimates were that mortgage rates would reach 4.5% by year-end 2022. The median monthly payment on a new mortgage is now taking up a much larger share of a typical consumer's income. It jumped 8.3% in February compared with January.

MARKET COMMENTARY

Equity markets rallied back from correction territory to close the month in negative single digits. The large-cap S&P 500® closed -4.6%, the small-cap Russell 2000 -7.53%, and the tech-heavy Nasdaq -8.95%. Market volatility increased significantly in the first quarter of the year as investors reduced their risk appetite in the face of conflict in Ukraine, surging inflation, and higher interest rates. Of 61 trading sessions in the quarter, the market traded down by more than 1% seventeen times and rose by more than 1% fifteen times. The market continued to adjust itself for an expected slower — and more expensive — economy. While the Ukraine situation dominated the headlines and wreaked havoc on the market, it was the economy that ruled the market.

The deep economic recession in 2020 resulted in declines in S&P 500 operating earnings of -22%. Earnings rebounded strongly in 2021, posting growth of 70% for the year. This partly reflects the fact that some of the most important sectors of the U.S. equity market, including technology, communications services, health care, and consumer staples, experienced few negative impacts from the pandemic and, in many cases, saw stronger revenues. Earnings have been supported by strong consumer demand and higher productivity. The "earnings surprise" factor was strong, as 75% of companies beat consensus earnings expectations and 69% exceeded revenue expectations in the fourth quarter.

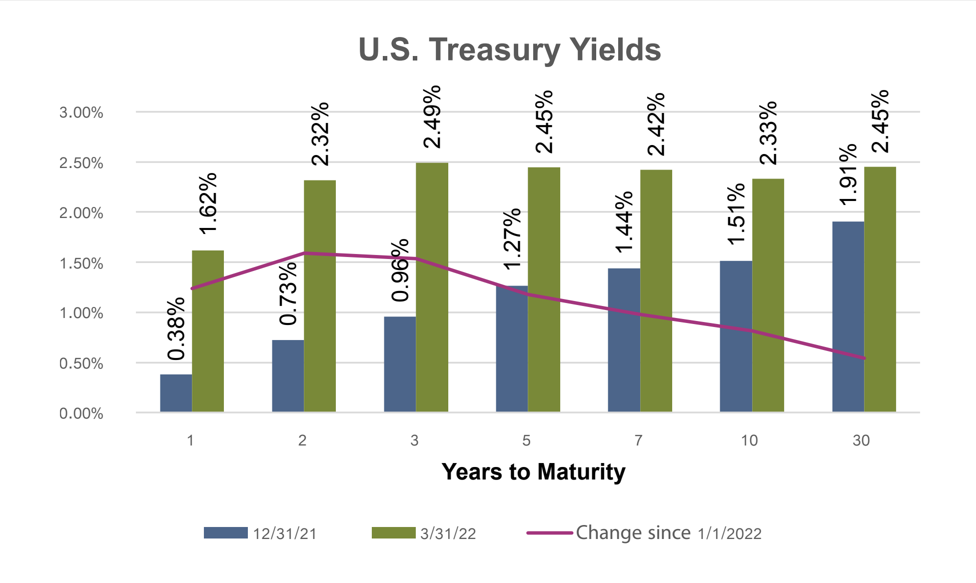
However, going into 2022 and beyond, earnings growth may face more headwinds. We expect slower economic growth, higher wages, higher interest rates, and higher corporate taxes.

Greater Dane County:
401 Charmany Drive
Madison, WI 53719

Southeast Wisconsin:
18500 W. Corporate Drive
Brookfield, WI 53045

Northeast Wisconsin:
3913 W. Prospect Avenue
Appleton, WI 54914

Kansas City Metro:
11300 Tomahawk Creek Parkway
Leawood, KS 66211



The bond market wrapped up a wild quarter with rates significantly higher across the board, but especially elevated on the short-end of the yield curve. The rate on the 2-year U.S. Treasury note rose by 1.6%, adjusting to an accelerated timeline for the Federal Reserve tightening cycle. Investors are keeping an eye on bond markets for a sign many see as an omen of recession. The yield on the benchmark 10-year note closed the quarter at 2.33% while the 2-year bond's yield is at 2.32%. Rising rates negatively impacted returns with the Aggregate index falling by -5.9%. When the shorter-dated bond's yield rises above the longer-dated 10-year's, it is known as a yield curve inversion, which is sometimes considered an indicator of a coming recession. The inversion occurs as investors sell the short end of the curve and buy longer due to a pessimistic view of near-term economic prospects. An inversion has not been followed 100% of the time by a recession, but a recession has always been proceeded by an inversion.

The energy sector was resoundingly positive for the quarter, up 39%. Since the energy sector represents less than 4% of the S&P 500 market capitalization, it does not have a major impact on the quarterly return of the index. The utility sector, also small by weight, was up 4.7%. All other sectors declined in the quarter. The tech sector, the largest weighting in the S&P 500 at 28%, was down -8.4%. Communication services was the most negative, down -11.2% for the quarter. Value outperformed growth in the first quarter of the year.

Developed international markets fell by -5.9% and emerging markets declined by -7%. Returns on foreign investments were negatively impacted by a stronger dollar in the quarter. Valuations in foreign markets remain well below the United States, but rising geopolitical risk and surging inflation continue to negatively impact returns. Investors in the Euro-region remain very focused on developments in Russia's invasion of Ukraine.

INDEX TOTAL RETURN	2021	1Q 2022
S&P 500 Index	28.71%	-4.60%
Russell 2000	14.82%	-7.53%
MSCI EAFE Index	11.26%	-5.91%
MSCI Emerging Markets Index	-2.54%	-6.97%
Bloomberg Barclays U.S. Aggregate Bond	-1.54%	-5.93%
Bloomberg Barclays U.S. Treasury 1-3 year	-0.60%	-2.51%
Bloomberg Barclays U.S. Treasury 5-7 year	-2.87%	-5.63%
Bloomberg Barclays Municipal Index	-1.52%	-6.23%

Source: *Morningstar Direct*

PORTFOLIO AND OUTLOOK

Much has changed in the first quarter of 2022. Global growth is slowing due to higher price inflation, a situation made more extreme by the Russian invasion of Ukraine. Geopolitical risk is elevated, the central bank has shifted to a decidedly hawkish stance, and another spike in COVID-19 is not out of the question. I think it is fair to say that the yellow caution flag is up, and we, as an investment team, are carefully considering the fundamental environment and how it may be different in this investment cycle than in the last. We are reviewing valuations and historical data regarding asset class performance and correlations in periods of rising interest rates and elevated inflation. We recognize that the path ahead is clouded by uncertainty as markets recalibrate geopolitical risks, central bank policy, and continued COVID-19 disruptions. It is important to remember that the U.S. and Europe are entering this phase with very solid fundamentals and strong consumer balance sheets. While growth may be dampened by higher inflation in the near term, investors should not be discouraged, but rather stay focused on a long-term, diversified investment approach that is biased towards quality and strong valuation metrics.

On a relative basis, our portfolios have continued to benefit from a modest equity overweight as bond markets underperformed equities in this volatile quarter. Positive corporate earnings, above-trend growth, and still-accommodative financial conditions suggest risk assets can still perform well as the Fed raises interest rates.

The post-tax season is very often a good time to touch base, so we certainly welcome and encourage that opportunity to discuss our economic outlook and investment strategy with you. These meetings, where we share information with you, but also stay focused on understanding your goals and the dynamics of your individual and family situation, are how we really differentiate ourselves from many other advisors. My colleagues and I look forward to visiting with you soon.