



BUYING THE S&P 500 EVEN WHEN IT IS EXPENSIVE HAS GIVEN POSITIVE RETURNS

THE S&P 500 HAS HAD AN AVERAGE 12%
ANNUALIZED RETURN DURING RISING RATE
PERIODS SINCE 1971



STOCKS HAVE
NORMALLY
PERFORMED WELL
DURING PERIODS
OF RISING
INTEREST RATES

- ✓ It pays to be in the market most of the time. Buying the S&P 500 even when it is expensive has given positive returns. Higher inflation and higher prices, will lead to increased profitability which leads to higher equity prices.
- ✓ **Equities have risen 12% pa. on average when interest rates have been rising since 1971.**
- ✓ Companies profitability is becoming more sustainable and free cash flow margins have been rising.
- ✓ **Inflation is expected to top 7% and then fall steadily for the rest of 2022. We have most likely seen the peak of inflation already.**

BUYING THE
S&P500 EVEN
WHEN IT IS
EXPENSIVE HAS
GIVEN POSITIVE
RETURNS.

Margins Have Expanded Over Time

Exhibit 3: S&P 500 Total Returns After Crossing Into the 9th and 10th Deciles of Valuation

Equities continued to rally even after valuations became more expensive in the last two bull markets.



Data through December 31, 2021.

Source: Investment Strategy Group, Bloomberg.

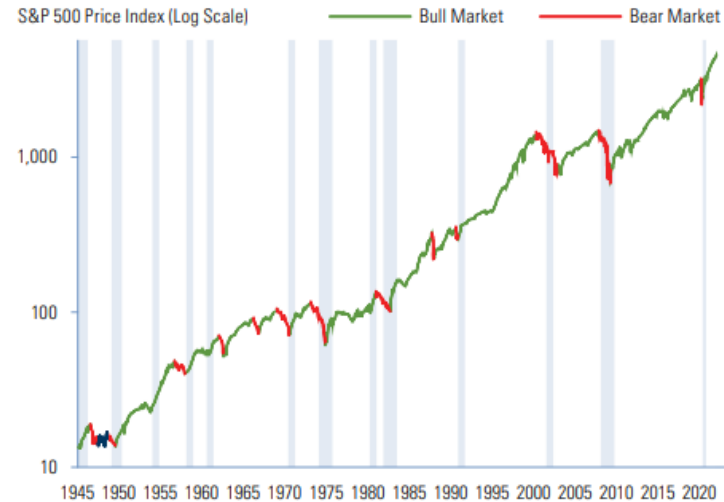
- ✓ Investing over time despite valuations has been a prudent strategy.

RIGHT HAND
CHART SHOWS
THAT AS PROFITS
GROW THE S&P
500 RISES. IT PAYS
TO BE IN THE
MARKET MOST OF
THE TIME

History Shows It Pays To Stay Invested.

Exhibit 24: S&P 500 Index Over the Post-WWII Period

US equities have generated positive returns most of the time over the long run.



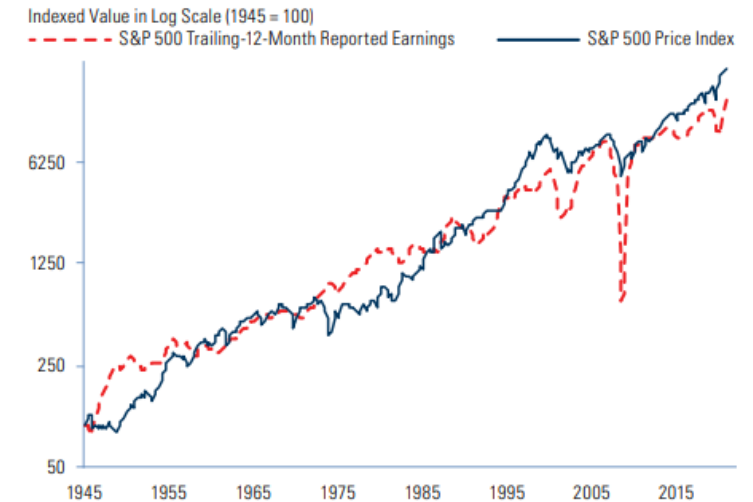
Data through December 31, 2021.

Note: Shaded periods denote recessions. 1947–48 is colored blue because it was neither a bull nor a bear market.

Source: Investment Strategy Group, Bloomberg, NBER.

Exhibit 25: S&P 500 Price Index vs. Earnings

Prices of US equities follow the path of corporate earnings in the long run.



Data through Q3 2021.

Source: Investment Strategy Group, Bloomberg, S&P Global.

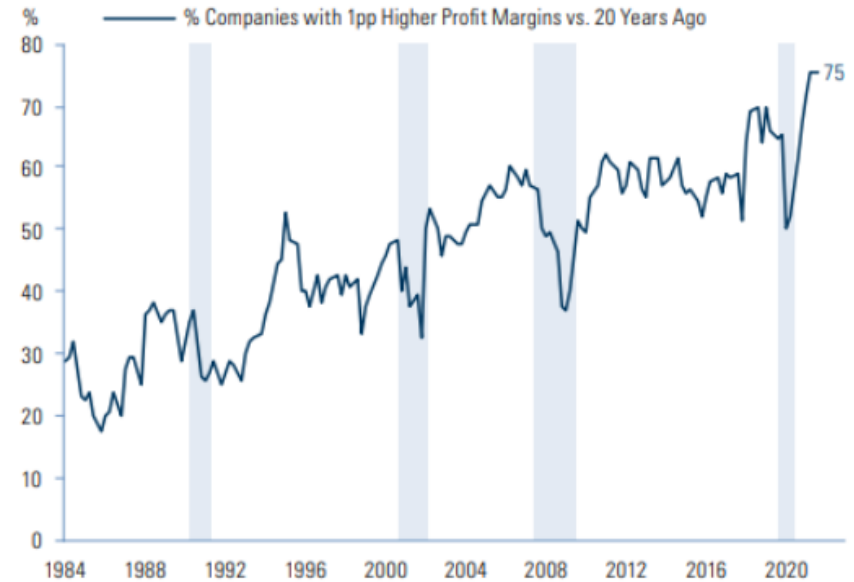
- ✓ S&P 500 companies have been able to expand their margins in various economic cycles.
- ✓ Expanding margins lead to higher stock multiples.

COMPANIES ARE
BECOMING MORE
PROFITABLE IN
WAYS THAT SEEM
TO BE SUSTAINED

Margins Have Expanded Over Time

Exhibit 23: S&P 500 Companies with Expanding Margins

A record number of S&P 500 corporations have margins at least one percentage point higher than 20 years ago.



Data through Q3 2021.

Note: Shaded periods denote recessions.

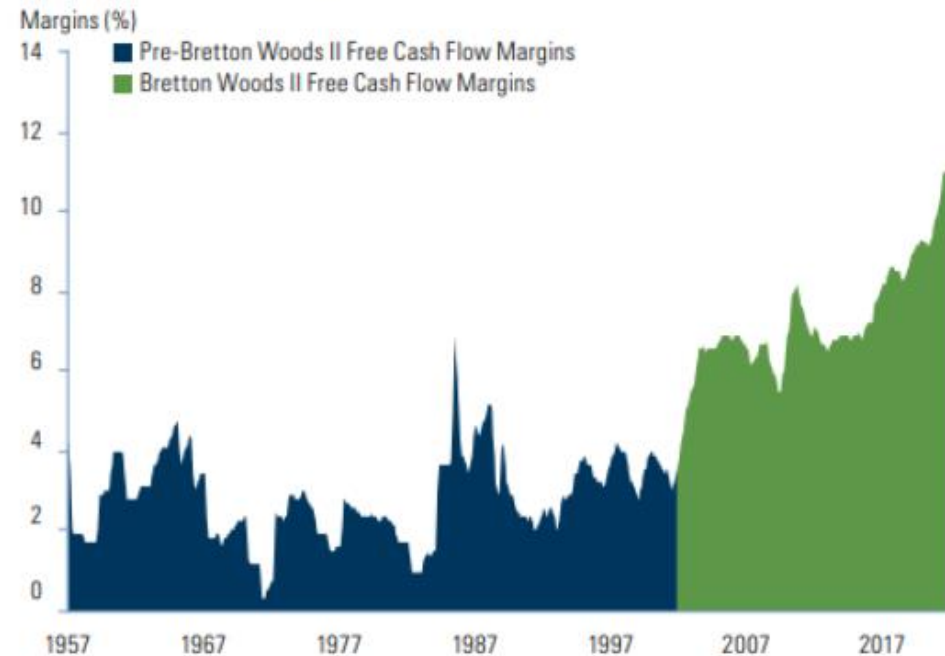
Source: Investment Strategy Group, S&P Global.

FREE CASH FLOW
MARGINS HAVE
BEEN RISING

US Large Cap Companies Are Flush With Cash

Exhibit 22: US Large-Cap Stocks' Free Cash Flow Margins

Free cash flow margins have been rising since China joined the World Trade Organization in late 2001.



Data through December 2021.

Note: Excludes financials, REITs and utilities; data smoothed on a trailing three-month basis.

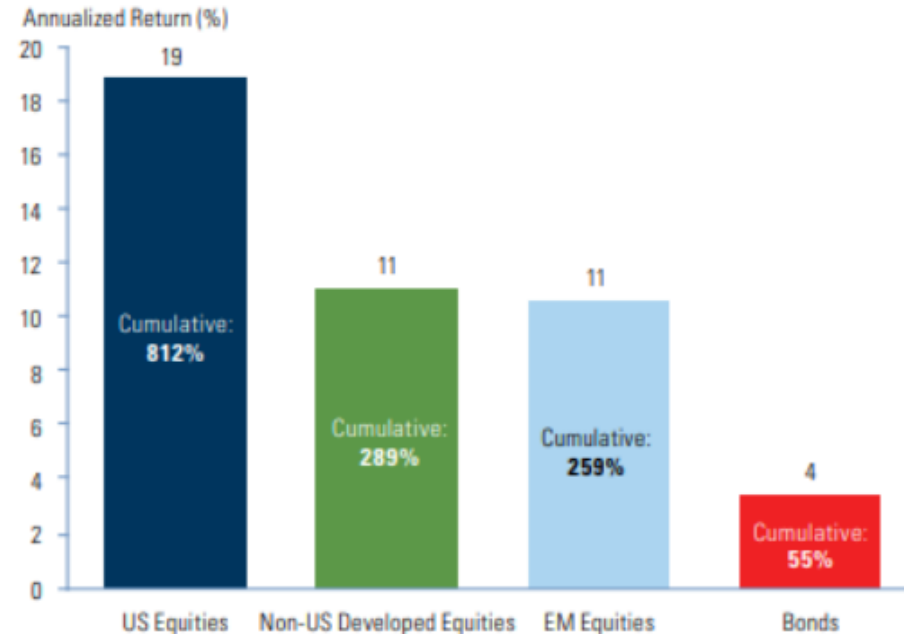
Source: Investment Strategy Group, Corporate Reports, Empirical Research Partners.

US EQUITIES HAVE
OUTPERFORMED
NON-US
DEVELOPED AND
EMERGING
MARKETS BECAUSE
THEY OFFER
STABILITY

US Large Cap Equities have Outperformed Other Asset Classes.

Exhibit 17: Annualized and Cumulative Asset Class Returns Since March 9, 2009

US equities have far outperformed non-US developed and emerging market equities.



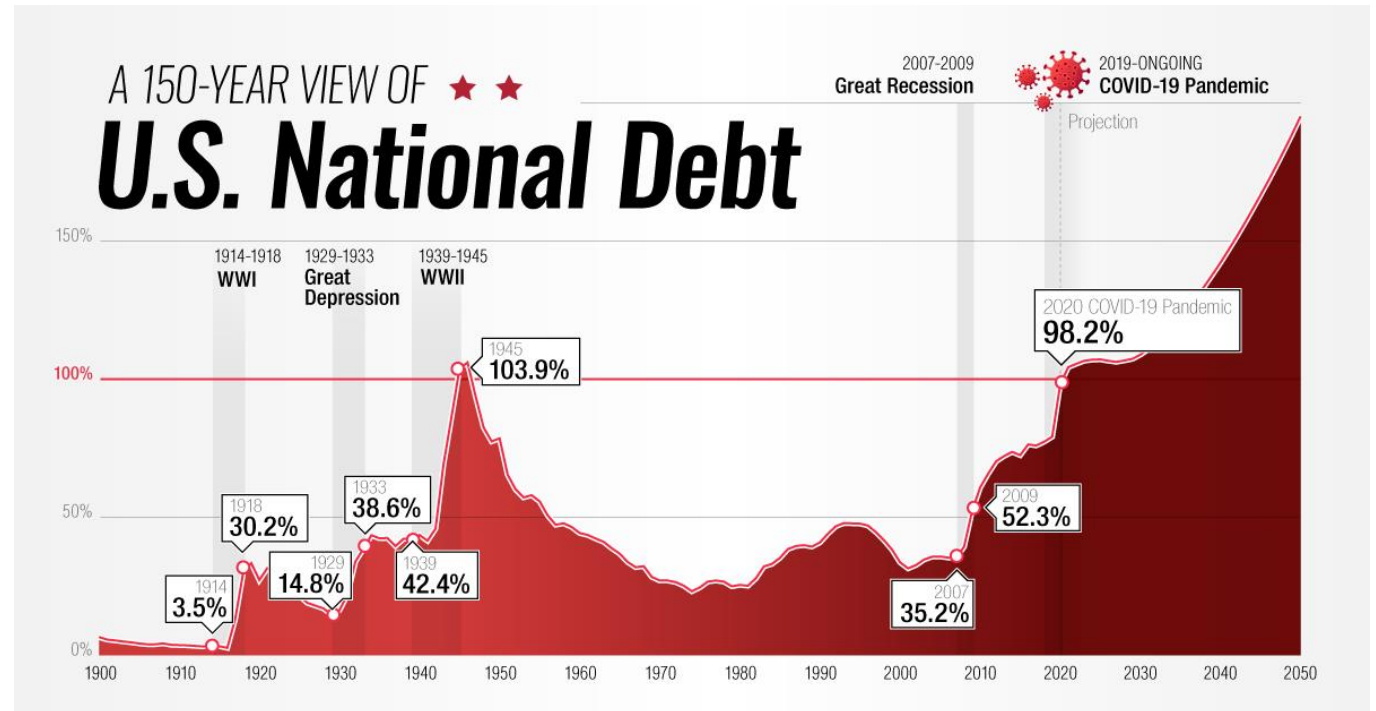
Data through December 31, 2021.

Note: US Equities: S&P 500, Non-US Developed Equities: MSCI World ex. US (\$US), EM Equities: MSCI EM(\$), Bonds: Bloomberg Barclays Multiverse Total Return Index Value Unhedged USD.

Source: Investment Strategy Group, Bloomberg.

INTEREST RATES
CANNOT RISE
MUCH AS WE (ALL
OF US) HAVE TOO
MUCH DEBT

Growing National Debt Keeps a cap on Interest Rates

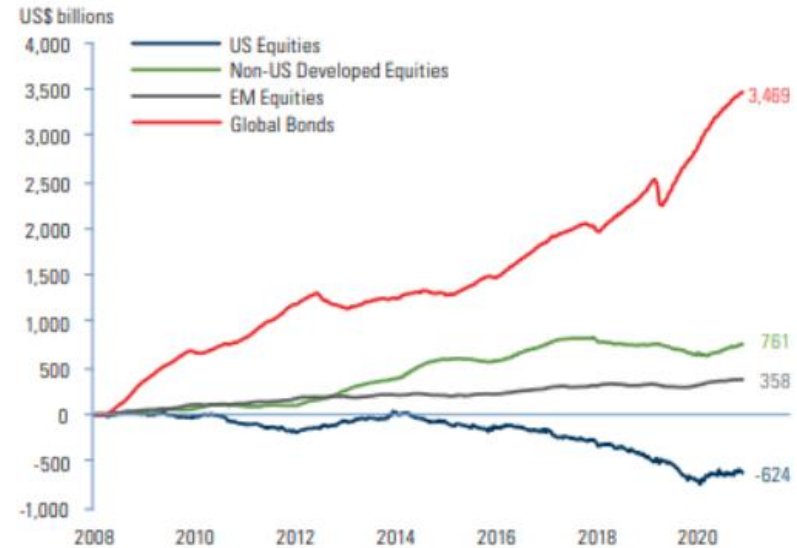


- ✓ Since the US Government funds the National Debt through the issuance of bonds and bonds pay interest, it is in the interest of the Government to keep interest rates low.

Investments Dollars can Still Flow into Equities

Exhibit 16: Cumulative Mutual Fund and ETF Flows

Investors have favored bonds and non-US equities throughout this bull market.



Data through November 29, 2021.

Note: Based on ICI weekly estimates.

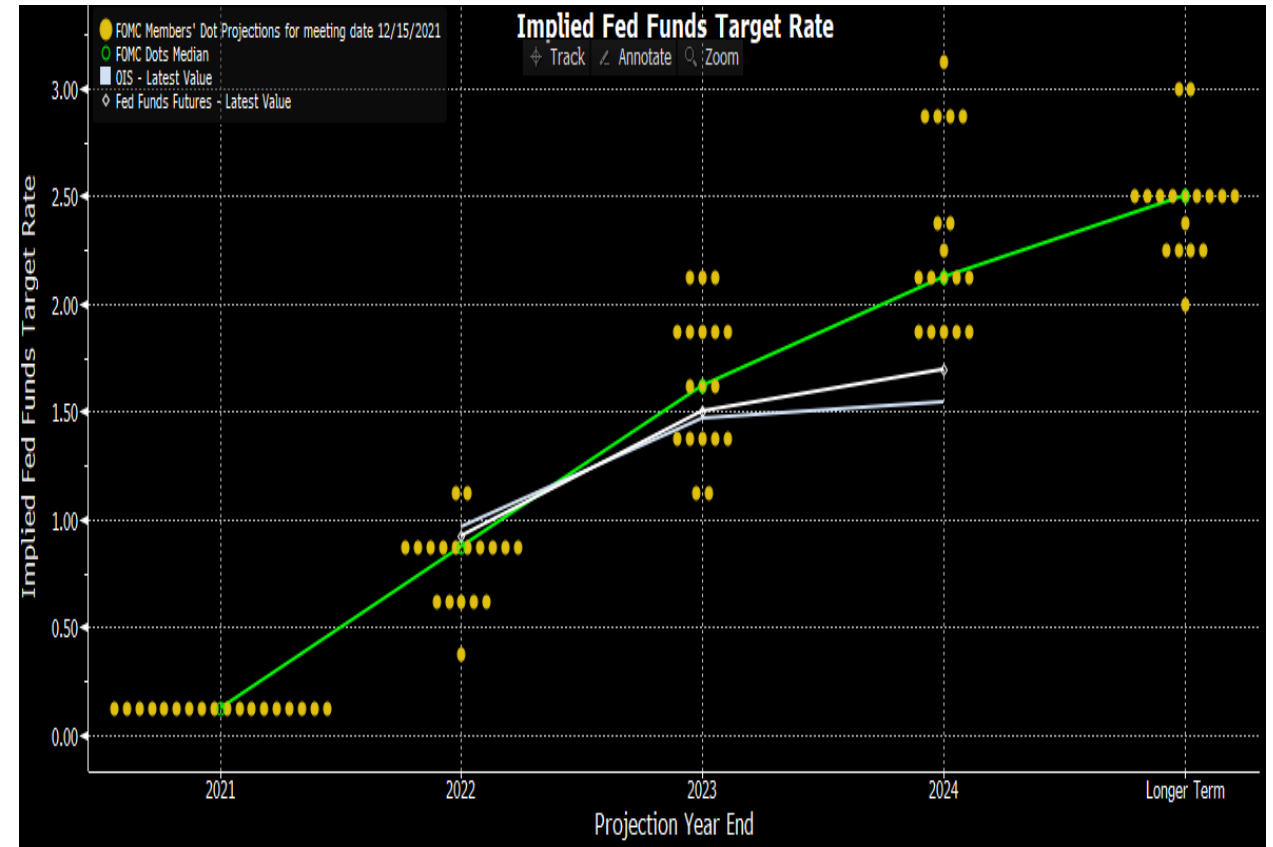
Source: Investment Strategy Group, Investment Company Institute.

INVESTORS HAVE
FAVORED BONDS
OVER US EQUITIES.
THERE IS A LOT OF
MONEY THAT CAN
FLOW INTO US
EQUITIES

- ✓ Equities, despite their run, remain an under invested asset class.
- ✓ Asset rotation could bring additional funds into equities.

IMPLIED FED FUND
TARGET RATE.
RATES WILL NOT
RISE VERY MUCH

Current Fed Dot Plot



- ✓ The Fed projects 3 hikes in 2022, 3 in 2023 and 3 in 2024.

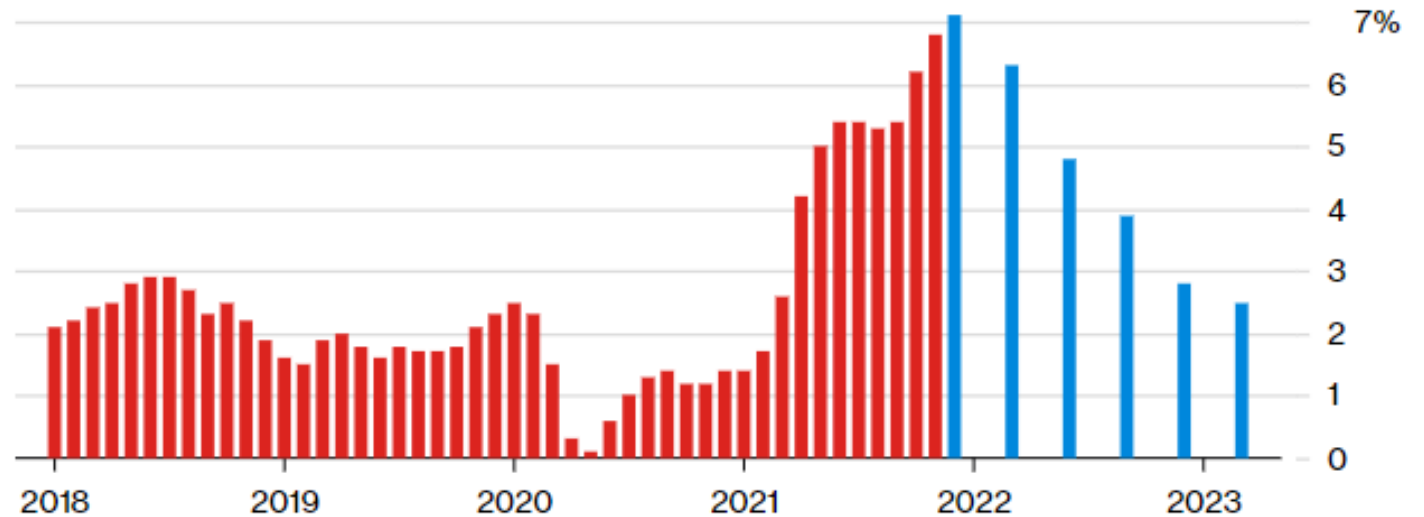
BOTTLENECKS AND
“DESIRE OF
COMPANIES TO
INCREASE PRICES”
HAS LED TO
INFLATION

Projections Show Inflation Peaking

Peak Inflation?

Inflation is expected to top 7% at the end of 2021 – then fall steadily

■ Consumer price index (YoY) ■ Economists' forecasts



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