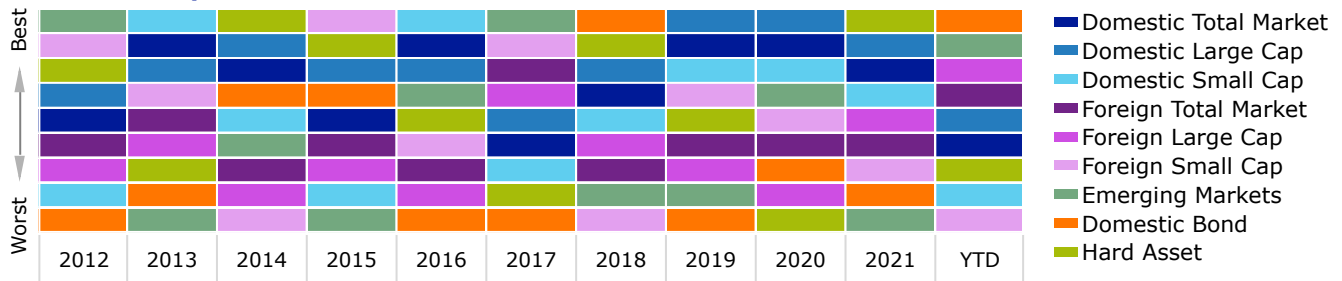


Market Review and Outlook

Key Takeaways:

- As impacts of COVID-19 continue to fade, optimism of the post-pandemic recovery has met the harsh reality of high inflation and more restrictive monetary policy.
- Fears of recession continue to mount as stock market losses, surging mortgage rates, and record-low consumer sentiment undermine economic momentum.
- U.S. GDP retracts by 1.6% in the first quarter; full-year growth expectations downgraded to 2.0%
- Jobs report posts stronger than expected growth; unemployment rate remains steady at 3.6% for fourth consecutive month.
- The Federal Reserve raises its federal funds rate target by 0.75% in June as headline inflation edges over 9%.
- Global economy may narrowly avoid recession; financial markets to remain under pressure as tighter financial conditions increasingly hamper demand.

Performance by Asset Class



Data provided by Morningstar Direct.



U.S. growth outlook downgraded - pace of expected deceleration likely quickened

Entering the second half of 2022, there is growing danger that the economy could slip into recession. While real GDP shrank in the first quarter, monthly economic data suggests solid growth in the second quarter of around 1.5%.

As the Omicron wave subsided, spending increased in sectors most affected by the pandemic such as travel, restaurants, leisure, and entertainment. However, there are significant headwinds looking well into 2023 that increase the probability of entering a period of slow growth given the economy avoids recession.

- The federal budget deficit is likely to fall from 12.4% of GDP to less than 4% this year, reflecting an end to a host of COVID related relief programs which boost consumer spending.
- An overvalued dollar has tempered international trade, decreasing exports and increasing the deficit.
- The housing sector and related activities are being battered by the surge in 30-year mortgage rates.



Economy adds 372,000 jobs in June - unemployment rate remains unchanged at 3.6%

The labor market continues to be a bright spot in an otherwise gloomy environment with significantly more jobs added than previously estimated (275,000). Wages are up 6.4% relative to this time last year, and there are still millions more job openings than unemployed workers. At a time when talk of recession dominates most investment conversations, the continued strength in the labor market provides an important tailwind for the economy against the risks of increasing inflation and deteriorating consumer sentiment.

- The labor force fell by just over 350,000, highlighting the demographic drag on labor supply which may even keep unemployment low if job growth begins to falter.
- Wages continued to grow at a moderate pace of 0.3%, following a 0.4% advance in May, and there are now 1.9 job openings per unemployed worker.

Market Review and Outlook



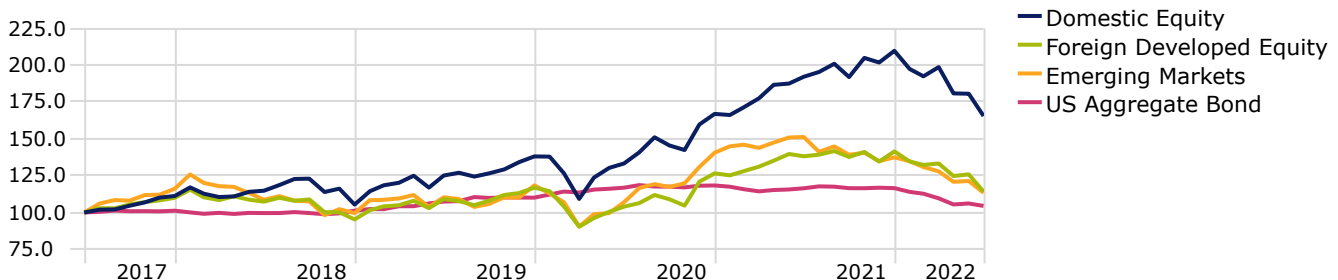
Headline inflation posts new high for 2022 - cresting just over 9% in June

The Consumer Price Index continues to run well above market expectations. Today's high inflation largely reflects the impact of surging consumer spending, fueled by fiscal stimulus, colliding with persistent supply shortages across major sectors of the economy. These problems have been amplified by Russia's brutal invasion of Ukraine and China's attempt to maintain a zero-COVID policy, compounding supply chain disruptions and energy prices.

However, recent data has shown signs of abating inflation. The national average price of gasoline has fallen over \$0.30 since hitting a peak of over \$5 per gallon, airfares appear to have declined in June and into July, and used vehicle prices decreased by 1.3%. While this data has come too late to affect June's readings, the trend could lead to lower inflation in July and August. Several projections show potential for inflation to decline to 7.5% and 5.5% by the end of the third and fourth quarters, respectively.

- The Federal Reserve responded with its largest rate hike since November of 1994, and this increase of 0.75% lifts their current target federal funds range to 1.5%-1.75%.
- As several officials are advocating for a second 0.75% increase in July, further rate hikes are anticipated to end the year in the range of 3%-3.5% and settle between 3.75%-4% in 2023.
- The Fed's greatest risk is raising rates too quickly before their impact can be accurately measured. By potentially worsening international trade and new housing starts, the Fed could trigger a recession and find themselves reversing course next year.
- For the long-term health of both the economy and financial markets, the Fed must gradually increase interest rates to economically sensible levels and keep them there.

5-Year Global Market Performance



Data provided by Morningstar Direct.



Inflation now a global concern - ECB signals first rate increase since July 2011

The global economy presents a mixed picture as we enter the third quarter. On the positive side, the effects of the pandemic are fading in most parts of the world due to widespread immunity gained from both inoculation and infection. However, the Chinese economy continues to be impacted by the pandemic as they struggle to sustain a zero-COVID policy, opting for harsh lockdowns which significantly hamper any economic activity.

European economies, undoubtedly affected by the war in Ukraine, are suffering too as energy prices rise to remarkably high levels. And as central banks tighten policy to bring inflation under control, many analysts do not believe this to imminently trigger a global recession. Downsides remain to both earnings and aggregate demand which will slow the pace of economic recovery around the world.

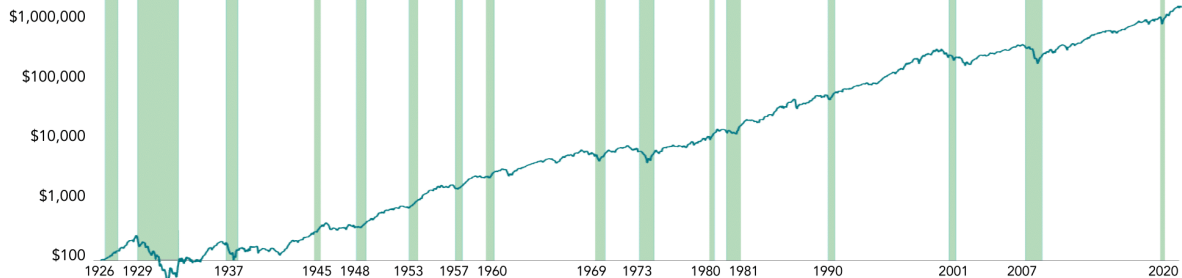
- May inflation readings hit 9.1% in the U.K. and just over 8% in the European area.
- In response, the Bank of England recently raised its main policy rate for the fifth time to 1.25%, and the European Central Bank (ECB) announced its intent to hike rates for the first time in over a decade.
- 2022 GDP estimates for the U.K. are now in the 3.5%-4% range, 2.5%-3% for the European area, and around 3% for China and other emerging markets.

Market Review and Outlook

Three Crucial Lessons for Weathering the Stock Market's Storm

Marlena Lee, PhD
Global Head of Investment Solutions (Dimensional Fund Advisors)

Growth of \$100, 1926-2021



Past performance is no guarantee of future results.

In US dollars. Recessions shaded in green. Stock returns represented by Fama/French Total US Market Research Index, provided by Ken French and available at mba.tuck.dartmouth.edu/pages/faculty/ken.french/data_library.html. This value-weighted US market index is constructed every month, using all issues listed on the NYSE, AMEX, or Nasdaq with available outstanding shares and valid prices for that month and the month before. Exclusions: American depositary receipts. Sources: CRSP for value-weighted US market return. Rebalancing: Monthly. Dividends: Reinvested in the paying company until the portfolio is rebalanced. Growth of wealth shows the growth of a hypothetical investment of \$100 in the securities in the Fama/French US Total Market Research Index from July 1926 through December 2021.

Investors can always expect uncertainty. While volatile periods like the one we're experiencing now can be intense, investors who learn to embrace uncertainty may often triumph in the long run. Reacting to down markets is a good way to derail progress made toward reaching your financial goals.

Here are three lessons to keep in mind during periods of volatility that can help you stick to your well-built plan. And if you don't have a plan, there's a suggestion for that too.

1. A recession is not a reason to sell

Are we headed into a recession? A century of economic cycles teaches us we may well be in one before economists make that call.

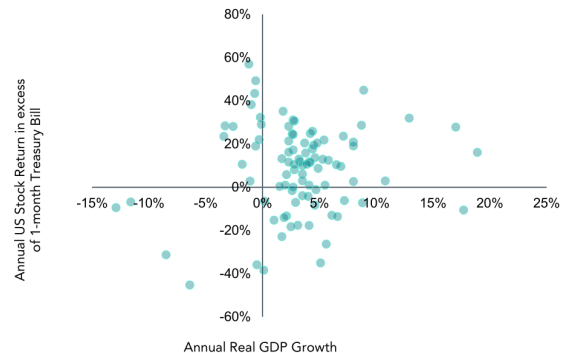
But one of the best predictors of the economy is the stock market itself. Markets tend to fall in advance of recessions and start climbing earlier than the economy does. As the below shows, returns have often been positive while in a recession.

All the dots in the upper left quadrant in the chart (exhibit 2) are years where the US economy contracted but US stocks still outperformed less-risky Treasury bills. It's a great illustration of the forward-looking nature of markets. If you're worried, other investors are too, and that uncertainty is reflected in stock prices.

Whether accompanied by recessions or not, market downturns can be unsettling. But over the past century, US stocks have averaged positive returns over one-year, three-year, and five-year periods following a steep decline.

A year after the S&P 500 crossed into bear market territory (a 20% fall from the market's previous peak), it rebounded by about 20% on average. And after five years, the S&P 500 averaged returns over 70%.¹

Exhibit 2



Past performance is no guarantee of future results.

Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio. In USD. Annual GDP growth rates obtained from the US Bureau of Economic Analysis. GDP growth numbers are adjusted to 2012 USD terms to remove the effects of inflation. Data provided by Fama/French. Eugene Fama and Ken French are members of the Board of Directors of the general partner of and provide consulting services to, Dimensional Fund Advisors LP. Please see "Appendix Descriptions" for a description of the Fama/French index data. Results shown during periods prior to each index's index inception date do not represent actual returns of the respective index. Other periods selected may have different results, including losses. Backtested index performance is hypothetical and is provided for informational purposes only to indicate historical performance had the index been calculated over the relevant time periods. Backtested performance results assume the reinvestment of dividends and capital gains.

We believe that staying invested puts you in the best position to capture the recovery. If you take risk out of your portfolio, it should be a strategic, not tactical, choice. We believe the only good reason to sell out of a stock portfolio now—so long as it's diversified and low-cost—is because you learned something about your risk tolerance or your investment goals have changed.

Source: Dimensional Fund Advisors: Q2 Quarterly Market Review. See Disclosures for Additional Information

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2. Past performance, including hypothetical performance, is no guarantee of future results. Growth of \$1,000 is hypothetical and assumes reinvestment of income and no transaction costs or taxes. The analysis is for illustrative purposes only and is not indicative of any investment. S&P data © 2022 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. Indices are not available for direct investment.

Market Review and Outlook

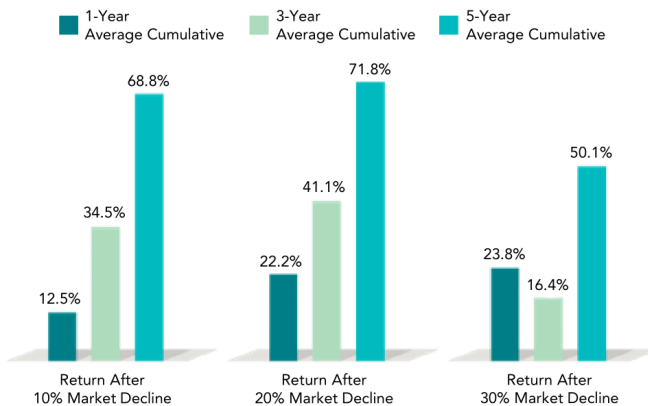
Three Crucial Lessons for Weathering the Stock Market's Storm

Marlena Lee, PhD
Global Head of Investment Solutions (Dimensional Fund Advisors)

Exhibit 3

Fama/French Total Us Market Research Index Returns

July 1, 1926-December 31, 2021



Past performance is no guarantee of future results.

Market declines or downturns are defined as periods in which the cumulative return from a peak is -10%, -20%, or -30% or lower. Returns are calculated for the 1-, 3-, and 5-year look-ahead periods beginning the day after the respective downturn thresholds of -10%, -20%, or -30% are exceeded. The bar chart shows the average returns for the 1-, 3-, and 5-year periods following the 10%, 20%, and 30% thresholds. For the 10% threshold, there are 29 observations for 1-year look-ahead, 28 observations for 3-year look-ahead, and 27 observations for 5-year look-ahead. For the 20% threshold, there are 15 observations for 1-year look-ahead, 14 observations for 3-year look-ahead, and 13 observations for 5-year look-ahead. For the 30% threshold, there are 7 observations for 1-year look-ahead, 6 observations for 3-year look-ahead, and 6 observations for 5-year look-ahead. Peak is a new all-time high prior to a downturn. Data provided by Fama/French and available at ba.tuck.dartmouth.edu/pages/faculty/ken.french/data_library.html. Fama/French Total US Market Research Index: 1926-present: Fama/French Total US Market Research Factor and One-Month US Treasury Bills. Source: Ken French website.

2. 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 often 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.²

3. 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 or meme stocks or dogecoin? If so, it may be time to put those fads in the rearview.

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 I 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 have planned 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. This piece first appeared in MarketWatch with the title "Follow these 3 crucial lessons for weathering the stock market's storm."

Source: Dimensional Fund Advisors: Q2 Quarterly Market Review. See Disclosures for Additional Information

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Disclosures

- **Expanded Market Report Disclosures:**

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Investor Letter provided by Dimensional Fund Advisors. Accessed via mydimensional.com.

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