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MARKET REVIEW

› 2nd QUARTER 2022

EXECUTIVE SUMMARY

- Equity and fixed income asset classes were negative for the quarter.
- Alternative investments provided a positive earnings boost.
- Annual inflation ending May 2022 was 8.6%, led by increased energy prices and consumer spending.
- Federal Reserve increased rates by 0.75% in June and is expected to make additional increases in 2022.

Quarterly Market Review

2nd Quarter 2022

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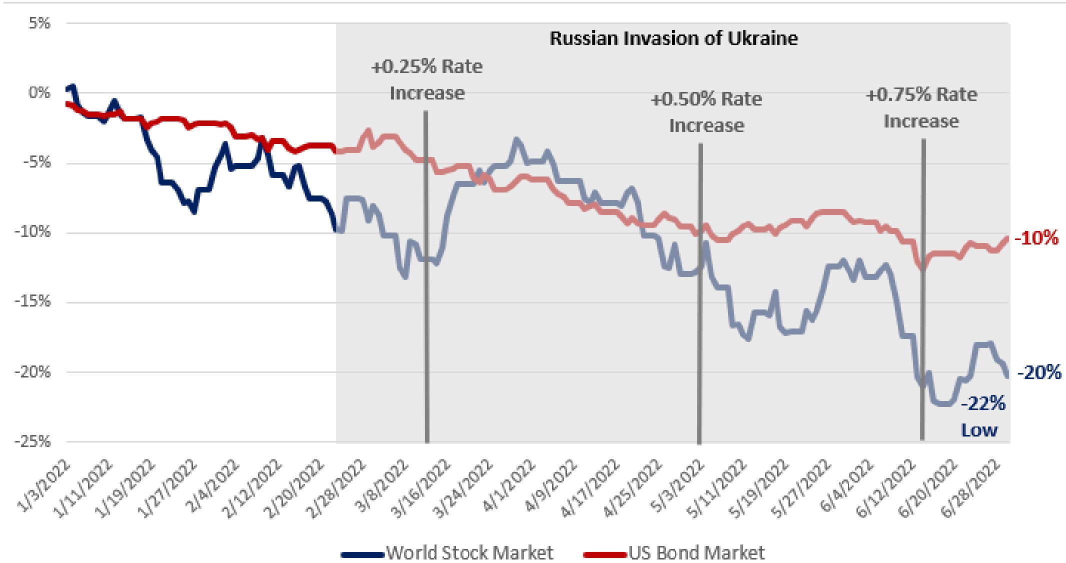
"Progress is cumulative in science and engineering but cyclical in finance"– Jim Grant

The first half of the year has been difficult for investors with losses in both equity and fixed income. As the effects of COVID on the economy continue to fade, new challenges have begun to take its place, including Russia's invasion of Ukraine and China's Zero COVID policy which have reinforced sustained high inflation. In response to higher-than-expected sustained inflation, the Federal Reserve has turned hawkish by raising interest rates 0.75% in June and has promised to continue raising rates until inflation is under control. Economic momentum is being undercut due to rising mortgage rates, low consumer sentiment, a strong US Dollar, and market losses. These head winds have benefited some investors, especially those with cash sitting on the sidelines, with more attractive stock market valuations and increased yields in bonds.

2nd quarter provided somber performance with continued declines across stocks and fixed income, with returns of -15.7% for 2022 and -4.7% in Q2. Tilting towards Value companies and holding shorter term fixed income helped moderate losses for the quarter.



- Overview:
  - Q2 in Review
  - Portfolio Update
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  - Feeling Gloomy – What to do?
  - Stock Market Performance
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  - Quarterly Asset Class Market Summary
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Quarterly Market Review

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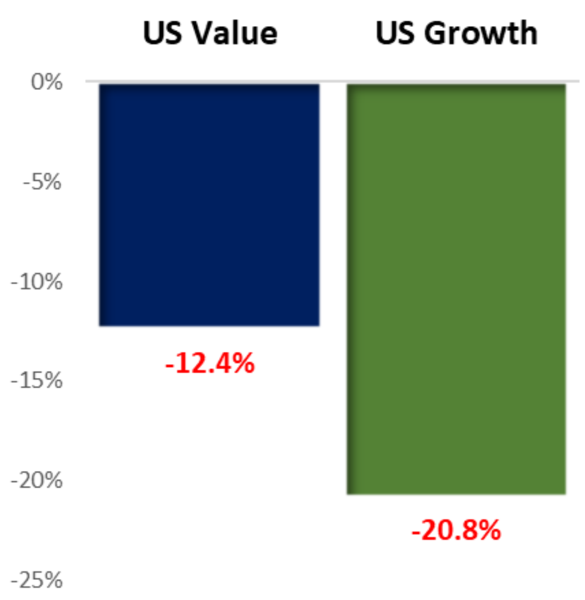
Portfolio Update: At HFG we've continued to be diligent in rebalancing our clients' portfolios by systematically making sure the appropriate mix of stocks, bonds, and alternatives are kept on target for your specific risk level.

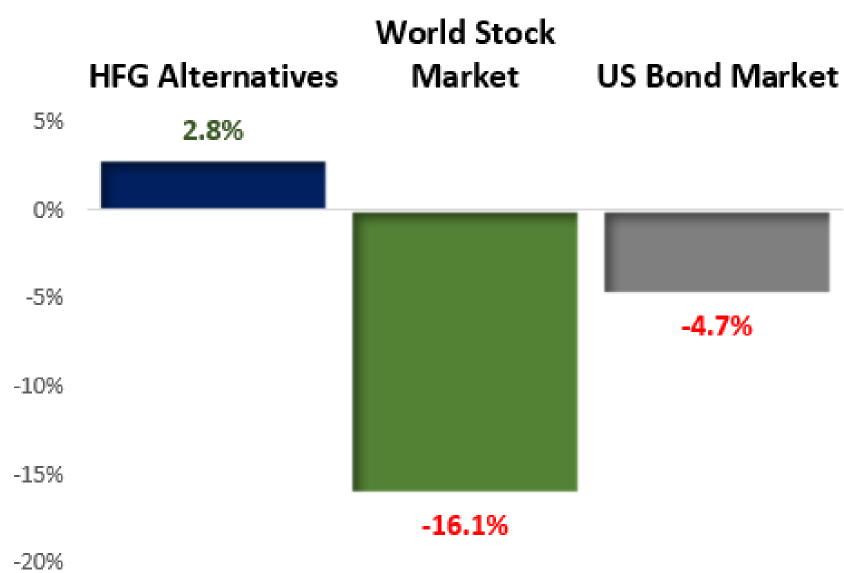
Equities: The world stock market is down -20% for the year, and -16% in Q2 alone. There is a large disparity between "Value" and "Growth" companies, in which growth companies have taken the brunt of the decline, down -21% for the quarter. While still sliding, value companies are a modest -12% for the year, or +8% outperformance for the quarter and +15% for the year compared to growth type companies. Compared to the average market portfolio, HFG clients' Price-to-Earnings is a modest 13x, compared to the S&P 500 at 20x – in other words, our clients are significantly tilted towards "Value".



Q2 2022 Return

Bonds: As rates have increased this quarter and overall year, it has paid to be shorter term (as rates increase, the price of bonds decrease). The average maturity of a bonds in the US is 9 years, which in turn has reduced in price by ~10.4% for the year and -5% in Q2, compared to shorter term bonds declining a modest -4.2% for the year and -2.5% for the quarter. As recession concerns have arisen, we've continued to focus on allocating to shorter-term, high-quality bonds backed by solid balance sheets.

Alternatives: The alternative investments have been a bright spot this year with strong positive returns. Private real estate leads the group with +13% for the year and +6% in Q2 alone. Reinsurance has been stable with a modest positive return of 0.2% this year, and private lending has held up nicely with returns between 2.5-4% this year. Our investment committee continues to perform due diligence on alternative investments, such as farmland, infrastructure, timberland and private equity.



Q2 2022 Return

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Quarterly Market Review

2nd Quarter 2022

Economic - Heading into the second half of the year, there is growing concern the economy may slip into recession. While real GDP declined in the first quarter, monthly data shows solid growth in Q2 as COVID subsided and pandemic heavily affected areas, such as restaurants, leisure, and entertainment picked up.

GDP - After two years of record government provided stimulus, the economy is feeling a fiscal decline with the federal budget deficit expected to fall from 12.4% of GDP in 2021 to less than 4% of GDP in 2022 - this is the largest decline since World War II. This reduction reflects the end of enhanced unemployment benefits, enhanced child tax credits, stimulus checks, and many other benefits.

Labor Market -The labor market is a bright spot in an otherwise gloomy environment with the unemployment rate remaining at 3.6% in May for its third consecutive month. However, there continues to be low unemployment and large excess demand for workers with 5.45 million more job openings than there are unemployed workers. This dramatic excess demand for workers should fade some over the next few months due to declining economic momentum and slowing business.

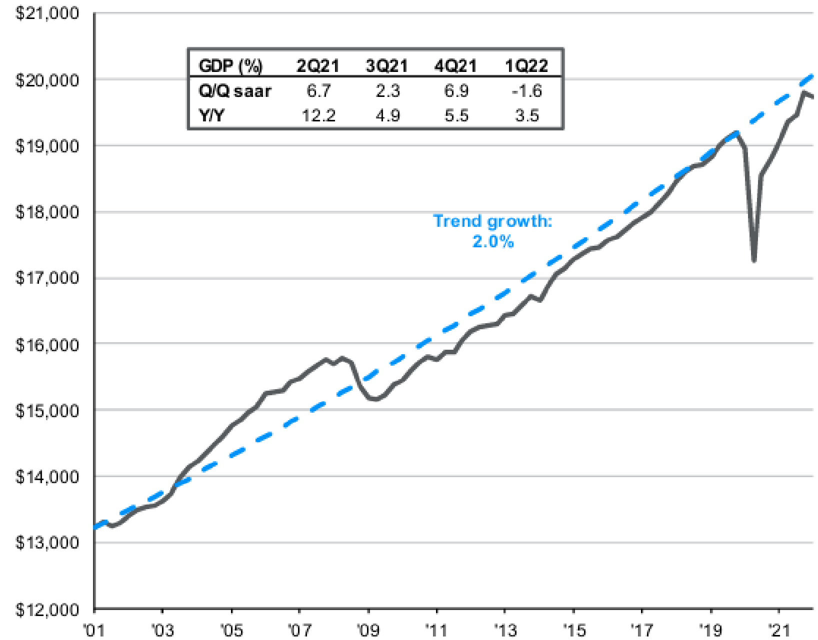
Mortgage Rates - Mortgage rates have spiked to a current 30-year loan average of 6%, compared to 3.4% at the end of 2021. The increase in rates may not affect some areas of real estate as many buyers continue to purchase with cash. Real estate buyers that are bound by monthly debt payment limits will need to reduce the amount they're willing to pay. For example, the illustration below shows that if a buyer could afford a $4,435 monthly debt payment, they could have taken on a $1,000,000 loan at the end of last year with 3.4% rate. However, if they want the same monthly payment, they would only be able to take on a $739,720 loan value for the same debt payment - this is a loan value reduction of 26%. No doubt this will impact how much buyers are willing to pay for homes if rates remain elevated.

30-Yr Mortgage

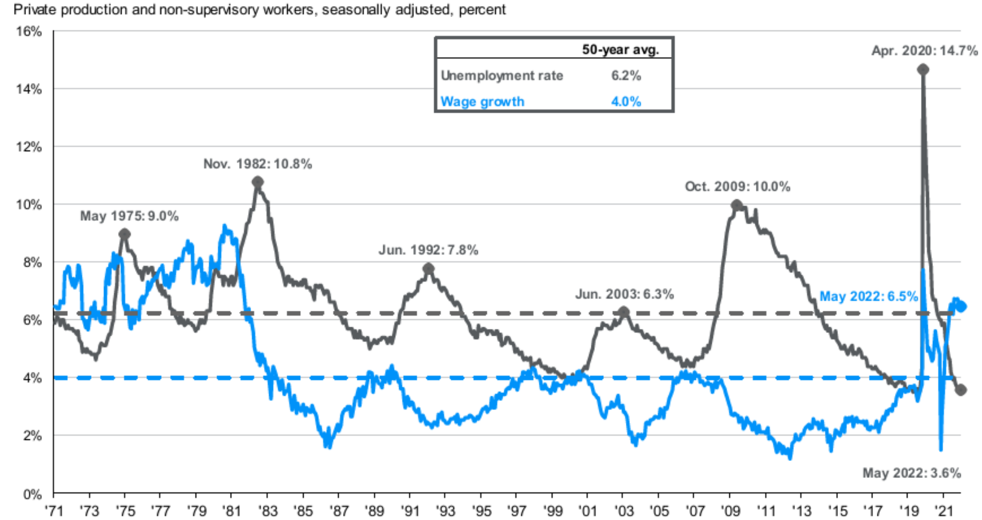
Date	Rate	Payment	Loan Amount
12/31/2022	3.40%	$4,435	$1,000,000
Current	6.00%	$4,435	$739,720

Real GDP

Billions of chained (2012) dollars, seasonally adjusted at annual rates



Private production and non-supervisory workers, seasonally adjusted, percent

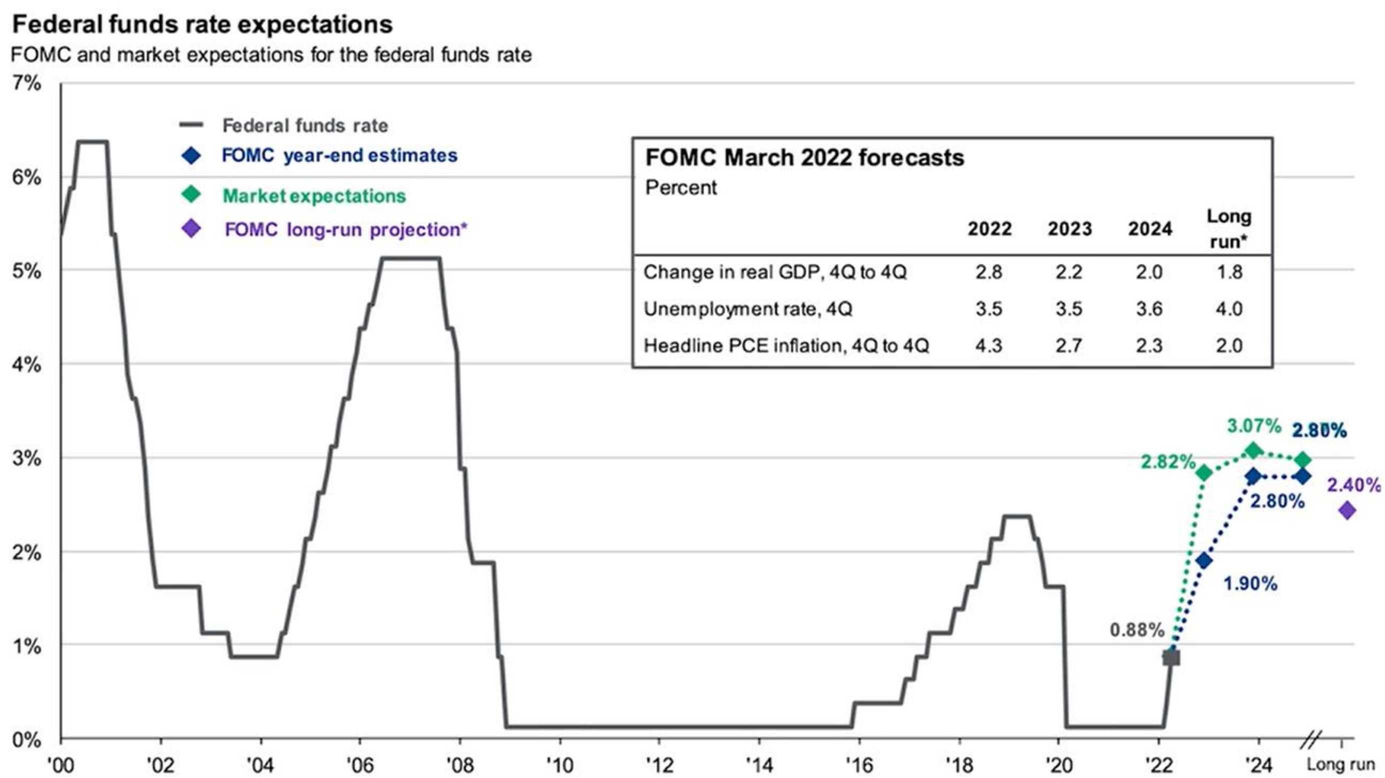


JP Morgan Asset Management, Guide to the Markets – June 30, 2022 Edition

Inflation

Persistent inflation and a quickly recovering labor market have forced the Federal Reserve to raise rates faster than anticipated by increasing rates 0.25% in March, then 0.50% in May, followed by 0.75% in June. The Fed is expected to increase rates by an additional 1.75% this year, which will put the Federal Funds at 3.25-3.50% by the end of 2022. Additionally, the Federal Reserve will continue to reduce the bond holdings on their balance sheet (i.e., sell bonds) at the pace of $95 billion per month by September of this year, attempting to help soak up the excess money supply in the economy.

Inflation continues to run high with the latest year-over-year May inflation reading at 8.6%, the highest reading since December 1981. This is mostly driven by high consumer spending coupled with government stimulus and has been exacerbated by supply chain shortages. Towards the end of 2022, we expect most of the supply-driven impediments to fade, providing headline inflation to soften. However, the longer high inflation lasts, the stickier it is, and may lead to inflation remaining over 3% for 2022 and 2023.



JP Morgan Asset Management, Guide to the Markets – June 30, 2022 Edition

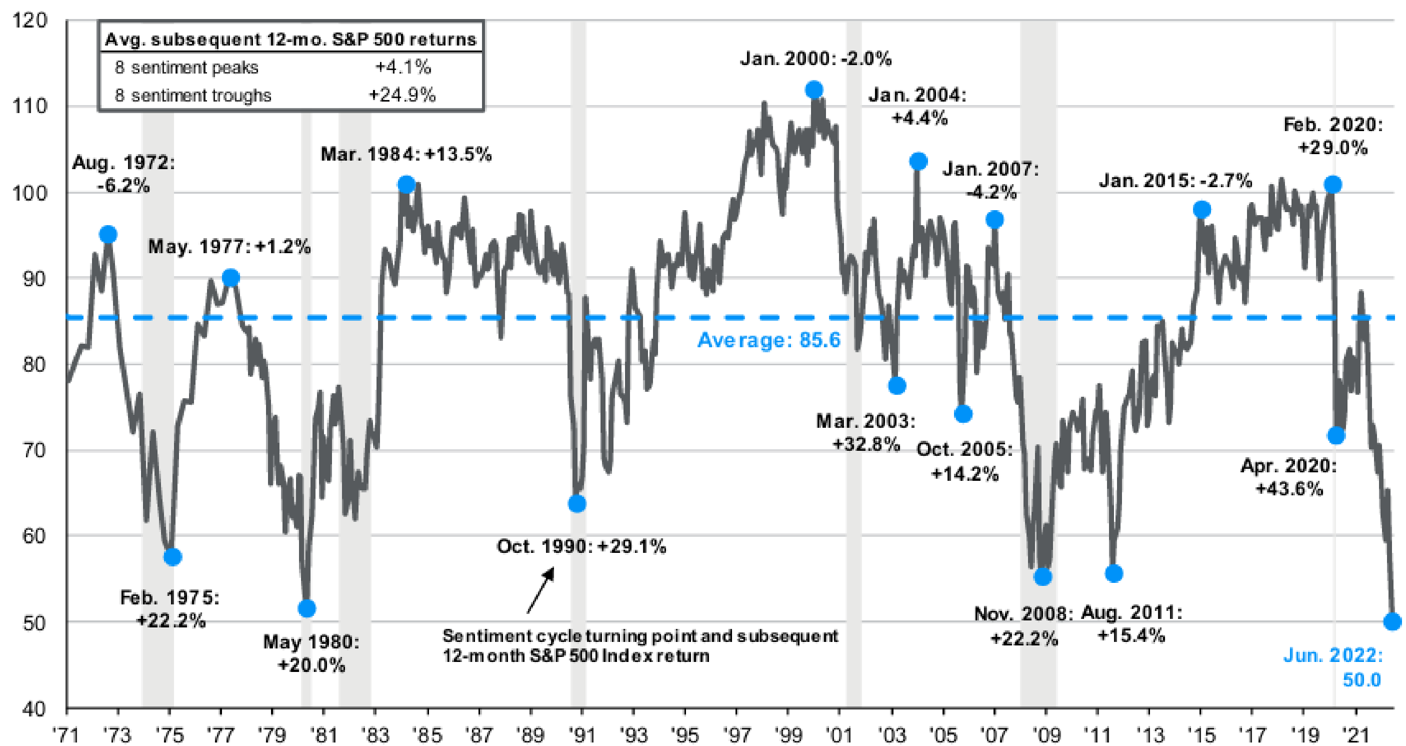
Feeling Gloomy – What to do?

2nd Quarter 2022

Investors can always expect uncertainty. While volatile periods like the one we're experiencing now can be intense, investors who learn to embrace uncertainty often triumph in the long run. Reacting to down markets is a good way to derail progress made toward reaching your financial goals. Many times, when investors are bearish about the current environment and future, their natural tendency is to sell riskier investments, such as stocks. However, examining history suggests attempting to time markets based on emotion is a huge mistake.

A Recession or Low Consumer Sentiment is Not a Reason to Sell - The graphic below illustrates the last 50 years of consumer sentiment, with eight distinct peaks and troughs as illustrated by the blue dots. Historically, purchasing at the consumer sentiment peak yielded an average S&P 500 12 month return of 4.1%, while purchasing at the trough, the return was on average 24.9%. Currently, Consumer sentiment is at a low of 50. We aren't predicting the next 12 months will produce +25% returns, but, over time, practicing disciplined investing will only enhance long term returns. As Warren Buffett said this year, "Whether we're talking about stocks or socks, I like buying quality merchandise when it is marked down."

Consumer Sentiment Index and subsequent 12-month S&P 500 returns



JP Morgan Asset Management, Guide to the Markets – June 30, 2022 Edition

Feeling Gloomy – What to do?

2nd Quarter 2022

Time the market at your peril - When stocks have declined, it might be tempting to sell to stem further losses. You might think, "I'll sit out until things get a bit better." But by the time markets are less volatile, you'll have missed part of the recovery. Yes, it stings to watch your portfolio shrink, but imagine how you'll feel when it's stuck while the market rebounds.

Big return days are hard to predict, and you really don't want to miss them. If you invested $1,000 in the S&P 500 continuously from the beginning of 1990 through the end of 2020, you would have $20,451. If you missed the single best day, you'd only have $18,329—and only $12,917 if you missed the best five days.

History shows the stock market tends to rebound quickly. The same can't be said for individual stocks or even entire sectors. (How many railroad stocks do you own?) So, while investing means taking on some risk for expected reward, investors should mitigate risks where they can. Diversification is a top risk mitigation tool, along with investing in fixed income and having a financial plan.

It may be a good time to reassess your portfolio and your plan - We saw many fads crop up through the pandemic, from baking to puppy adoption. Did you experiment with one of the pandemic investment fads—FAANGs, meme stocks, or dogecoin? If so, it may be time to put those fads in the rearview mirror.

Do you know the names of all the stocks you own? Then you probably own too few. How much of your portfolio sits outside the US? Because about half the global market is comprised of foreign stocks. If you only invest in the S&P 500, you're missing half of the investment opportunity set. A market-cap-weighted global portfolio is a better starting point than chasing segments of the market that have outperformed in the past few years.

And if you want to outperform the market, allow decades of academic research to light the way. Portfolios focused on small caps, value stocks, and more profitable companies have had higher returns over the long run. The portfolio we use is invested across more than 10,000 global equities in over 40 countries.

Beyond a well-designed portfolio, one of the best ways to deal with volatile markets and disappointing returns is to plan for them. A financial advisor can help you develop a plan that bakes in the chances you'll experience some market lows. And they can help you find the confidence to weather the current storm and get to the other side.

A sound approach to investing—through a plan, a well-designed portfolio, and an advisor—is the ultimate self-care during these rough markets. Your future self will thank you.

World Stock Market Performance

MSCI All Country World Index with selected headlines from Q2 2022

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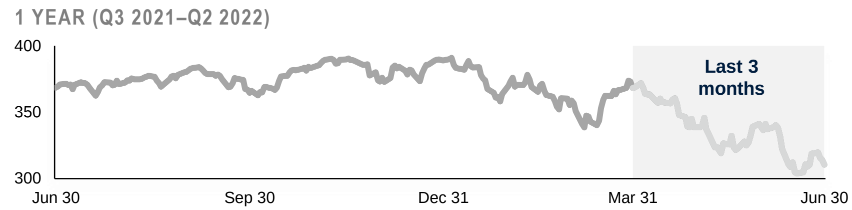
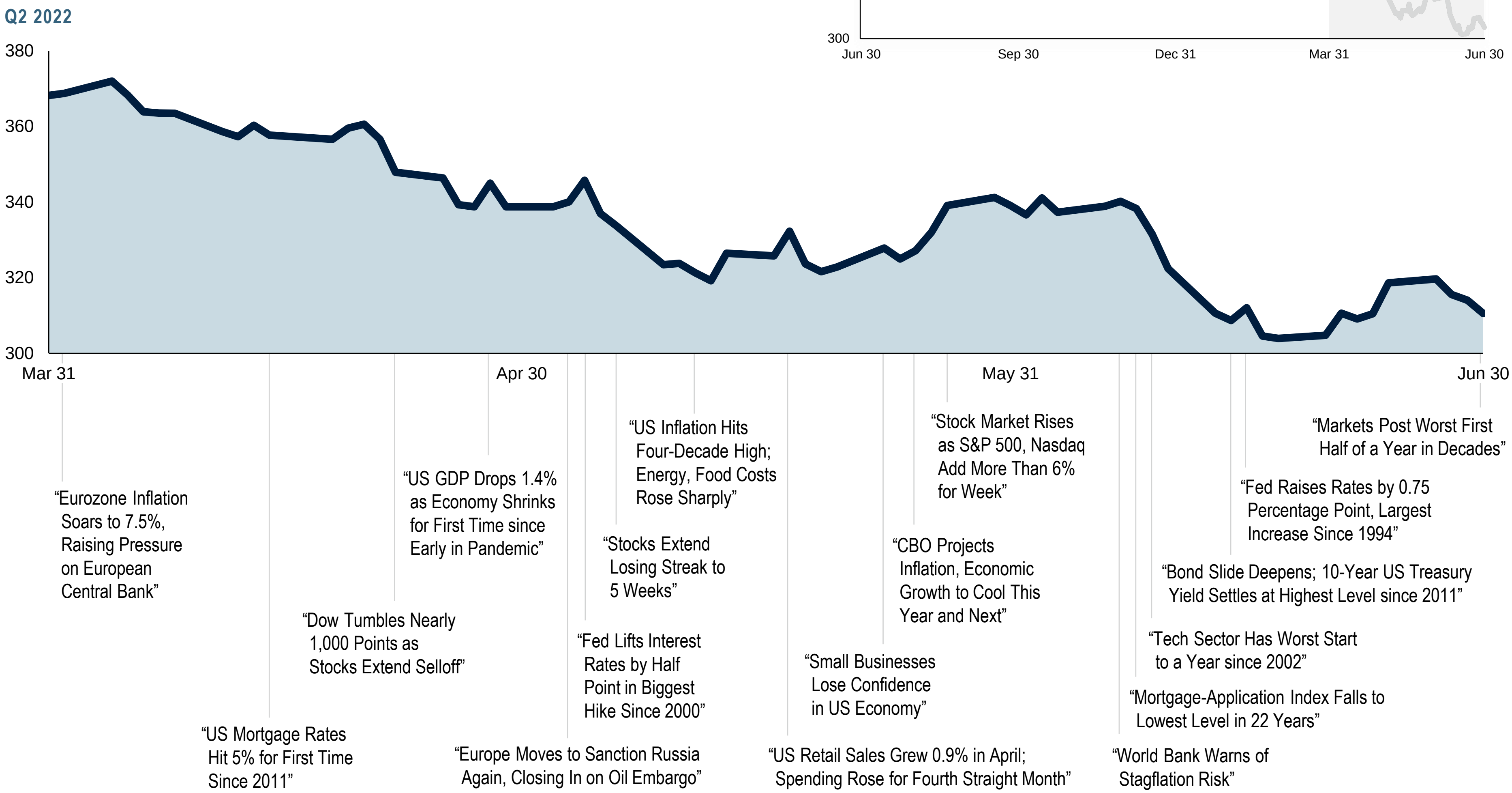




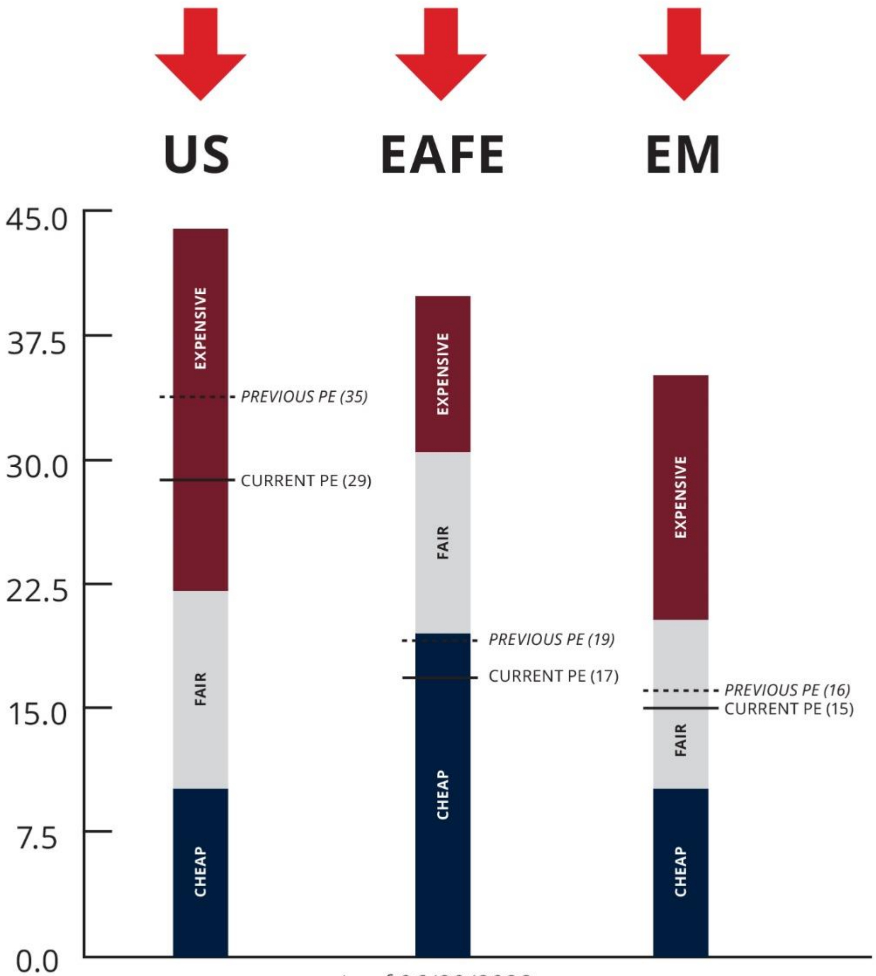
These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.

Graph Source: MSCI ACWI Index [net dividends]. MSCI data © MSCI 2022, all rights reserved.
It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio. **Past performance is not a guarantee of future results.**

Global Valuations

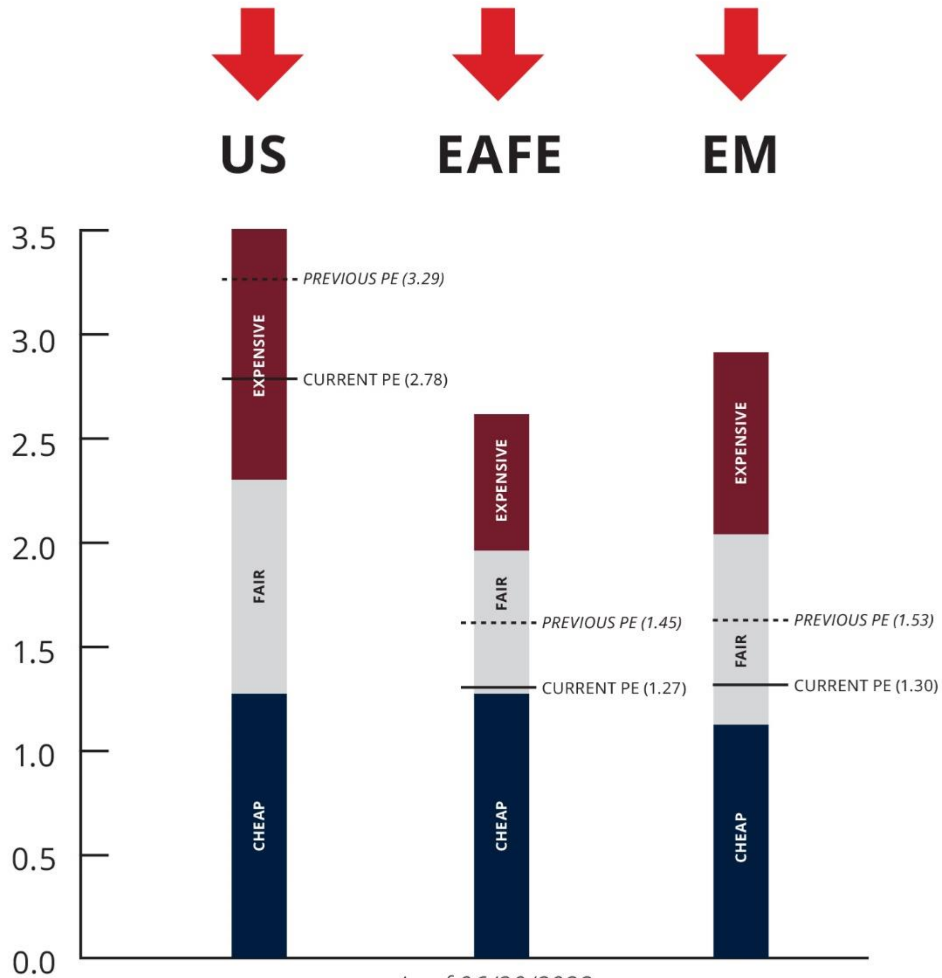
What is the Investment Climate?

Price-to-Earnings (CAPE)



As of 06/30/2022

Price-to-Book Value



As of 06/30/2022

Cyclically Adjusted Price-to-Earnings or “CAPE” is a valuation metric, where the current market price is divided by the last ten years of average earnings (adjusted for inflation). The price you pay is what you get, and by utilizing average earnings over a longer period (10 years), we can put into perspective whether the current market price is trending toward expensive, undervalued, or fairly valued historically.

Quarterly Market Summary

Index returns as of June 30, 2022

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Q2 2022	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
	STOCKS				BONDS	
	-16.70%	-14.66%	-11.45%	-17.22%	-4.69%	-4.01%
Since Jan. 2001						
Average Quarterly Return	2.2%	1.4%	2.6%	2.3%	1.0%	0.9%
Best Quarter	22.0%	25.9%	34.7%	32.3%	4.6%	4.6%
	2020 Q2	**2009 Q2**	**2009 Q2**	**2009 Q3**	**2001 Q3**	**2008 Q4**
Worst Quarter	-22.8%	-23.3%	-27.6%	-36.1%	-5.9%	-4.1%
	2008 Q4	**2020 Q1**	**2008 Q4**	**2008 Q4**	**2022 Q1**	**2022 Q1**

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio.

Market segment (index representation) as follows: US Stock Market (Russell 3000 Index), International Developed Stocks (MSCI World ex USA Index [net dividends]), Emerging Markets (MSCI Emerging Markets Index [net dividends]), Global Real Estate (S&P Global REIT Index [net dividends]), US Bond Market (Bloomberg US Aggregate Bond Index), and Global Bond Market ex US (Bloomberg Global Aggregate ex-USD Bond Index [hedged to USD]). Bloomberg data provided by Bloomberg.

Long-Term Market Summary

Index returns as of June 30, 2022

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	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
1 Year	STOCKS				BONDS	
	-13.87%	-16.76%	-25.28%	-10.61%	-10.29%	-7.75%
5 Years						
	10.60%	2.66%	2.18%	2.79%	0.88%	1.30%
10 Years						
	12.57%	5.37%	3.06%	5.15%	1.54%	2.66%

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Market segment (index representation) as follows: US Stock Market (Russell 3000 Index), International Developed Stocks (MSCI World ex USA Index [net dividends]), Emerging Markets (MSCI Emerging Markets Index [net dividends]), Global Real Estate (S&P Global REIT Index [net dividends]), US Bond Market (Bloomberg US Aggregate Bond Index), and Global Bond Market ex US (Bloomberg Global Aggregate ex-USD Bond Index [hedged to USD]).