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Capital Management

# Q1 2022 Quarter in Review

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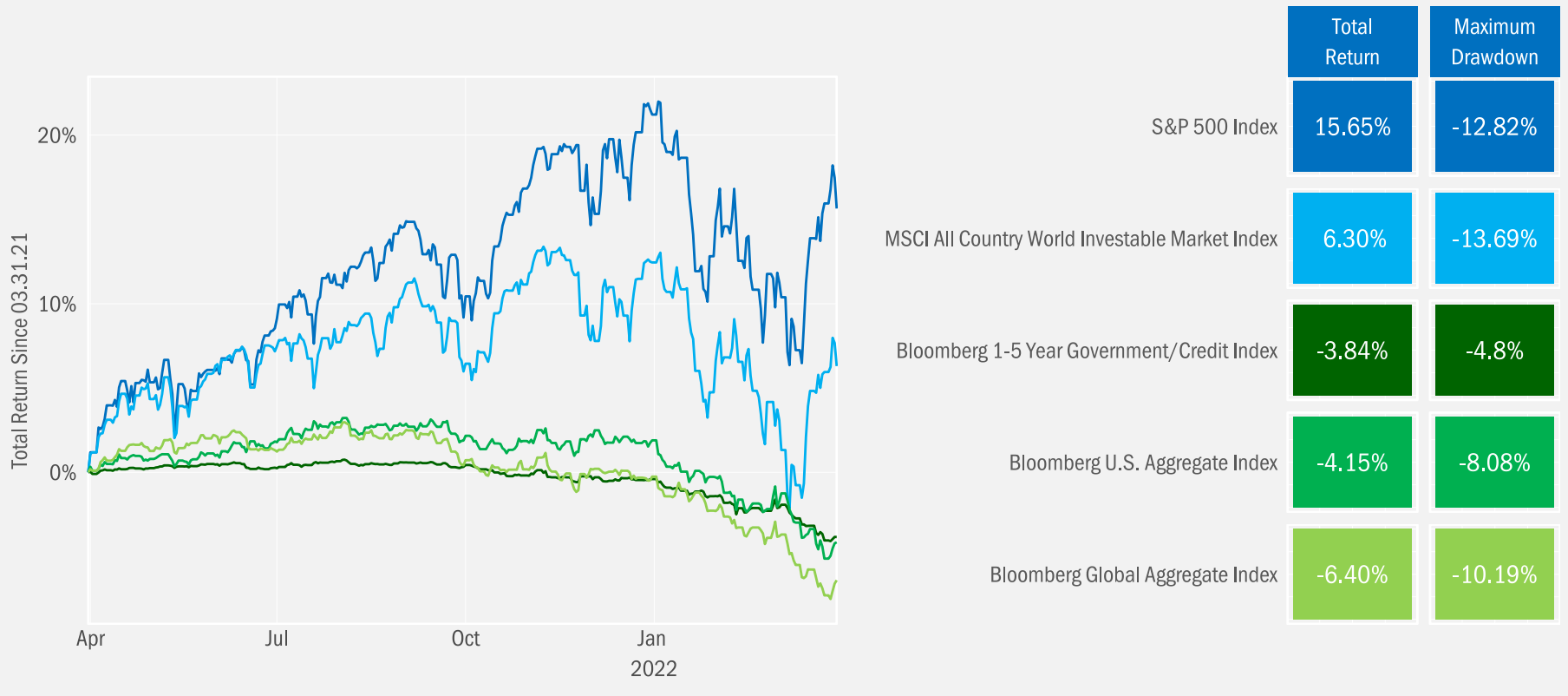
Mark Mowrey, CFA

Chief Investment Officer

# Global Market Overview

Stocks sank early this year on a wide range of macroeconomic concerns. After a minor drop at the start of the war in Ukraine, global equities rebounded sharply. Since last summer, though, bonds have heavily sagged as monetary policy makers targeted inflation

**Trailing 1-Year Total Return of Major Asset Classes (through 03.31.22)**



Past performance is not indicative of future results. Investing in securities involves risk, including risk of losing some or all the invested capital. There is no guarantee that any investment or investment strategy will achieve its objective. Indexes are unmanaged. One cannot directly invest in an index. Index performance reflects the reinvestment of dividends but does not reflect the expenses associated with the management of an actual portfolio. Please see additional important information regarding indexes at the end of this report. SOURCE: SRCM using data from Bloomberg

# Global Equity Market Overview

Though the last quarter saw even-ish performance across regional markets, non-U.S. stocks have trailed domestic stocks for more than a decade. Emerging market stocks were particularly hard hit as the Chinese government enacted policies that dampened speculative impulse

## Trailing Broad Equity-Market Performance

Percent total return, annualized for periods greater than 1 year

	3 Month	1 Year	3 Year	5 Year	10 Year
Global	-5.47	6.30	13.49	11.37	9.95
World ex. U.S.	-5.60	-1.27	7.87	6.92	5.78
U.S.	-5.26	12.34	18.43	15.51	14.38
Int'l Developed Markets	-6.32	0.41	7.88	6.81	6.53
Emerging Markets	-6.65	-9.49	5.74	6.19	3.59

From 03.31.12 to 03.31.22. Total return data are annualized for periods greater than 1 year.

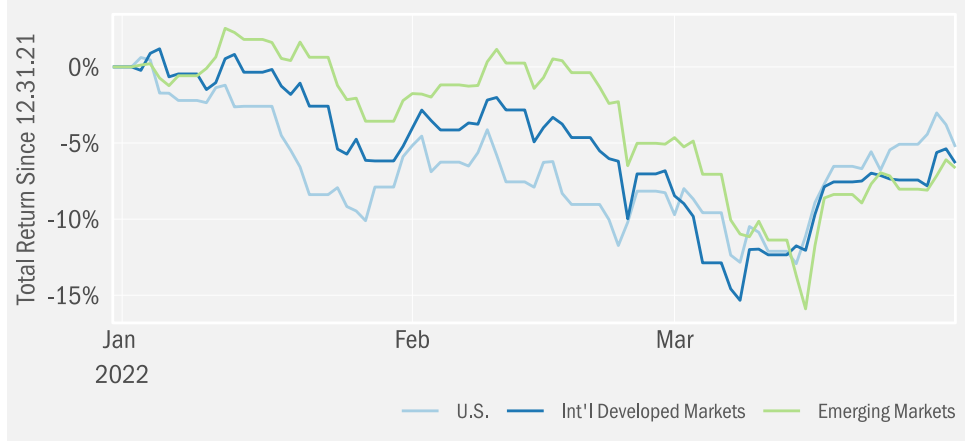
SOURCE: SRCM using data from Bloomberg

### Notable events of the prior three months include:

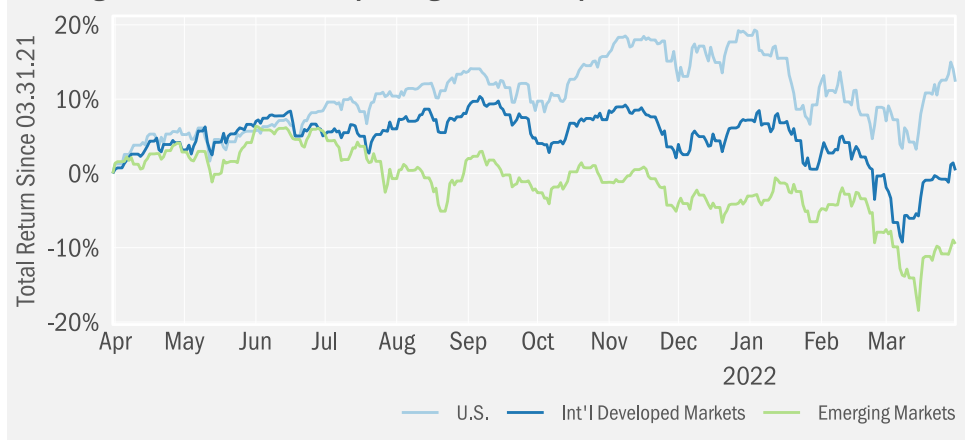
- 01.05: Federal Reserve minutes show a far more hawkish tilt to upcoming policy decisions
- 01.14: Daily average COVID-19 cases peaks in the U.S. at over 806,000. Daily average ends quarter below 28,000
- 02.24: Russia invades Ukraine sparking Western-leader outrage and further pressuring already multi-decade-high inflation trends

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## Trailing 3-Month Total Return (through 03.31.22)



## Trailing 1-Year Total Return (through 03.31.22)



# Core Factors: U.S. Stocks

Though stocks were broadly weak in the quarter, less-expensive names (Value stocks) strongly outperformed. Same was mostly true for the year, though outperformance was much stronger among mid- and small-caps, while big-cap growth retained the top spot

		3-Month Period ended 03.31.22		1-Year Period ended 03.31.22				
		All Stocks	Value	Growth	All Stocks	Value	Growth	
3-Month Period ended 03.31.22	All Stocks	-5.3%	-1.3%	-9.3%	All Stocks	12.3%	12.8%	11.4%
	Large	-5.1%	-1.5%	-8.8%	Large	14.8%	12.9%	16.2%
	Mid	-5.7%	-0.3%	-11.5%	Mid	7.4%	15.4%	-1.3%
	Small	-5.7%	-1.2%	-10.3%	Small	0.3%	8.0%	-7.4%

The table displays the relative performance of different indexes representing U.S. stocks. Broad market performance is shown in the upper left of each group (3-month and 1-year periods). The remainder of the table displays the performance of various indexes, including large-, mid- and small-cap stocks, Value and Growth stocks, and combinations of each. Indexes that outperformed (underperformed) the broader market are shaded in blue (grey) in depth according to their respective relative performance. Past performance is not indicative of future results. One cannot invest directly in an index. Index performance does not reflect the expenses associated with the management of an actual portfolio. Please see additional important information regarding indexes at the end of this report. SOURCE: SRCM using data from Bloomberg

# Core Factors: International Stocks

Same as we saw in the States, Value strongly outperformed in the first quarter and through the year. We did not, though, see as much of a difference within Value across the market cap scale. Also different, growth stocks underperformed across the board

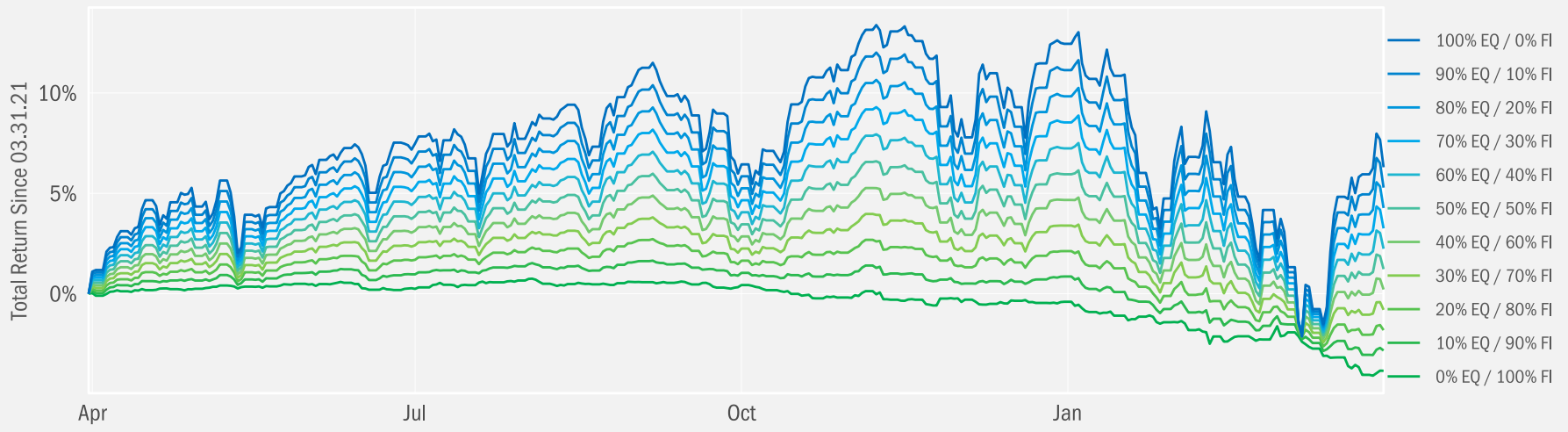
		3-Month Period ended 03.31.22		1-Year Period ended 03.31.22			
			Value	Growth	Value	Growth	
3-Month Period ended 03.31.22	All Stocks	-5.6%	-0.3%	-10.7%	-1.3%	3.3%	-5.8%
	Large	-5.1%	0.8%	-10.8%	-1.3%	4.2%	-6.6%
	Mid	-6.7%	-2.5%	-10.7%	-2.4%	-0.4%	-4.4%
	Small	-6.5%	-2.6%	-10.4%	0.0%	3.3%	-3.3%
1-Year Period ended 03.31.22	All Stocks	-1.3%	3.3%	-5.8%	-1.3%	3.3%	-5.8%
	Large	-1.3%	4.2%	-6.6%	-1.3%	4.2%	-6.6%
	Mid	-2.4%	-0.4%	-4.4%	-2.4%	-0.4%	-4.4%
	Small	0.0%	3.3%	-3.3%	0.0%	3.3%	-3.3%

The table displays the relative performance of different indexes representing international stocks. Broad market performance is shown in the upper left of each group (3-month and 1-year periods). The remainder of the table displays the performance of various indexes, including large-, mid- and small-cap stocks, Value and Growth stocks, and combinations of each. Indexes that outperformed (underperformed) the broader market are shaded in blue (grey) in depth according to their respective relative performance. Past performance is not indicative of future results. One cannot invest directly in an index. Index performance does not reflect the expenses associated with the management of an actual portfolio. Please see additional important information regarding indexes at the end of this report. SOURCE: SRCM using data from Bloomberg

# Range of Returns for Different Asset Allocations

Fixed income markets provided the relatively stability that is their characteristic over the past year, and even protected against some of the February drop in stocks, but bond prices broadly sank nonetheless as interest rates rose against soaring inflation

**Trailing 1-Year Total Return of a Range of Asset Allocations (through 03.31.22)**

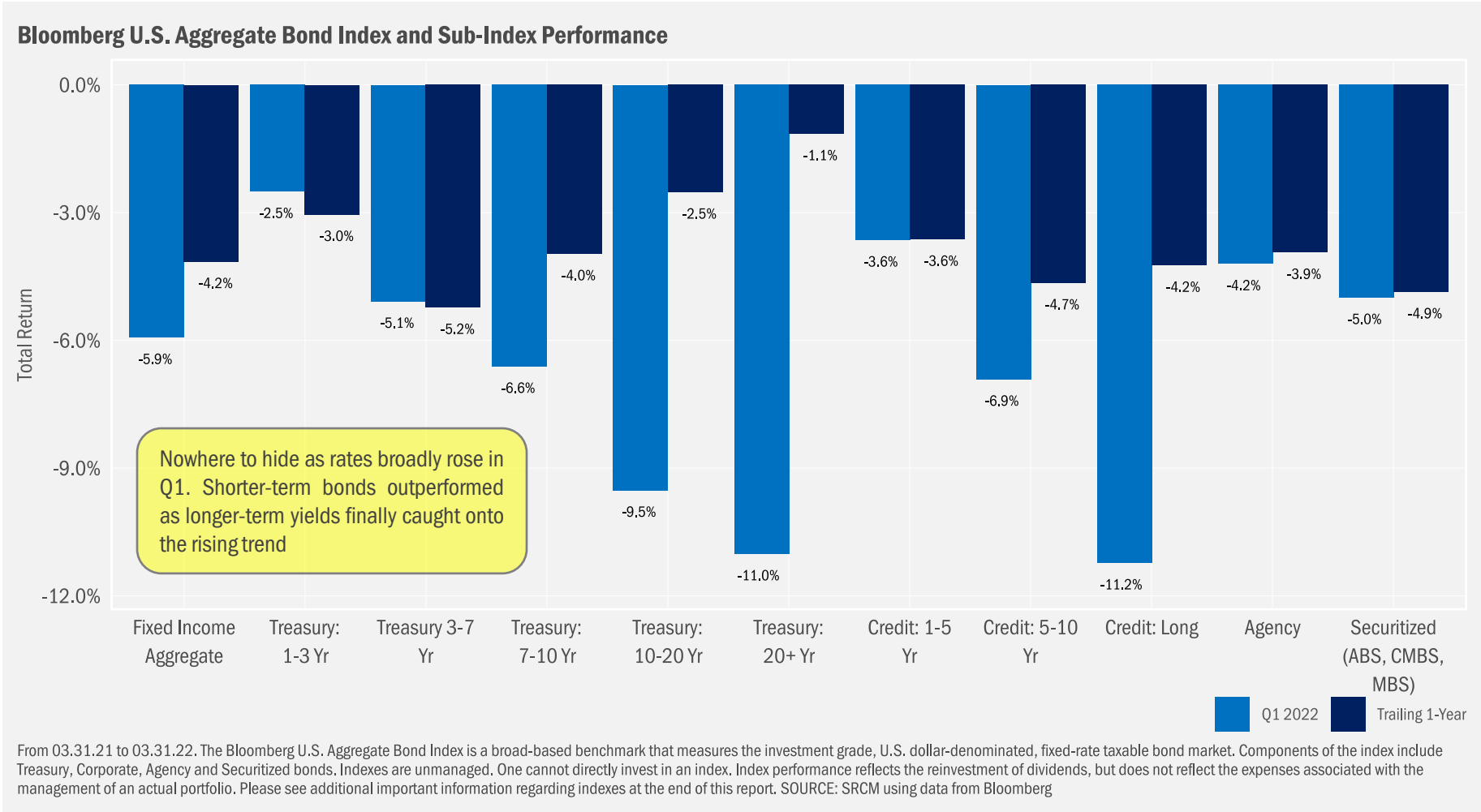


	0% EQ / 100% FI	10% EQ / 90% FI	20% EQ / 80% FI	30% EQ / 70% FI	40% EQ / 60% FI	50% EQ / 50% FI	60% EQ / 40% FI	70% EQ / 30% FI	80% EQ / 20% FI	90% EQ / 10% FI	100% EQ / 0% FI
<b>Total Return</b>	-3.84%	-2.83%	-1.82%	-0.80%	0.21%	1.22%	2.24%	3.25%	4.27%	5.28%	6.30%
<b>Maximum Drawdown</b>	-4.8%	-4.63%	-5.21%	-6.15%	-7.12%	-8.12%	-9.18%	-10.31%	-11.43%	-12.56%	-13.69%

Past performance is not indicative of future results. Investing in securities involves risk, including risk of losing some or all the invested capital. There is no guarantee that any investment or investment strategy will achieve its objective. The equity index used for this presentation is the MSCI ACWI IMI Index. The fixed income index used for this presentation is the Bloomberg Barclays U.S. 1-5 Year Government/Credit Bond Index. Indexes are unmanaged. One cannot directly invest in an index. Index performance reflects the reinvestment of dividends but does not reflect the expenses associated with the management of an actual portfolio. Please see additional important information regarding indexes at the end of this report. SOURCE: SRCM using data from Bloomberg

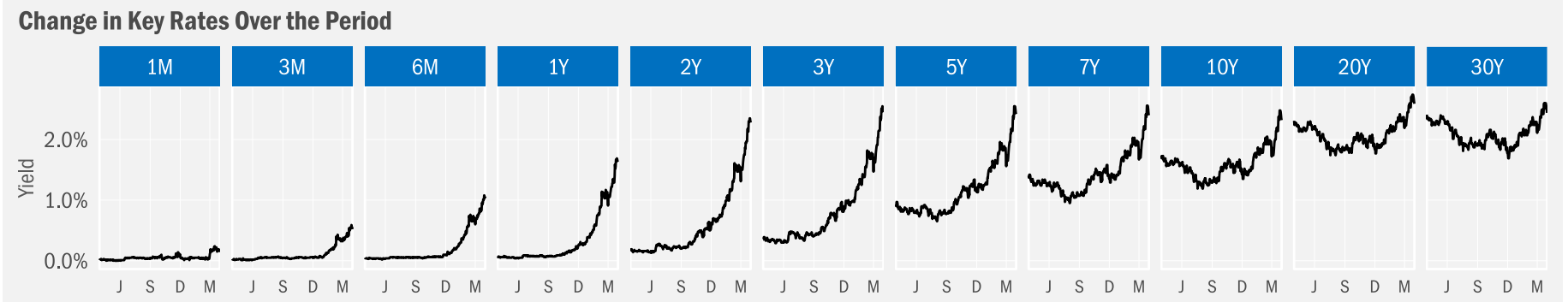
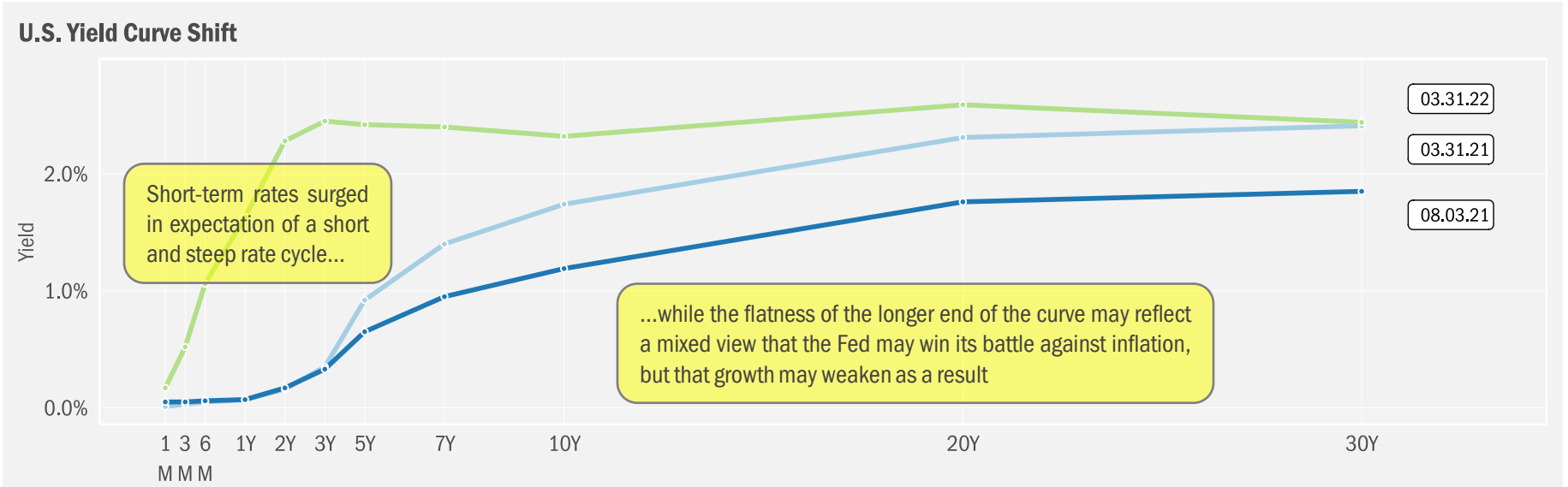
# Fixed Income: Broad-Market Returns

Extra yield from corporate bonds provided little protection against broadly rising rates over the past year, as spreads expanded along with risk-off sentiment. Negative price trends hastened in the first quarter as investors moved to get ahead of central bank efforts to tame rampant and still-growing inflation



# Interest Rates: U.S. Treasury Rates

The front end started rising early last summer; longer-term yields hasted a shift higher in January. Short-term rates now reflect expectations for a strong-handed Fed moving to combat inflation. Longer-term rates remain volatile against shifting thoughts regarding the potential success of the Fed's efforts

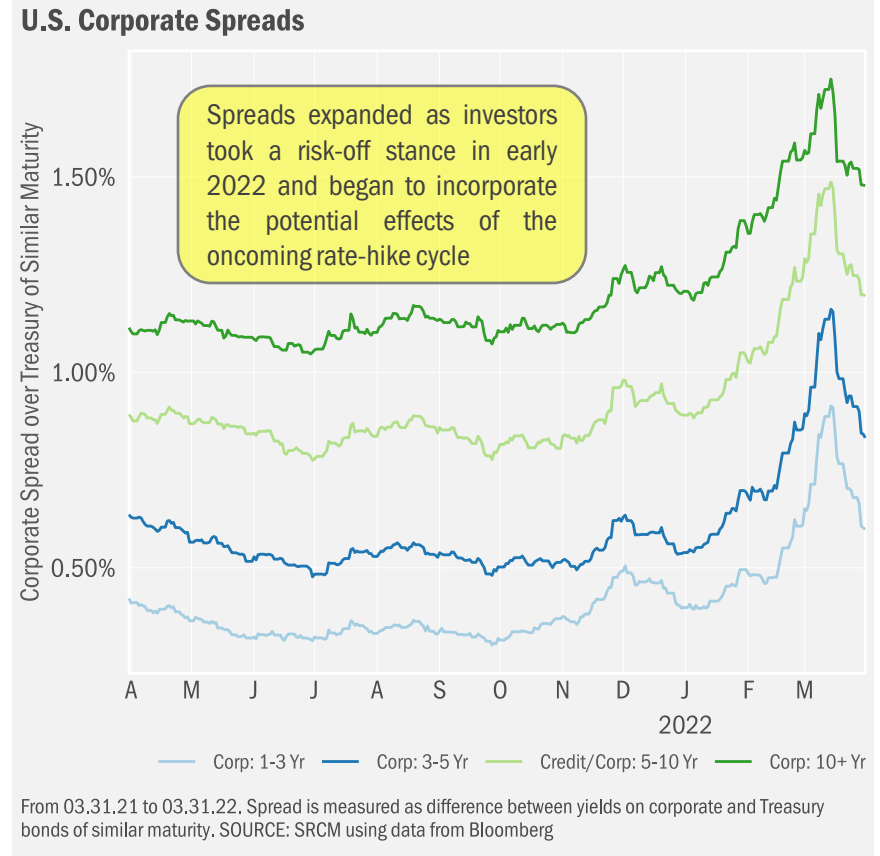
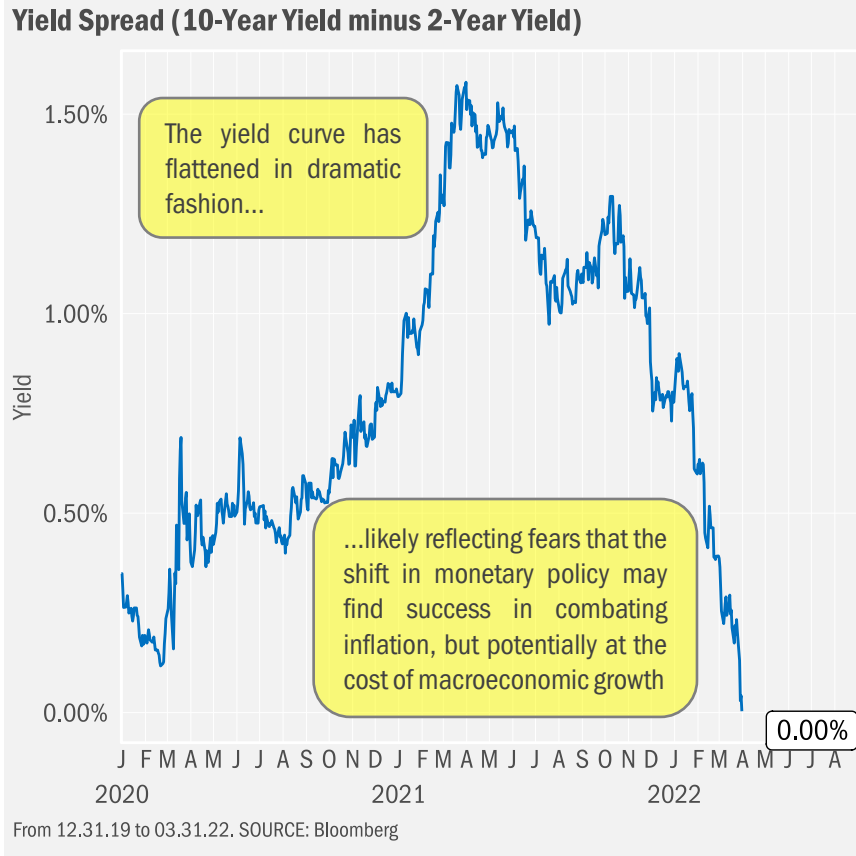


From 03.31.21 through 03.31.22. SOURCE: SRCM using data from Bloomberg



# Interest Rates: Spreads

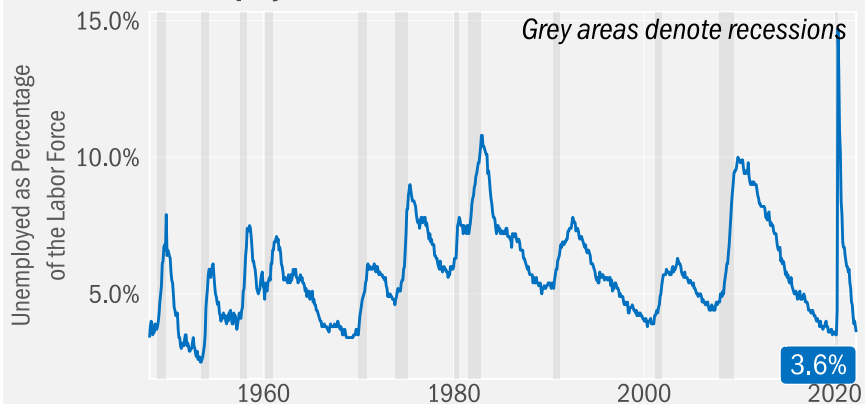
Changes in fixed income spreads may reflect shifts in investor sentiment regarding expectations for future rates and bond risk. Both a flattening curve and expanding credit spreads may reflect investor concern regarding future macroeconomic growth



# Macroeconomic Trends

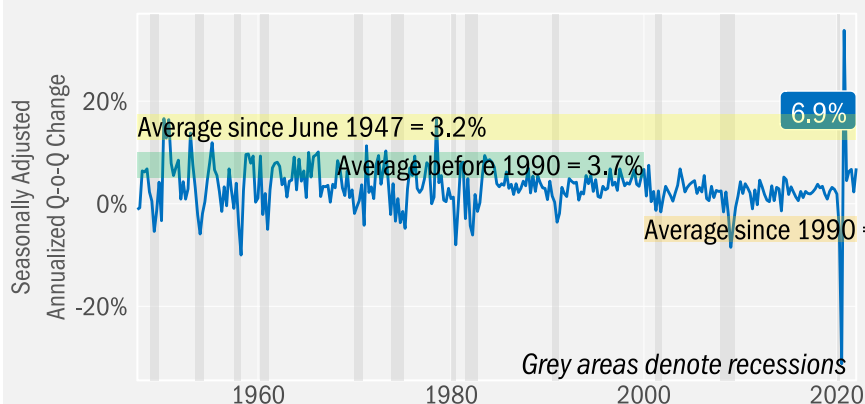
Labor markets are near as tight as they've been in the last half century

## U.S. Civilian Unemployment Rate



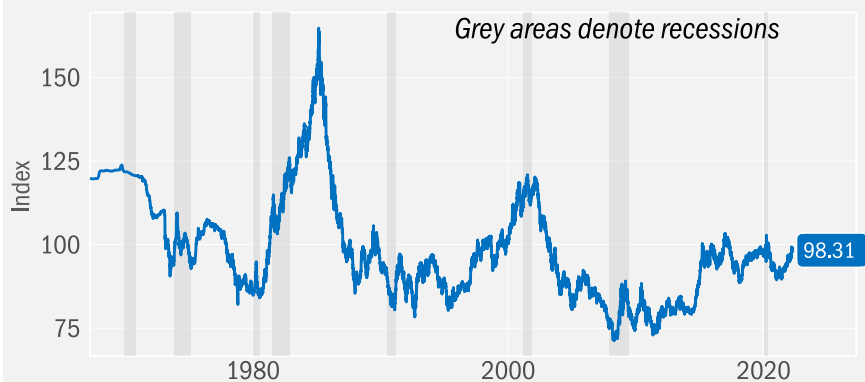
Still-strong GDP awaits the impacts of a shift in monetary policy

## Real U.S. GDP



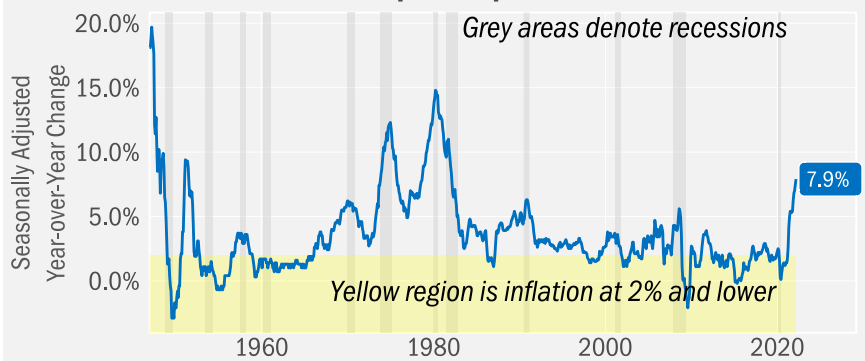
The U.S. dollar has remained range-bound over the past few years

## U.S. Dollar Index



What next for inflation as the Fed goes on the offensive?

## Inflation: U.S. Personal Consumption Expenditure Core Price Index



# Important Information

Investing involves risks including the possible loss of principal. Past performance is not indicative of future results.

One cannot invest directly in an index. Index performance does not reflect the expenses associated with the management of an actual portfolio.

Asset classes and their respective indexes mentioned in this report include the following:

**Domestic (U.S.) fixed income (Fixed Income Aggregate):** The Bloomberg Barclays U.S. Aggregate Bond Index is a broad-based benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. Components of the index include Treasury, Corporate, Agency and Securitized bonds. The Bloomberg Barclays U.S. 1-5 Year Government/Credit Bond Index is a broad-based benchmark that includes investment grade, U.S. dollar-denominated, fixed-rate Treasuries, government-related and corporate securities with maturities between 1 and 5 years.

**Global equity (stocks):** The MSCI ACWI Investable Market Index (IMI) captures large-, mid- and small-cap representation across 23 Developed Markets (DM) and 24 Emerging Markets (EM) countries. The index is comprehensive, covering approximately 99% of the global equity investment opportunity set. May be referred to as “global”, “global equity” and/or “global stocks”. “Value” and “Growth” versions of this index are constructed as described in the “MSCI Value and Growth Indexes” note below.

**International equity (stocks):** The MSCI ACWI ex USA Investable Market Index (IMI) captures large-, mid- and small-cap representation across 22 of 23 Developed Markets countries (excluding the United States) and 24 Emerging Markets countries. The index covers approximately 99% of the global equity opportunity set outside the U.S. May be referred to as “World ex. U.S.”, “international equity”, “international stocks” and/or “All Stocks” in a section specifically describing only international stocks. “Value” and “Growth” versions of this index are constructed as described in the “MSCI Value and Growth Indexes” note below.

**International large-cap equity (stocks):** The MSCI ACWI ex USA Large Cap Index captures large-cap representation across 22 of 23 Developed Markets countries (excluding the United States) and 24 Emerging Markets countries. The index covers approximately 70% of the free float-adjusted market capitalization in each country. May be referred to as international large-cap stocks, “World ex. U.S. Large-Cap”, and/or “Large” in a section specifically describing only international stocks. “Value” and “Growth” versions of this index are constructed as described in the “MSCI Value and Growth Indexes” note below.

**International mid-cap equity (stocks):** The MSCI ACWI ex USA Mid Cap Index captures mid-cap representation across 22 of 23 Developed Markets (excluding the United States) and 24 Emerging Markets countries. The index covers approximately 15% of the free float-adjusted market capitalization in each country. May be referred to as international mid-cap stocks, “World ex. U.S. Mid-Cap”, and/or “Mid” in a section specifically describing only international stocks. “Value” and “Growth” versions of this index are constructed as described in the “MSCI Value and Growth Indexes” note below.

**International small-cap equity (stocks):** The MSCI ACWI ex. USA Small Cap Index captures small-cap representation across 22 of 23 Developed Markets countries (excluding the United States) and 23 Emerging Markets countries. The index covers approximately 14% of the global equity opportunity set outside the U.S. May be referred to as international small-cap stocks, “World ex. U.S. Small-Cap”, and/or “Small” in a section specifically describing only international stocks. “Value” and “Growth” versions of this index are constructed as described in the “MSCI Value and Growth Indexes” note below.

**Developed markets equity (stocks):** The MSCI EAFE Investable Market Index (IMI), is an equity index which captures large-, mid- and small-cap representation across Developed Markets countries around the world, excluding the United States and Canada. The index covers approximately 99% of the free float-adjusted market capitalization in each country. May be referred to as “Developed Markets”. “Value” and “Growth” versions of this index are constructed as described in the “MSCI Value and Growth Indexes” note below.

**Emerging markets (EM) equity (stocks):** The MSCI Emerging Markets Investable Market (IMI) Index captures large, mid and small cap representation across 24 Emerging Markets countries. The index covers approximately 99% of the free float-adjusted market capitalization in each country. May be referred to as “Emerging Markets”. “Value” and “Growth” versions of this index are constructed as described in the “MSCI Value and Growth Indexes” note below.

**Domestic (U.S.) equity:** The MSCI U.S. Investable Market 2500 Index is designed to measure the performance of the large-, mid- and small-cap segment of the U.S. equity market. The index represents approximately 99% of the free float-adjusted market capitalization in the U.S. equity market. “Value” and “Growth” versions of this index are constructed as described in the “MSCI Value and Growth Indexes” note below. May be referred to as “All Stocks” in a section specifically describing only U.S. stocks.

**Domestic (U.S.) large-cap equity:** The MSCI U.S. Large Cap 300 Index is designed to measure the performance of the large-cap segment of the U.S. equity market. The index represents approximately 71% of the free float-adjusted market capitalization in the U.S. equity market. “Value” and “Growth” versions of this index are constructed as described in the “MSCI Value and Growth Indexes” note below. May be referred to as “Large” in a section specifically describing only U.S. stocks.

# Important Information

Domestic (U.S.) mid-cap equity: The MSCI U.S. Mid Cap 450 Index is comprised of the next largest 450 companies in terms of market capitalization of the U.S. equity market and designed to measure the performance of the mid-cap segment. The index represents approximately 16% of the free float-adjusted market capitalization of the U.S. equity market. "Value" and "Growth" versions of this index are constructed as described in the "MSCI Value and Growth Indexes" note below. May be referred to as "Mid" in a section specifically describing only U.S. stocks.

Domestic (U.S.) small-cap equity: The MSCI U.S. Small Cap 1750 Index is comprised of the remaining smallest 1,750 companies in the U.S. Investable Market 2500 Index of the U.S. equity market and designed to measure the performance of the small-cap segment. The index represents approximately 11.5% of the free float-adjusted market capitalization of the U.S. equity market. "Value" and "Growth" versions of this index are constructed as described in the "MSCI Value and Growth Indexes" note below. May be referred to as "Small" in a section specifically describing only U.S. stocks.

MSCI Value and Growth Indexes: The value investment style characteristics for MSCI index construction are defined using the following variables: book value to price, 12-month forward earnings to price and dividend yield. The growth investment style characteristics are defined using the following variables: long-term forward earnings per share (EPS) growth rate, short-term forward EPS growth rate, current internal growth rate, long-term historical EPS growth trend and long-term historical sales per share growth trend. The objective of the MSCI Value and Growth Indexes design is to divide constituents of an underlying market capitalization index into a value index and a growth index, each targeting 50% of the free float-adjusted market capitalization of the underlying index. The market capitalization of each constituent should be fully represented in the combination of the value index and the growth index, and, at the same time, should not be double-counted. One security may, however, be represented in both the value index and the growth index at a partial weight.

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# Important Information

The Bloomberg Barclays Global Aggregate Index is a measure of global investment grade debt from twenty-four local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers.

The Bloomberg Barclays U.S. Aggregate Bond Index is a broad-based benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market.

The Bloomberg Barclays U.S. 1-5 Year Government/Credit Bond Index is a broad-based benchmark that includes investment grade, U.S. dollar-denominated, fixed-rate Treasuries, government-related and corporate securities with maturities between 1 and 5 years.

The MSCI ACWI Index captures large- and mid-cap representation across 23 Developed Markets and 23 Emerging Markets countries. The index covers approximately 85% of the global investable equity opportunity set.

The MSCI ACWI ex. U.S. Index captures large- and mid-cap representation across 22 Developed Markets countries and 23 Emerging Markets countries. The index covers approximately 85% of the global equity opportunity set outside the U.S.

The MSCI EAFE captures large and mid-cap representation across 21 developed markets, including countries in Europe, Australasia and the Far East, excluding the U.S. and Canada. The Index covers approximately 85% of the free float-adjusted market capitalization in each of the 21 countries.

The MSCI Emerging Markets Index captures large- and mid-cap representation across 23 Emerging Markets countries. The index covers approximately 85% of the free float-adjusted market capitalization in each country.

The S&P 500 Index represents 500 U.S. companies and captures approximately 80% coverage of available market capitalization.

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