PUBLIC EQUITIES

Equity Markets	Q1 2022
US Large Cap (S&P 500 TR)	-4.6%
Nasdaq	-8.9%
US Small Cap (Russell 2000)	-7.5%
Japan (TOPIX)	-1.2%
Europe (MSCI Europe)	-5.2%
China (CSI 300)	-14.5%
Global EM (MSCI EM)	-7.0%

Bond Markets	Q1 2022
US 2yr	160.2
US 10yr	82.8
US 30yr	54.4
German 10yr	72.5
German 30yr	46.9
UK 10yr	63.9
UK 30yr	64.6
JGB 10yr	14.9
JGB 30yr	24.8

Currency Markets	Q1 2022
DXY	2.8%
EUR	-2.7%
GBP	-2.9%
JPY	-5.4%
MSCI EM Currency Index	0.6%

Commodity Markets	Q1 2022
Crude Oil (WTI)	33.3%
Nat Gas	51.3%
Gold (Spot)	5.9%
Steel (Rebar)	12.5%
Ag & Livestock (Bloomberg)	17.6%

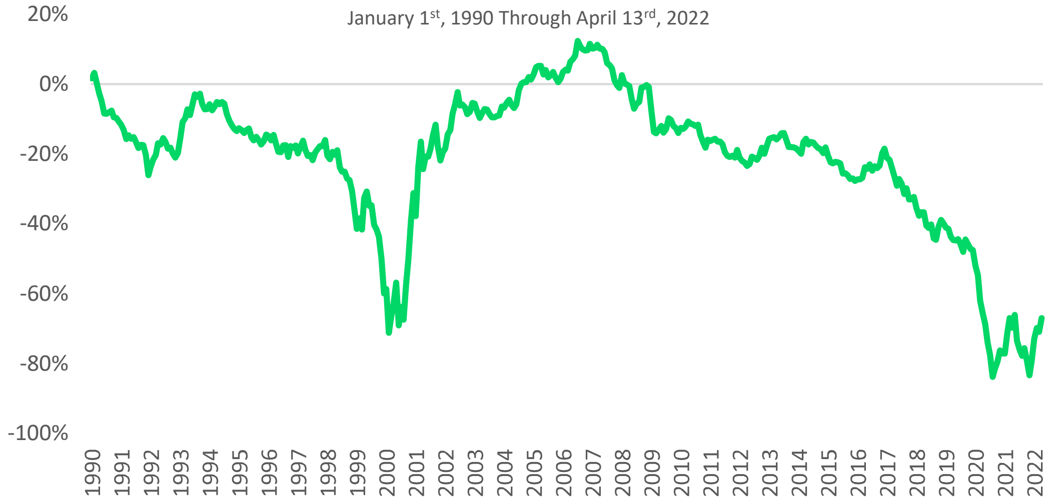
RCG HF Indices	Q1 2022
All Hedge Funds	-1.0%
Equity Hedge	-4.3%
Absolute Return	0.1%
Equity Market Neutral	-0.5%
Event Driven	-1.3%
Global Macro	6.7%

Global equities retreated a little over 5% in the first quarter. Investors' flight to safety led the US market to outperform both Europe and Japan in USD terms; however, the best performing markets were those of commodity-rich countries Norway, Australia, and Canada. Over the past two quarters, equities have reflected a clear regime change from growth supremacy to an environment ripe for cyclicals and natural resources. At the very least, technology is no longer "the only game in town." With large government and private spending on energy and supply chain independence, and with the colossal resource and infrastructure investments needed to reach zero carbon, we could be looking at a decades-long trend.

In this period of heightened inflation and rising interest rates, investors are, once again, starting to show a preference for the value/cyclical part of the market, reflecting its protection against rising prices. Although Europe usually does well in such a scenario, it's justifiably reflecting a high war risk premium than other developed markets because of its greater reliance on Russia for natural resources. Energy-related sectors have performed well but there is likely a long runway ahead for industrial, infrastructure, materials, and other sectors geared to Europe's drive towards energy independence and zero carbon. The war in Ukraine has only pushed Europe further in the direction of more fiscal spending. This is the opposite of the previous decade of austerity we saw following the Great Financial Crisis and bodes well for European equities over the medium- to long-term.

Another potential opportunity in Europe is in dividend-paying equities, which are currently offering unusually high yields compared to bonds. In the event high inflation remains with us, investors will increasingly gravitate towards higher yielding strategies. European banks, for example, trade at relatively inexpensive multiples, offering attractive yields on capital.

Japan traded in line with the US in Q1, but a large drop in the yen hurt investors who were not hedged to the dollar. However, yen depreciation has raised the prospects for Japanese corporate earnings. Japan is also a market that tends to be resilient to rising interest rates and many of the same forces at work around supply chains and infrastructure should benefit sectors like energy, chemicals, and transportation. Japan's underperformance versus other developed markets last year combined with comparatively attractive valuations and underweighting by foreign investors puts the market in a reasonably good place, so long as we don't see a sharp decline in economic growth.



Source: Bloomberg

The slowdown in economic growth likely in the wake of monetary tightening, however, does pose a material risk to the downside for equities globally. In some ways, given the macro headwinds, it's somewhat surprising equities have held up as well as they have so far. Some of the strength is certainly due to continued negative real interest rates in Q1 driving capital out of bonds.

Dividend Yield / EPS Ratio

Source: Datastream, Goldman Sachs Global Investment Research

Emerging Markets

Emerging markets equities finished the quarter down 7.0% as measured by the MSCI Index, but country dispersion was the name of the game. Setting aside MSCI's decision to remove Russia from the EM Index altogether, it was China, roughly one third of the MSCI EM Index, that led negative performance at minus 14%. Korea and Taiwan fared little better, down 9.6% and 6.6% respectively. Outside of North Asia it was a different story, with Latin America and South Africa up by mid to low double digits and ASEAN markets also outperforming. Q1-2022 rewarded the equity markets from countries that have what the world wants and needs – energy and food – and mostly punished those that do not.

For commodity exporters, the big question is – what happens when the boom softens? We're already seeing signs that demand for energy commodities is slowing, driven in part by the effects of China's Covid lockdowns. Moreover, European governments have pledged to speed up plans to transition to greener energy sources and adopt more sustainable food practices. In Latin America, domestic dynamics in commodity heavyweights Brazil, Chile, and Colombia speak to structural headwinds, including rapidly rising inflation; debt/GDP levels that are, on average, the highest in the world, and a series of consequential presidential and legislative elections.

Inflation (%) [1]

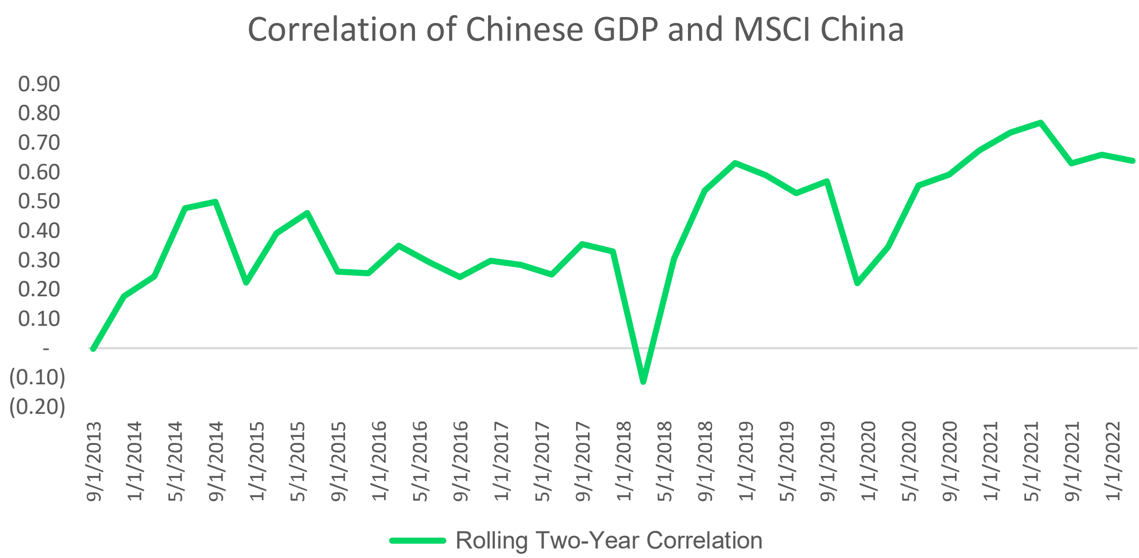
Country	Last	Previous
Peru	6.83	6.15
Mexico	7.45	7.28
Colombia	8.53	8.01
Chile	9.4	7.8
Brazil	11.3	10.54
Argentina	52.3	50.7
Venezuela	284	340

Similarly, South Africa faces slower growth, tighter financial conditions, and unresolved domestic power supply disruptions continue. Higher transportation and food prices will also weigh on already subdued domestic demand.

For China, the world's major commodity importer, pressures could hardly come at a worse time. The world's second largest economy was already weighed down by slow growth, a real estate credit crunch, and a badly managed series of Covid shutdowns (see spotlight below). Chinese equities are trading at or below the levels of March 2020, the height of the pandemic, and do not show signs of improving. Historically, Chinese GDP growth and equity market performance have been uncorrelated, but in recent

[1] Trading Economics as of 3/22/22

years this dynamic has changed. At best, this is a sign of a maturing capital market and economy. More likely, it coincides with Beijing's crackdown on its most successful private enterprises, which is damaging growth as well as worrying investors.



Source: RockCreek

As a net importer of commodities, Asia's other behemoth, India, did not perform as badly as feared in the first quarter. We attribute this to earlier business-friendly reforms, the lowering of budget busting subsidies, and deft diplomatic tactics. Staid sectors like utilities, energy, and financials have supported the market. Barring a global recession and oil spiking – for example to $200 per barrel – we believe value can also be found elsewhere, particularly in the country's tech enabled growth sectors.

As we covered in January, ASEAN markets were the shining stars in Asia during Q1. The recovery and re-rating stories continue, led by Indonesia and Malaysia. Tourism in the region is expected to pick up significantly, which would benefit Thailand even if the heretofore omnipresent Chinese tourist is still subject to tough restrictions.

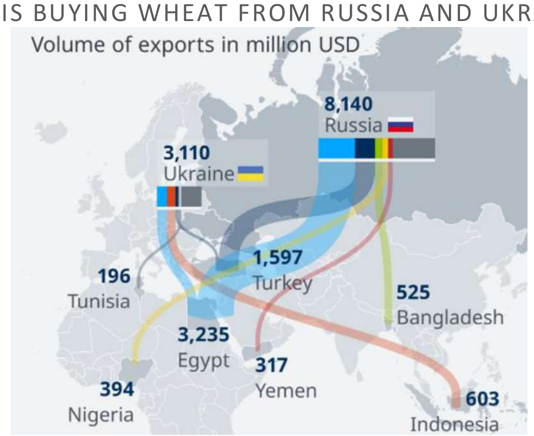
Uncertainty will remain elevated for emerging markets, as more generally, with downside risks as the IMF has just warned. Emerging and frontier markets are especially vulnerable to the global external shocks from energy and food prices, tightening US monetary policy, and China's weakness. Food security will be a particularly thorny issue, where countries need to act fast to avoid civil unrest.

EGYPT FOOD INFLATION[2]

Source: Trading Economics

From an investment perspective, we believe EM companies with strong corporate governance, a solid understanding of current macro shocks, and – importantly – a plan to invest in areas that address the global economy's shortcomings should do well. The current macroeconomic backdrop in our view underscores the importance of focusing on investments with strong sustainable underpinnings. Over 3-, 5-, and 10-year periods of time, the performance of sustainability related investments have largely outperformed traditional indices irrespective of the region, and importantly, have done so with lower volatility and smaller drawdowns.

WHO IS BUYING WHEAT FROM RUSSIA AND UKRAINE?



Source: OEC.World

[2] As of March 31st, 2022

ESG in EM Matters

MSCI Index	YTD	1 Yr	3 Yr	5 Yr	10 Yr
EM (EMERGING MARKETS)	-9.4%	-14.6%	3.1%	5.5%	3.3%
EM (EMERGING MARKETS) ESG LEADERS	*-10.5%*	*-16.2%*	*3.6%*	*6.4%*	*5.6%*
EM ASEAN	3.5%	4.9%	-1.2%	1.6%	1.1%
EM ASEAN ESG LEADERS	*2.6%*	*1.2%*	*-1.9%*	*1.1%*	*1.7%*
EM ASIA	-11.7%	-19.0%	4.1%	6.5%	5.6%
EM ASIA ESG LEADERS	*-12.2%*	*-20.0%*	*5.9%*	*8.2%*	*7.8%*
EM EASTERN EUROPE	-79.3%	-75.6%	-36.5%	-20.0%	-12.2%
EM EASTERN EUROPE ESG LEADERS	*-73.9%*	*-66.9%*	*-32.7%*	*-15.5%*	*-7.9%*
EM EMEA	-12.3%	-4.3%	0.0%	2.7%	-0.2%
EM EMEA ESG LEADERS	*-11.3%*	*-4.5%*	*-2.5%*	*3.0%*	*2.5%*
EM EUROPE	-71.3%	-66.8%	-30.2%	-16.7%	-11.1%
EM EUROPE ESG LEADERS	*-67.4%*	*-59.2%*	*-28.3%*	*-12.9%*	*-6.8%*
EM EUROPE & MIDDLE EAST	-21.2%	-8.0%	-0.6%	2.6%	-1.4%
EM EUROPE & MIDDLE EAST ESG LEADERS	*-25.5%*	*-9.6%*	*-4.4%*	*3.1%*	*1.3%*
EM FAR EAST	-13.9%	-24.3%	2.3%	5.6%	5.0%
EM FAR EAST ESG LEADERS	*-14.2%*	*-25.0%*	*4.4%*	*7.3%*	*7.2%*
EM LATIN AMERICA	24.3%	18.8%	1.6%	3.5%	-1.0%
EM LATIN AMERICA ESG LEADERS	*19.5%*	*4.6%*	*-4.0%*	*-1.2%*	*-1.6%*

Source: MSCI, as of April 11th, 2022

LOOKING AHEAD

As institutional investors continued to de-risk in recent months, retail flows have been comparatively strong. For example, in early April, markets saw selling from hedge funds for five of the previous six weeks, while over that same period equity mutual funds and ETFs saw $46 billion of inflows. The strategy of "buying the dip" has been promptly well-rewarded going all the way back to the Great Financial Crisis. It will be important to watch whether retail buying will sustain itself. In particular, companies that over-earned because of Covid or are exposed to consumers being squeezed by inflation are areas that stand out to the downside. In addition, predicting sales and margins is more challenging amid high inflation. Elevated and stable margins will be more scarce and thus more valuable to investors, so quality and high dividend yields will be important factors to have in a portfolio.

Geographically, investors will continue to be rewarded by being overweight to US public equities, though there are select opportunities outside the US that are very promising. Within emerging markets, ASEAN countries are attractive, as are EM countries that benefit from commodity and agriculture trends. In Europe, countries with less reliance on hydrocarbons for energy and sectors tied to renewable energy will be areas of interest, though the risk-reward for European equities, more generally, is increasingly being challenged by today's geopolitical tensions and the rift with Russia. The likelihood that the war in Ukraine will drag on puts a focus on near-term recession risks, as well as the longer-term risks from Europe's energy dependence and required transition to regional power generation.

A similar geographic positioning makes sense in private sector portfolios, where US- focused funds that have smaller mandates to invest outside the US look most attractive. Finally, equity investors need to monitor developments in China with particular care. Policymakers are navigating a difficult predicament – containing Covid outbreaks while not further dampening an already weakening economy.