August 2022

SOL CAPITAL MANAGEMENT COMPANY

Client Investment Letter

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Global financial markets endured significant volatility during the second quarter, following sharp swings in inflation and the path of the U.S. Federal Reserve's interest rate hikes. Having recovered most of the initial declines caused by Russia's invasion of Ukraine, markets reconsidered the question of "transient" inflation. U.S. monthly inflation readings progressively accelerated to new records, exacerbated by the energy and commodity supply shocks stemming from the war. Global market sentiment plummeted by mid-June as central banks around the world continued to rapidly raise interest rates in attempts to crush soaring price levels and the strengthening dollar. Meanwhile, supply chain bottlenecks remained unresolved and "zero-Covid" lockdowns stymied economic activity in China, putting further pressure on global growth and inflation. All these factors stoked fears of impending recession and consumer confidence fell to 50-year lows. Except for commodities, investors shunned risk assets, including bonds, in favor of safe havens, particularly the U.S. dollar.

However, since mid-June, fixed income markets have begun to stabilize and equity markets (both U.S. and international) have posted strong recoveries (see Exhibit 1). Investors took heart, at least temporarily, as energy prices eased from their lofty highs and corporate earnings reports and outlooks were better than previously feared. There was also hope that monetary policymakers would soon slow their aggressive rate hikes should the economy begin to slow or equity markets sour.

While returns since quarter-end have been encouraging, it is difficult to conclude if the market cycle has bottomed out or if there is more pain to come. The risk of recession in the U.S. is real (even more so in Europe), and when it is declared, or if conditions deteriorate further, markets may sell off again. On the other hand, abysmal sentiment, earnings estimate cuts, and sharp revaluations across most asset classes may have already priced in some risk of recession.

Amid all this uncertainty and volatility, it is critical for investors to make sure their portfolios are positioned to meet any near-term liquidity requirements. As fixed income markets have sold off and interest rates have rapidly reset upward, short-term high-quality bonds are now offering significantly more yield than they were just six months ago. This offers more options to investors who need liquidity in the near term and cannot afford to take too much risk.

At the same time however, it is equally as critical to take advantage of the opportunities provided by the overreactions of others. Historically speaking, it is from these moments,

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when sentiment is depressed, that future return potential is at its highest (see Appendix A). Share prices, particularly of growth stocks, have been hit hard year-to-date, bringing their valuations back to more reasonable levels. For a long-term investor, this is a chance to build up stakes in quality businesses at discounted prices.

Financial Markets Performance

"U.S. stocks declined sharply, particularly during the back half of the second quarter, as the Federal Reserve turned from gradual to aggressive tightening of monetary policy to combat accelerating inflationary pressures."

Equities

U.S. stocks declined sharply, particularly during the back half of the second quarter, as the Federal Reserve turned from gradual to aggressive tightening of monetary policy to combat accelerating inflationary pressures. Recent winners, particularly high-growth stocks in the technology sector were punished severely, as higher interest rates caused investors to place lower present values on their distant earnings. Consumer discretionary stocks were also hard-hit on fears of a looming recession. Energy and utilities outperformed; the former benefited from higher oil and gas prices while the latter's defensive characteristics were attractive to investors amid geopolitical uncertainty. Performance across capitalizations exhibited small variances, and value stocks significantly outperformed growth across the board. Though they are sensitive to recession fears, value stocks are less sensitive to

Exhibit 1

Total Return* for Selected Equity Indices	Second Quarter (03/31/2022 to 06/30/2022) %	Year-to-Date (12/31/21 to 06/30/2022) %	Year-to-Date (12/31/21 to 08/12/2022) %
S&P 500 Index	-16.10	-19.96	-9.34
S&P 500 Growth Index	-20.81	-27.62	-14.73
S&P 500 Value Index	-11.27	-11.41	-3.35
Russell 3000 (Total U.S. Market) Index	-16.70	-21.10	-10.02
Russell 2000 (Small-Cap) Index	-17.20	-23.43	-9.48
Russell 2000 (Small-Cap) Growth Index	-19.25	-29.45	-15.38
Russell 2000 (Small-Cap) Value Index	-16.70	-17.31	-3.69
MSCI All Country World ex-U.S. Index (Net)	-13.73	-18.42	-14.02
MSCI All Country World ex-U.S. Growth Index (Net)	-15.71	-24.79	-19.29
MSCI All Country World ex-U.S. Value Index (Net)	-11.90	-11.79	-8.73
MSCI EAFE (International) Index (Net)	-14.51	-19.57	-14.29
MSCI Emerging Markets Index (Net)	-11.45	-17.63	-15.67
MSCI ACWI Commodity Producers (Net)	-13.42	4.34	12.11

Source: FactSet. *Includes price appreciation plus dividends and/or interest.

Financial Market Performance Cont.

rising interest rates (and generally include the energy and utilities sectors).

Share prices of developed market equities also declined during the period, but losses were slightly smaller compared to their U.S. peers (even after taking currency into account). In Europe, worries about elevated inflation, energy shortages, the potential for aggressive monetary policy tightening, and the Russia-Ukraine conflict all weighed on equity prices. U.K. stocks fared slightly better, as a weak pound helped local multinationals. Japanese stocks lost little ground in local currency terms, as monetary policy remained loose, but a significant depreciation of the yen (-10.3%) delivered a -14.6% return in U.S. dollar terms.

Emerging market equities lost ground as well, yet marginally positive returns in the Chinese market cushioned the blow. Chinese equities reversed their downward trajectory in May when the government allowed an end to the strict (and unpopular) lockdowns in Beijing and Shanghai. New policy support and economic data in June that suggested the economy was recovering also lifted investor sentiment.

Fixed Income

Accelerating inflation and an increase in expectations of future Fed rate hikes drove the broad fixed income market to significantly negative returns during the second quarter (see Exhibit 2). Duration (interest rate sensitivity) played a major role in performance across most debt assets.

U.S. Treasuries sold off as markets aggressively priced in a full year's worth of rate hike expectations. Short-term rates jumped by 2.5 to 3 percentage points, more than those of longer maturities (up 1.5 to 2 percentage points). Investors looked beyond current inflation concerns toward longer-term inflation expectations, which remain anchored around 3%. This flattening of the yield curve mitigated some of the duration impact on long-dated U.S. government bonds.

Other areas of the fixed income market that are priced off U.S. government yields (i.e., investment-grade corporate credit) reacted at a lag. Prices of longer -term corporate bonds suffered a combination of the duration impact, a widening of credit spreads amid increasing recession risks, as well as technical pressure as investors rushed to shed duration exposure all at once.

High-yield bonds also posted poor results, yet unlike the investment-grade sector, credit quality (rather than duration) was a primary factor in determining performance. Higher quality bonds outperformed across the board.

Developed market government bonds lost value with European debt posting slightly worst returns than debt of non-European countries. Emerging market debt produced negative returns both in U.S. dollars and local currency, generally driven by rising inflation concerns.

"Investors looked beyond current inflation concerns toward longer-term inflation expectations, which remain anchored around 3%. This flattening of the yield curve mitigated some of the duration impact on long-dated U.S. government bonds."

Financial Markets Performance Cont.

Exhibit 2

Total Return* for Major Fixed Income & Hedge Fund Indices	Second Quarter (03/31/22 to 06/30/22) %	Year-to-Date (12/31/21 to 06/30/22) %	Year-to-Date (12/31/2021 to 8/12/22) %
Bloomberg Barclays U.S. Aggregate Bond Index	-4.69	-10.35	-8.89
Bloomberg Barclays U.S. Government/Credit Index	-5.03	-11.05	-9.78
ICE BofAML 1-3 year U.S. Broad Market Index	-0.62	-3.15	-3.18
ICE BofAML U.S. High Yield BB-B Bond Index	-9.49	-13.66	-7.27
JP Morgan Non-U.S. Global Bond Index (GBI) Hedged	-4.21	-9.05	-7.33
JP Morgan EMBI Global Index in USD (Emerging Markets)	-5.03	-18.83	-14.64

Source: Bloomberg LP. *Includes price appreciation plus dividends and/or interest.

Global Economic Update

"...what is indisputable is that the "goldilocks" growth environment that welcomed economies as they exited the pandemic (i.e., near-zero interest rates, aggressive fiscal stimulus, immense pent-up consumer demand, low energy prices) is long gone."

Most major economies (with the notable exception of China) are maturing into the late stage of the business cycle (see Appendix B). This is typically the point when growth slows, earnings come under pressure (from weakening demand and higher cost-push inflation), and policy is no longer supportive of expansion. It is important to note that there is no clear timeline of how long economies normally remain in this late stage, nor what specifically would trigger them to fall into recession – each cycle has been different. However, what is indisputable is that the "goldilocks" growth environment that welcomed economies as they exited the pandemic (i.e., near-zero interest rates, aggressive fiscal stimulus, immense pent-up consumer demand, low energy prices) is long gone.

United States

Real GDP contracted by an annualized -0.9% in the second quarter, following a decline of -1.6% in the first quarter. A sharp drop in private inventories, as well as a slowdown in housing investment, pulled the overall growth figure into negative territory, offsetting the strong increase in exports and continued (albeit slower) growth in consumer spending.

While there is a rule of thumb that two consecutive quarters of negative GDP growth constitute a recession, we would stress that it is not the official definition. The levels and rates of change of numerous economic variables are analyzed before an official declaration is made, and many of those variables remain in expansionary territory today. However, what is obvious is that the economy has slowed from its red-hot, post-pandemic growth spurt and is coming up against increasing macroeconomic headwinds.

Headline inflation in June rose by 9.1% year-over-year (5.9% after stripping away the effects of the more volatile

Global Economic Update Cont.

food and energy components). Despite the continued high print, under the surface we are seeing evidence of a gradual softening of inflationary pressures. Expectations for wage growth have moderated, and the sharp one-off adjustments to wages and rents many have seen since the pandemic may also lessen going forward. Consumers are shifting their spending away from goods (which had an outsized contribution to inflation last year) back toward services. Firms that had built up enormous inventories, either as insurance against supply chain bottlenecks or an irrational bet on the sustainability of stimulus-induced consumer demand, are slashing prices to clear their storerooms. Finally, commodity prices have pulled back from their earlier peaks as fears of a recession-induced demand slump are now competing with the supply shock triggered by the Russia-Ukraine conflict.

The labor market meanwhile remains extremely tight, with the unemployment rate hovering at a 50-year low of 3.5%. Quit rates are very high, the ratio of job openings to job seekers remains near all-time highs, and wage growth is elevated by historical standards (see Appendix C). However, this rosy picture of the labor market masks a few less cheerful realities for the overall economy. Even at 6%, current wage growth is not enough to keep up with inflation, meaning real wages have not grown for well over one year. Furthermore, despite the seemingly ample opportunities, the labor force has shrunk considerably over the last few years. It may have been temporary at first due to the pandemic's shutdowns, but it is becoming permanent as more Baby Boomers retire and net immigration has stalled. This suggests the labor shortages that are plaguing nearly every industry could be here to stay.

Meanwhile, government support is rapidly unwinding. The federal fiscal deficit expected to contract from 12.4% of GDP in 2021 to less than 4% this year. Finally, this most recent quarter's exports notwithstanding, the immense strength of the dollar may further weigh on growth going forward. The dollar, which was already in a strong position, has appreciated over 10% year-to-date (on a trade-weighted basis), and may further deepen the country's trade deficit as consumers switch to cheaper imports.

China

The Chinese economy has been slowing for some time now, its growth potential restrained by the government's rigid zero-Covid strategy. Lockdowns of numerous cities, including two of the country's mega-cities had a lasting effect in the first half of the year. The economy, which had averaged near 7% annual growth pre-pandemic, only managed to grow by an annualized 0.4% in the second quarter.

"Quit rates are very high, the ratio of job openings to job seekers remains near all-time highs, and wage growth is elevated by historical standards (see Appendix C). However, this rosy picture of the labor market masks a few less cheerful realities for the overall economy."

Global Economic Update Cont.

> *"The economic (and political) uncertainty is weighing heavily on the euro, which in July briefly reached parity with the U.S. dollar for the first time in 20 years."*

Even though there are indications that the slowdown in consumption (in addition to investor pessimism) may be bottoming out, episodic lockdowns, regulatory pronouncements, and political saber rattling appear to be continuing ahead of October's Party Congress. On a brighter note for markets, the government has announced fresh fiscal and monetary stimulus plans, and officials have publicly issued statements to mollify fears of another abrupt regulatory crackdown, even as they continue to implement changes to rebalance control over strategic private sectors (e.g., real estate, education, technology, semiconductors, commodities).

In June, Chinese PMI[1] increased by a whopping 13 points, jumping well into expansionary territory. That said, sustaining this momentum depends on how well cities and provinces handle future Covid outbreaks and how the slowdown in the country's overextended property market is managed by central authorities. If all goes well, estimates of 2022 GDP growth for China are around 4%, which while positive is far below the (now abandoned) official target of 5.5%.[2]

Europe

The war in Ukraine and the resulting shock to energy supplies are threatening the growth trajectory of the European economy. In the first half of the year, the euro area managed to eke out positive growth, but consumption has since slowed, and confidence has plummeted. The economic (and political) uncertainty is weighing heavily on the euro, which in July briefly reached parity with the U.S. dollar for the first time in 20 years.

The chances of the regional economy falling into recession in the second half of this year are high, particularly as winter approaches and fuel supply constraints will become a critical concern. The European Union has already rapidly diversified its energy sources in recent months and years but should oil and gas imports from Russia be cut off entirely this year, recession would essentially be guaranteed. In such an event, energy rationing would likely be required, but how such a plan is structured, both within and between E.U. member states, is yet to be determined – and some of the largest economies, most notably Germany and Italy, are particularly vulnerable. Furthermore, what such a shock to growth may mean for public finances and borrowing costs in the region's more indebted nations (again, such as Italy) are unclear. That said, previous crises have each time led to broad-based reforms, resiliency, and a deeper economic and political integration of the bloc. In hindsight, the same may be said of the current energy and security crisis.

[1] PMI, Purchasing Managers' Index, is a measure of manufacturing and services activity in an economy. A score below 50 indicates contraction and above 50 indicates expansion. Between May and June, China's PMI score increased from 42.2 to 55.3.

[2] Source: JPMorgan Asset Management

Investment Strategy

Last year, the "goldilocks" environment that greeted economies after the pandemic also provided a period of euphoria for financial markets. Low interest rates meant many investors needed to reach into riskier asset classes to achieve growth, and the future expected earnings of currently unprofitable businesses appeared to be worth the high price charged in the market. A seemingly unwavering upward tide lifted valuations of many asset classes to a series of all-time highs.

Since then, however, the tide has receded. Amid war, an energy crisis, soaring inflation, rapidly rising interest rates, and a potential global slowdown, the exorbitant valuations witnessed in the market last year were no longer sustainable. As the future value of money is recalculated, what is becoming increasingly more valuable is current, not distant, profits. Sector leadership has shifted as a result and jittery investors have kept the market volatile.

However, despite the uncertainty, there is still a path forward for investors. Just as during the previous euphoric market environment, in the current tumultuous one, we rely on our time-tested core investment principles as a guiding light, namely: diversification, quality at the right price, as well as discipline and patience.

Diversification

There is always risk associated with investing, but being diversified, either as a shareholder or as a lender, offers the cheapest (and arguably the best) protection against the permanent loss of capital. If one business' operation (or country's economy) fails or defaults on its debt, an investor who concentrated a considerable amount of their assets on that one firm (or country) could stand to permanently impair their wealth. Whereas the diversified investor – whose portfolio was spread across hundreds (if not thousands) of companies, in multiple sectors, and in multiple economies – may barely notice the event on their bottom line over time.

Quality at the Right Price

Last year saw an irrational (and unsustainable) appreciation in the valuations of certain sectors, particularly the most speculative ones, such as young unprofitable entities and digital assets. That euphoria also seeped into the valuations of other, more conventional sectors, such as technology and consumer discretionary. There was nothing inherently wrong with the business models of these firms, in aggregate, but investors were being forced to pay too much to become an owner. We tended to underweight these sectors in recent years, as we were unwilling to pay such high premiums for ownership. The rapid rise in discount rates this year has brought the share prices of many of these companies back down to reality, and we are seeing opportunities to buy these high-quality companies at levels closer to "the right price." A lower entry point – and therefore a higher future expected return – is another key to success for a long-term investor.

"The rapid rise in discount rates this year has brought the share prices of many of these companies back down to reality, and we are seeing opportunities to buy these high-quality companies at levels closer to "the right price." A lower entry point – and therefore a higher future expected return – is another key to success for a long-term investor."

Investment Strategy Cont.

> *"When equity (and especially bond) markets fall by double digits, it is only natural for an investor to feel uneasy. However, while no one correction or bear market is the same, they are a regular and temporary occurrence (see Appendix D). What is key in these moments is to focus on one's investment horizon."*

Discipline and Patience

When equity (and especially bond) markets fall by double digits, it is only natural for an investor to feel uneasy. However, while no one correction or bear market is the same, they are a regular and temporary occurrence (see Appendix D). What is key in these moments is to focus on one's investment horizon. We do not buy equities with the expectation they will appreciate 30% in three months (though we would be happy if they do). We buy equities knowing they offer a higher return potential over the long term (5, 10, 30 years) while accepting that there will be volatility along the way. When the equity market drops, we do not sell out – conversely, we buy more, if we are able.

Fixed income investments on the other hand are more important to investors with a shorter horizon and/or for those with a lower tolerance for risk. For those investors, watching the bond market go through its worst six-month period in decades naturally feels even more painful. However, now that rates have reset upward, those investors that hold on will receive significantly more income over time, providing the opportunity to recover recent declines.

Our core investment principles have guided us for over three decades as we advise our clients on how to protect and grow their wealth. While they do not remove the effects of volatility, we wholeheartedly believe staying true to our principles helps our clients avoid making mistakes in the short term and positions them for success in the long term.

Equities

Within equity allocations, we continue to prioritize broad diversification across all sectors, styles, capitalizations, and geographies. We strive to blend together a core position of passive exposure to the market with satellites of actively managed strategies that offer an opportunity to beat the market over the long term. We believe this strategy is prudent first from a diversification and return point of view, but also because it allows us to reduce costs for our clients.

This year's heightened volatility has led to the mispricing of many assets, which allows both us and our outside managers to take advantage of increasingly attractive valuations. The broad repricing of shares has also increased the long-term expected returns of equities, but particularly for non-U.S. stocks. However, while we are rebalancing back into equities (as we typically do in such market environments), we are seeking to keep portfolios close to their long-term asset allocation targets, as applicable.

Furthermore, we have been employing various techniques to aggressively harvest losses wherever possible in an effort to reduce capital gains tax expenses. While the losses booked may not fully eliminate tax bills for this year, we hope they may significantly offset the taxes due on the dividends and capital gains that will be distributed from U.S.-registered securities in the fourth quarter.

Investment Strategy Cont.

Fixed Income

The yield curve has moved up substantially year-to-date as markets aggressively priced in future Fed rate hikes (see Appendix E). Some argue that the market has overshot the expected number of rate increases, while others believe there could still be more pain to come. Some of our managers have opportunistically extended duration as a form of protection should the economy stall and rates retreat downward. Meanwhile others are focusing on maintaining high-quality bonds on the short end and complementing them with riskier bonds that are more directly correlated to the overall economy but offer significantly more yield.

As a firm, we are not comfortable making a call on the broad direction of interest rates. In the interim therefore, we prefer to maintain an overall shorter duration profile in client portfolios and allow our flexible-mandate managers the discretion to adjust their individual positioning accordingly.

In Conclusion

Market returns for the first half of 2022 have been difficult, though we have seen some relief since the end of June. Investors are grappling with the uncertainties created by persistent inflation, hawkish central banks, a spike in energy prices, and the threat of looming recession. While this specific combination of factors may be new to many investors, bear markets are not out of the ordinary.

There is no clear indication when markets will fully recover their year-to-date declines, but we do know that these are the moments when investors must be patient, remain disciplined, tune out the short-term uncertainty and take advantage of long-term opportunities. We have been in such situations before and continue to work hard to make our clients' portfolios more efficient and better positioned to meet their long-term goals.

If there are any changes in your risk tolerance, liquidity needs, and/or investment goals, please contact us so we may have a constructive conversation about any changes that may (or may not) need to be made to your investment portfolio. Additionally, if you have any questions or concerns about financial markets, please never hesitate to call us at +1 (301) 881-3727 or email us at client.services@sol-capital.com.

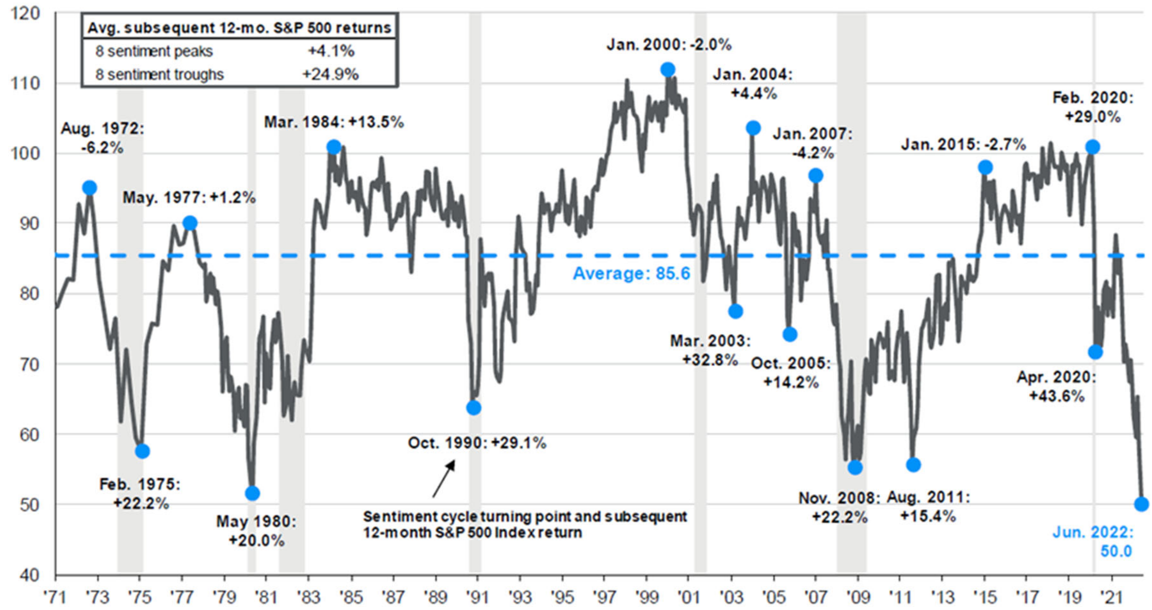
With our best regards,

SOL Capital Management Company

"There is no clear indication when markets will fully recover their year-to-date declines, but we do know that these are the moments when investors must be patient, remain disciplined, tune out the short-term uncertainty and take advantage of long-term opportunities."

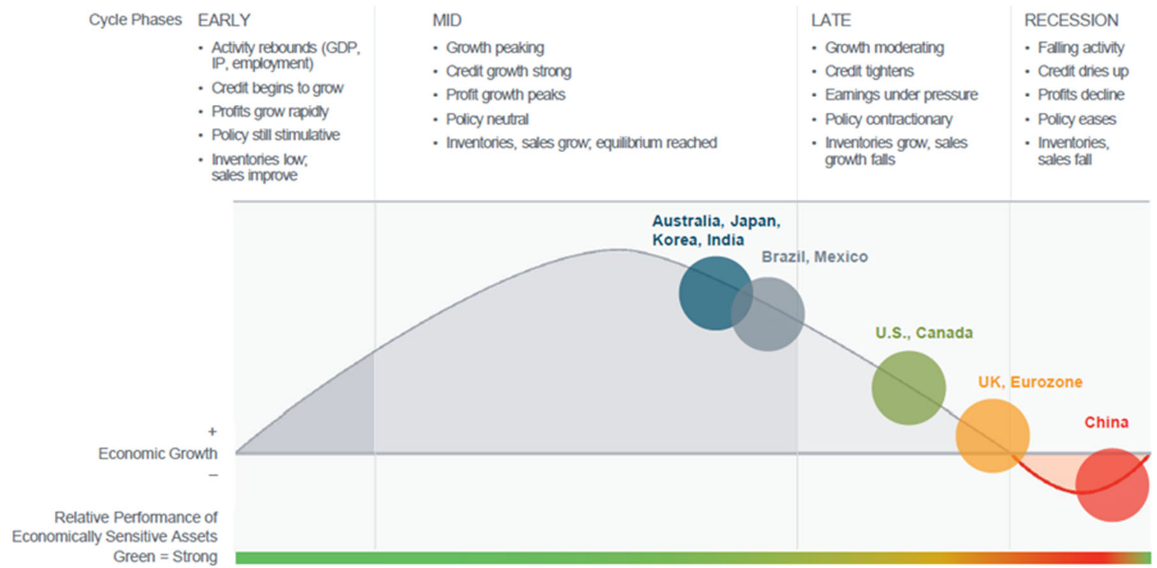
Appendices

Appendix A: Consumer Confidence and the Stock Market



Source: JPMorgan Asset Management. Data as of 30 June 2022. Underlying sources: FactSet, Standard & Poor's, University of Michigan, JPMorgan Asset Management. Peak is defined as the highest index value before a series of lower lows, while a trough is defined as the lowest index value before a series of higher highs. Subsequent 12-month S&P 500 returns are price returns only, which excludes dividends. Past performance is not a reliable indicator of current and future results.

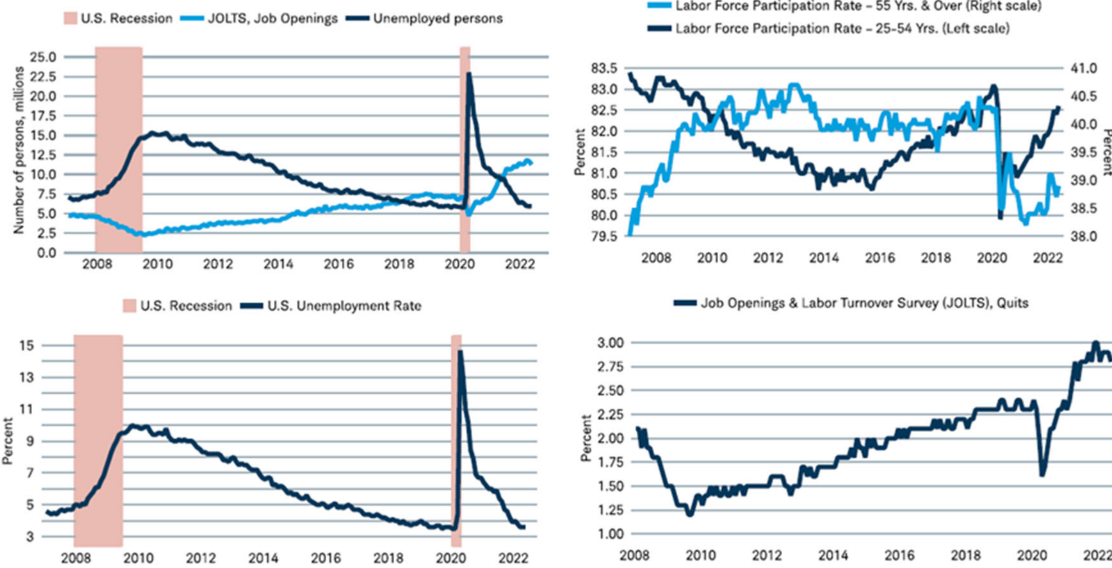
Appendix B: Business Cycle Framework



Source: Fidelity Investments (AART). Data as of 5 July 2022. Note: the diagram above is a hypothetical illustration of the business cycle, the pattern of cyclical fluctuations in an economy over a few years that can influence asset returns over an intermediate-term horizon. There is not always a chronological, linear progression among the phases of the business cycle, and there have been cycles when the economy has skipped a phase or retraced an earlier one.

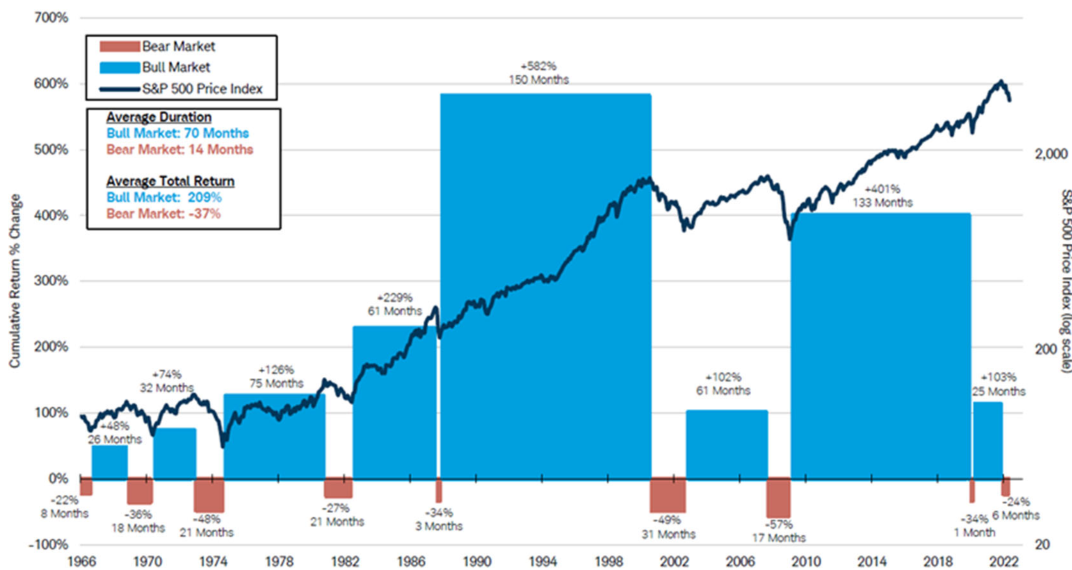
Appendices Cont.

Appendix C: U.S. Labor Market



Source: Charles Schwab & Co. Data as of 30 June 2022. Red bars represent National Bureau of Economic Research defined recession periods.

Appendix D: U.S. Bull and Bear Markets



Source: Charles Schwab & Co., Bloomberg. Data as of 30 June 2022. Bull and bear markets as defined by Yardeni Research. Indexes are unmanaged, do not incur fees or expenses, and cannot be invested in directly. Past performance is no guarantee of future results.

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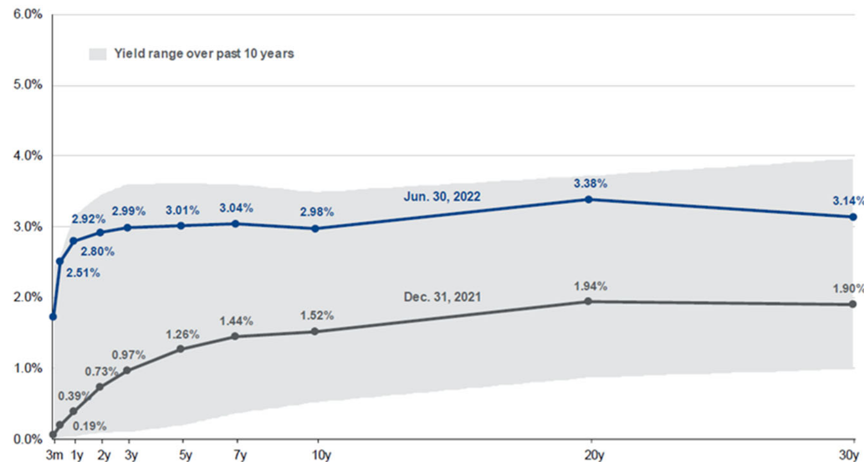
Appendices Cont.

Appendix E: U.S. Treasury Yield Curve



Source: JPMorgan Asset Management, FactSet, Federal Reserve. Data as of 30 June 2022.

Disclosures

Important Disclosure Information

Please remember that past performance may not be indicative of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product (including the investments and/or investment strategies recommended or undertaken by SOL Capital Management Company [“SOL Capital]), or any non-investment related content, made reference to directly or indirectly in this commentary will be profitable, equal any corresponding indicated historical performance level(s), be suitable for your portfolio or individual situation, or prove successful. Due to various factors, including changing market conditions and/or applicable laws, the content may no longer be reflective of current opinions or positions. Moreover, you should not assume that any discussion or information contained in this commentary serves as the receipt of, or as a substitute for, personalized investment advice from SOL Capital. SOL Capital is neither a law firm, nor a certified public accounting firm, and no portion of the commentary content should be construed as legal or accounting advice. A copy of the SOL Capital’s current written disclosure Brochure discussing our advisory services and fees continues to remain available upon request or at www.sol-capital.com. Please Remember: If you are a SOL Capital client, please contact SOL Capital, in writing, if there are any changes in your personal/financial situation or investment objectives for the purpose of reviewing/evaluating/revising our previous recommendations and/or services, or if you would like to impose, add, or to modify any reasonable restrictions to our investment advisory services. Unless, and until, you notify us, in writing, to the contrary, we shall continue to provide services as we do currently. Please Also Remember to advise us if you have not been receiving account statements (at least quarterly) from the account custodian.

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