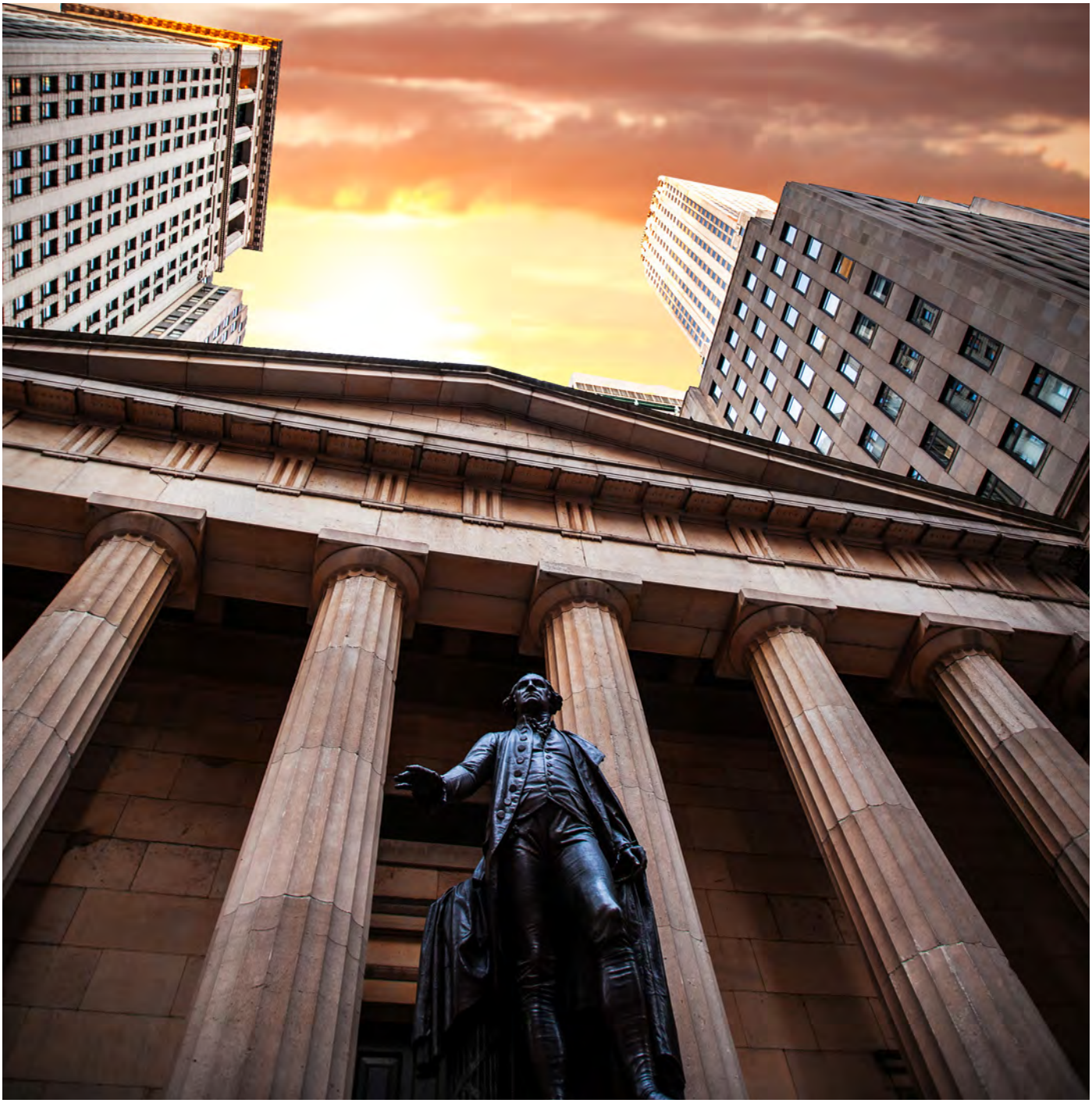


VIEWPOINT2022

PORTFOLIO ASSUMPTIONS

WASHINGTON CROSSING ADVISORS

Washington Crossing Advisors, LLC ("WCA") is an SEC registered investment adviser and wholly owned subsidiary of Stifel Financial Corp. WCA helps supervise and manage over $7 billion in assets under advisement for individuals and institutions.

The team is managed by Kevin R. Caron, CFA and Chad A. Morganlander, who were among the founding members of Washington Crossing Advisors.

Washington Crossing Advisors' views on investing and markets are regularly sought by national media outlets, including *CNBC*, *Bloomberg*, *Fox Business News*, *The Wall Street Journal*, *Forbes*, and *Reuters*.

Asset Allocation Strategies

Conquest Portfolios

Asset allocation portfolios seek to balance risk and reward by apportioning portfolio assets according to the investor's goals, risk tolerance, and investment horizon. Portfolios seek strong returns relative to underlying risk and are constructed with a forward-looking view of financial markets.

For quarterly reports that highlight key macroeconomic insights and market observations, please visit: www.washingtoncrossingadvisors.com.

Published January 10, 2022.

Executive Summary

The pandemic era ushered in historic changes. The legacy of the pandemic and response will surely be with us for years to come.

The global economy should expand this year as vaccinations continue. We expect growth to remain positive in 2022 but moderate into 2023 as accommodative policies wind down.

Profits grew along with the economy, propelling stock valuations to near records. While valuations and profits have been a *tailwind*, normalizing these factors suggests a *headwind* could emerge for stocks. Still, we expect stocks to outperform low-yielding Treasury bonds over time. Inflation may have been the biggest surprise in 2021 as the inflation rate surged to levels not seen since the early 1980s. Responding to inflation, we expect the Federal Reserve (Fed) to raise short-term interest rates and end bond purchases soon.

We see signs of growth as we start the new year, a positive for equity markets. Given changing conditions and lower return expectations, we think a tactical discipline remains a sensible way to invest as we start 2022.

Global Economic Outlook

The global economy bounced back in 2021 and starts 2022 on a growth path. The International Monetary Fund (IMF) estimates the global economy grew 6% in 2021, more than offsetting the 3% contraction in 2020 (see chart below). Shortfalls in many economies were offset by increased borrowing and government spending. All-in-all, a collective $22 trillion of net new debt was created since the end of 2019. Heavy government spending and continuing vaccinations lifted growth in 2021.

According to the International Federation of Pharmaceutical Manufacturers and Associations, 3.3 billion of the world's 5.8 billion adults are now vaccinated. Vaccinations allowed prior restrictions to be relaxed, enabling movement. The one-two punch of stimulus and pent-up demand released from vaccinations caused growth to surge.

The United States

As we start 2022, we see most domestic economic indicators pointing toward growth. U.S. manufacturing surveys and orders for capital goods are rising. Stock market averages are at records. Corporate earnings forecasts are at new highs. Domestic retail sales are up double digits year-over-year, supporting domestic GDP growth near 7% as we close out 2021. Lastly, our own WCA Fundamental Conditions Barometer, shown on page 6, is above 50, indicating continued near-term growth.

It is essential to realize that record increases in wealth, on top of record levels of direct government support, are adding fuel to the fire. Specifically, we note that United States' household net worth is up a staggering $30 trillion since 2019. If we attribute 3 cents of additional spending to each dollar of newly created wealth, this would add $900 billion to the economy. This "wealth effect" is in addition to the $5.3 trillion of COVID-19 fiscal support (25% of GDP) added since the pandemic's start. Thus recent growth has been shaped more by ephemeral factors than fundamental factors. We believe essential factors like labor, education, capital, and productivity will ultimately drive growth and returns (see chart on page 3). In the meantime, a key challenge for 2022 may well be how markets adjust to a paring back of COVID-19 era policy supports.

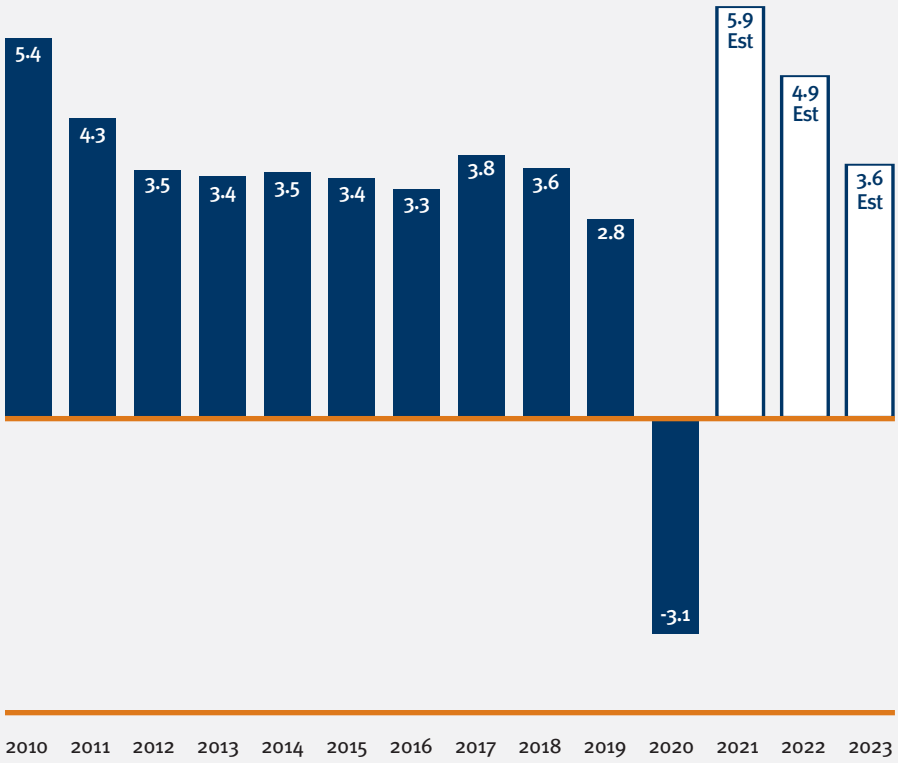
Pressure to adjust such supports is evident in supply issues/shortages headlines. A recent article in *Bloomberg Businessweek* titled, "The Global Urge to Lie Flat" claims that over 24 million U.S. workers quit their jobs between April and September 2021. This trend is also seen in stories of businesses forced to shut due to staffing issues.

We note the U.S. labor force participation rate has only halfway recovered from the spring 2020 low point when the pandemic began. Labor shortages appear chronic, and rising Omicron variant cases are complicating recovery. Evidence of strain can also be seen in the 30% decline in automobile sales (given chip shortages) and a 12% yearly rise in rents (given high home prices).

In many areas of the economy, signs of imbalance, exhaustion, and stress emerge as many pandemic-era policies have now outlived their original purpose.

WORLD ECONOMIC GROWTH (ANNUAL PERCENT CHANGE)

Source: International Monetary Fund, World Economic Outlook Database, October 2021



Shifting Policy Landscape

The world of 2020-2021 was dominated by lavish government spending and central bank support. Conversely, 2022 is likely to be about unwinding such support. The recent failure of the Build Back Better plan to pass through Congress alludes to this shift in attitude about spending. For perspective, consider that the $7 trillion rise in federal debt since 2019 is *double* the debt incurred during the 2008-2009 financial crisis. With inflation rising at a pace not seen since 1981 and mid-term elections ahead, we believe the path for fiscal spending is set to slow.

At the same time, the Federal Reserve (Fed) appears on course to wind down its pandemic-era asset purchase program and raise rates in 2022. Given the current 6.8% inflation rate, the Fed is under pressure to address rising prices. Notably, households are growing ever more worried and unsure about future inflation. The latest New York Federal Reserve Survey of Consumer Expectations reveals consumers expect inflation to persist and remain 6% throughout 2022. This view contrasts with the Fed's view that inflation is set to moderate. If inflation expectations become unhinged or inflation persists throughout 2022, the Fed may need to raise rates more than expected.

This could risk upsetting financial markets and the economy, which have become accustomed to accessing money on very easy terms.

The Long View

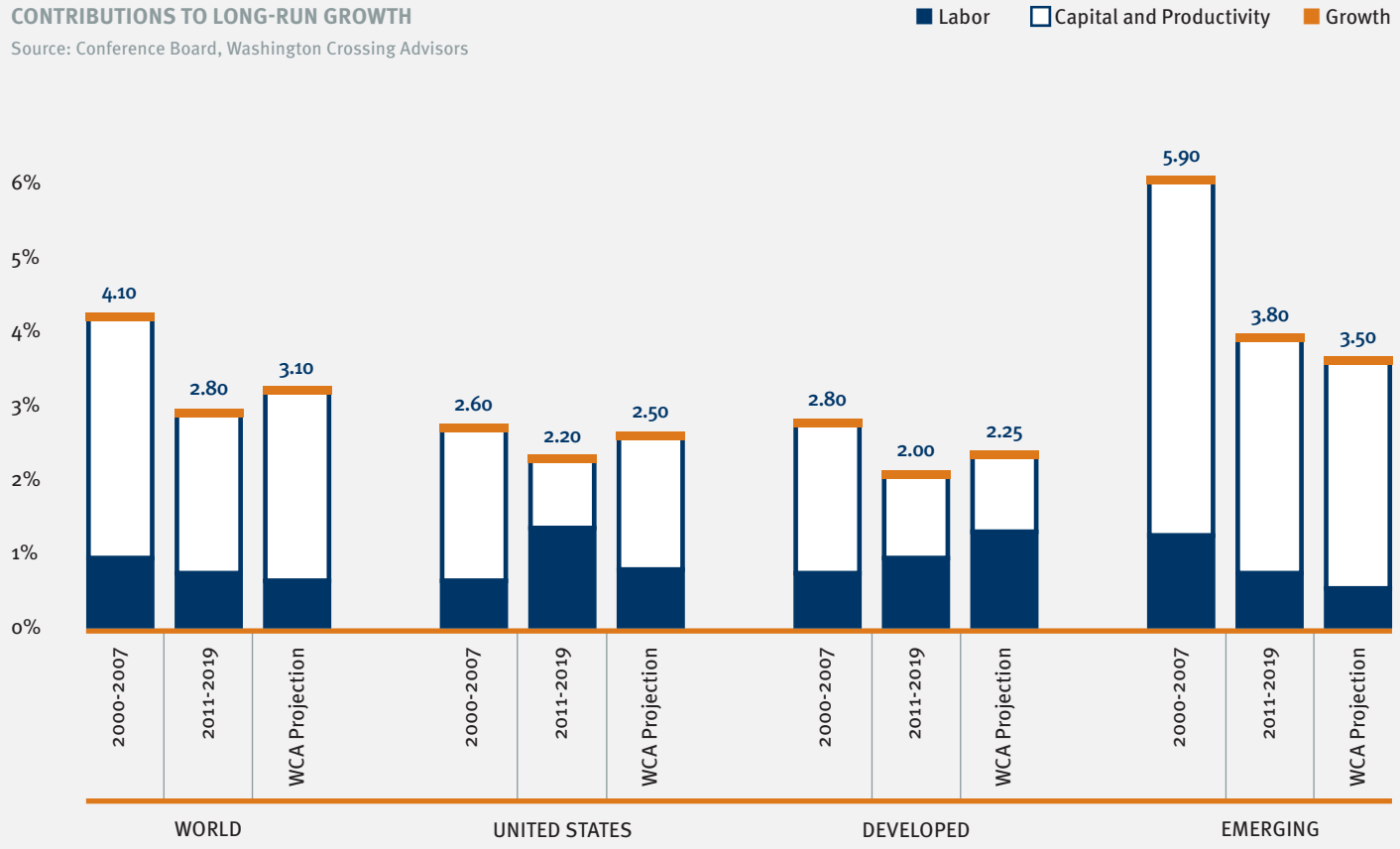
Over the long term, we see growth settling into a positive but slower path than in the past. As the chart below shows, we now forecast global growth near 3.1% and domestic growth of 2.5%.

Overseas, we envision foreign developed economies growing near 2.25% and emerging economies growing near 3.5%. These expectations are predicated on longer-term labor, capital, and productivity trends.

These factors should assert themselves in time and become the most important determinants of long-run growth and financial market performance.

CONTRIBUTIONS TO LONG-RUN GROWTH

Source: Conference Board, Washington Crossing Advisors



Portfolio Strategy

Elevated valuations and diminished yields signal low returns ahead. With most signs pointing to growth, markets appear little concerned with risk. This backdrop poses significant challenges to portfolio management. A tactical approach may be especially useful for investors seeking a way to potentially improve results.

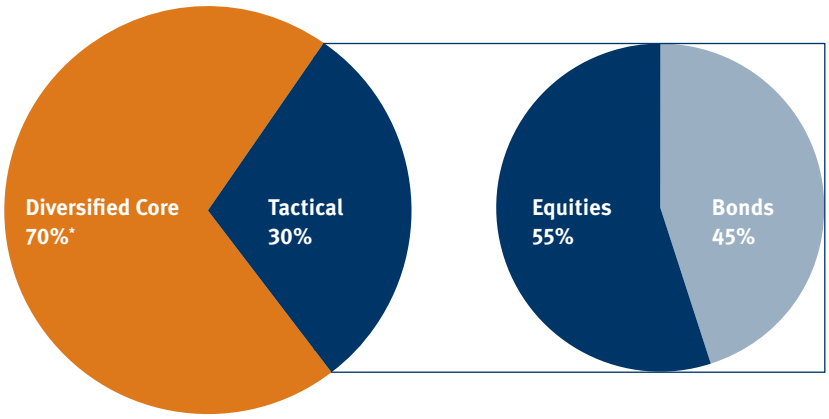
This section lays out our current tactical positioning in the context of our top-down viewpoint. Unlike fixed and passive approaches, a tactical portfolio actively tilts portfolio exposures between assets based on forward expectations and changing conditions. Washington Crossing Advisors adopts a tactical approach in managing top-down portfolios. Portfolios are constructed tactically and managed in light of evolving expectations and conditions.

PORTFOLIO STRATEGY

PORTFOLIO STRUCTURE

DIVERSIFIED CORE
Longer-Term Focus

SATELLITE
Shorter-Term Focus



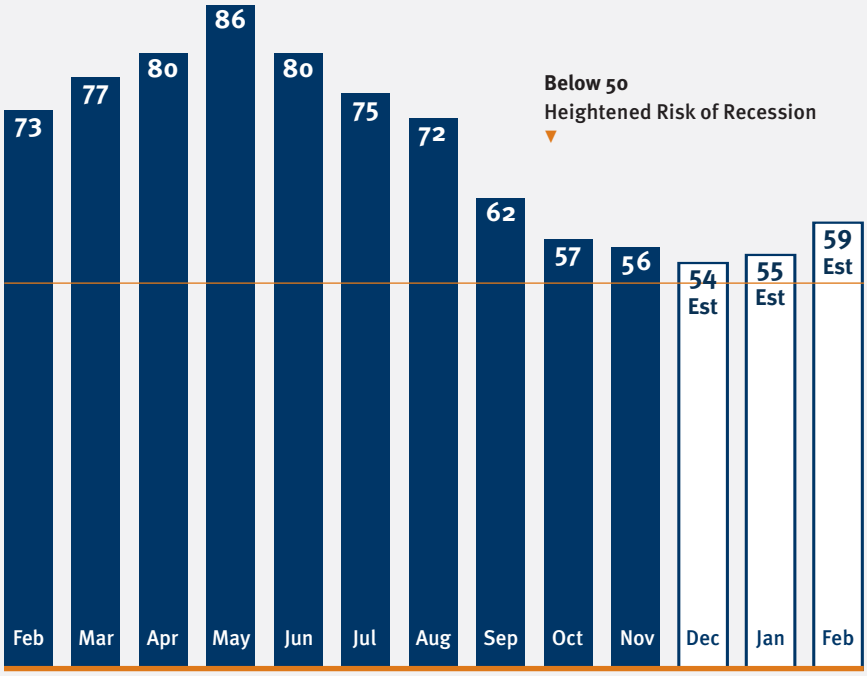
COMBINING LONGER- AND SHORTER-TERM PERSPECTIVES IN ONE ACCOUNT

We think of portfolios as having two parts. At the "core" of the portfolio is a diversified equity and diversified bond allocation. The forecasts, valuations, and trends on page 7 guide these allocations. Because these factors are longer term, changes in the core tend to be slower than the satellite, reducing turnover.

The smaller 30% (blue circle) is the "satellite." As fundamental conditions change, shorter term "tactical" tilts between stocks and bonds are implemented here.

SATELLITE POSITIONING: SHORTER-TERM FOCUS

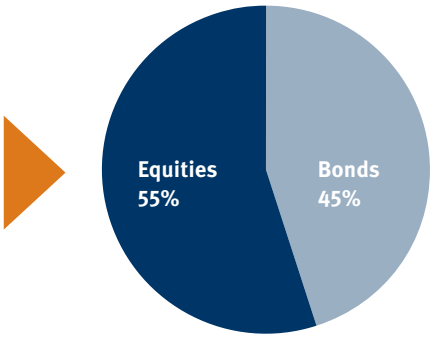
WCA FUNDAMENTAL CONDITIONS BAROMETER



We regularly assess changes in fundamental conditions to help guide near-term asset allocation decisions. Analysis incorporates approximately 30 forward-looking indicators in categories ranging from Credit and Capital Markets to U.S. Economic Conditions and Foreign Conditions. From each category of data, we create three diffusion-style sub-indices that measure the trends in the underlying data. Sustained improvement that is spread across a wide variety of observations will produce index readings above 50 (potentially favoring stocks), while readings below 50 would indicate potential deterioration (potentially favoring bonds). The WCA Fundamental Conditions Index combines the three underlying categories into a single summary measure. This measure can be thought of as a "barometer" for changes in fundamental conditions.

SATELLITE
Shorter-Term Focus

The equity allocation is tactically adjusted to align with the forecast barometer (see chart left).



As of December 30, 2021.
* Including stocks, bonds, and other assets.

ASSET CLASS	RETURN	10-YEAR VIEW Y/Y CHANGE	VOLATILITY	WEIGHT vs. BENCHMARK UNDER	NEUTRAL	OVER
BOND ASSUMPTIONS						
Core Bonds	1.3%	-0.60%	3.0%			
1-3 Year Treasury Bond	1.3%	-0.60%	0.8%			
Mortgage-Backed Securities	1.8%	-0.60%	2.0%			
Intermediate Government/Credit	1.5%	-0.50%	2.2%			
20+ Year Treasury Bond	0.4%	-0.60%	11.6%			
Investment-Grade Corporate Bonds	2.0%	-0.25%	5.8%			
High-Yield Corporate Bonds	4.2%	-0.05%	6.3%			
EQUITY ASSUMPTIONS						
Equity	3.8%	-0.20%	13.7%			
Domestic Large Cap Value	5.4%	-0.60%	14.0%			
Domestic Large Cap Growth	2.3%	-0.20%	14.0%			
Foreign Developed Equity Markets	5.5%	0.75%	14.0%			
Foreign Emerging Equity Markets	6.5%	1.75%	16.3%			
Gold	1.2%	-0.55%	15.3%			
REITs	4.4%	-2.10%	14.6%			

As of December 30, 2021. Past performance does not guarantee future results.

Core Satellite

CORE POSITIONING: LONGER-TERM FOCUS	
EQUITY vs. FIXED	Overweight stocks versus bonds on steady growth and risk appetite
FOREIGN vs. DOMESTIC	Remain overweight U.S. versus foreign on relative U.S. strength
EMERGING vs. DEVELOPED	Focus on developed foreign versus EM as EM growth slows and interest rates rise
GROWTH vs. VALUE	Overweight growth as lower quality value rally fades
CREDIT vs. SOVEREIGN	Overweight higher quality corporates and U.S. Treasuries
SHORT vs. LONG DURATION	Underweight duration as curve steepens amid rising inflation
NON-CORRELATED ASSETS	Overweight REITs | Underweight high-yield bonds | Neutral gold

These views are provided by Washington Crossing Advisors, LLC. (WCA) Assumptions are estimates based on historic performance and an evaluation of the current market environment. These are estimates only and not intended to represent future performance. References to future expected returns and performance do not constitute a promise of performance for any asset class or investment strategy. Volatility refers to an expected standard deviation of returns, a measure of uncertainty around our estimate. The forecasts contained herein are for illustrative purposes only and not to be relied on as advice or interpreted as a recommendation to engage in the purchase or sale of any security or financial product. These forecasts are based upon subjective estimates and assumptions about circumstances and events that may not have taken place and may never do so. In addition, WCA used historic index returns in evaluating past return relationships. This information was gathered from third-party sources we deem reliable, but no independent verification has been undertaken. Actual returns could be higher or lower than shown herein. Opinion subject to change without notice.

Equity Market Outlook

Driven by strong earnings and a recovering economy, stocks plowed ahead to new highs in 2021. Except for a sharp correction at the onset of the COVID-19 pandemic, the past decade's performance rewarded equity investors. In the ten years ending December 31, 2021, global stocks returned 206%[1], and large-cap domestic stocks returned 362%[2]. These returns easily exceeded bond returns as global bonds returned 19%[3] and domestic bonds returned 33%[4] over the same period.

While increasing earnings and dividends explain much of the rise, these fundamentals do not explain it all. Investors' willingness to assume greater risk in a low-interest rate world explains much of the remaining increase in value. As we begin 2022, we are encouraged by signs of continued growth and see positive contributions from dividends and buybacks.

1. MSCI All Country World Index 2. S&P 500 Index
3. Bloomberg Global Aggregate Bond Index 4. Bloomberg US Aggregate Bond Index


6.1293
1.2386
0.4823
8.8393
2.6432
1.2827
618.813
7.9738
2329.55
6.9100
2.0663
1.0028
483.750
-0.0029
-0.0004
-1.3000
0.0082
(C$)
(Peso)

The value of global stocks now exceeds $120 trillion, and the world's economy is $85 trillion in size. A decade ago, the size of the worldwide stock market was $50 trillion, and the economy was $66 trillion. The economy has grown an impressive 30% and the value of stocks an even more impressive 140%.

How much higher can markets go from here? Is there a reason to think this time is different? All of these questions are important as we chart a course for 2022.

Uncharted Territory

As we just showed, the global stock market is in new territory. But this revelation is not enough for bearishness in-and-of-itself. In fact, out of the last 50 years, more than half of those years began with the global stock market at "new record highs." It is the nature of stocks to grow in value over time along with the economy. Hence, new records do not mean the end is near. Still, valuations must be considered when formulating return expectations.

It is also reasonable to consider what is happening to growth potential and alternatives for investment. As growth increases and available returns elsewhere fall, the valuation of a stock's earnings stream should rise. As interest rates remain low and companies report record-high profitability, for example, valuations *ought* to increase.

Today, about 25% of the United States stock market is represented by highly profitable technology firms. These firms now generate profit margins three times higher than the S&P 500's profit margins in the 1990s.

It should come as no surprise, then, that today's market is valued more highly than the market of the 1990s.

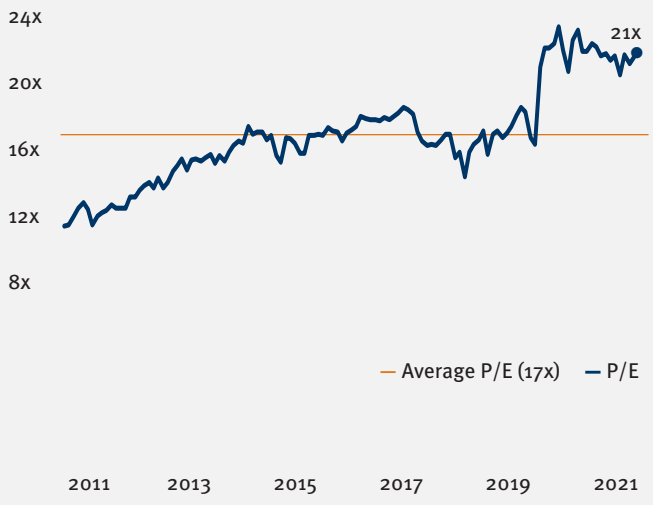
Is This Time Different?

Some are advancing the idea that stocks are in a "new normal" led by "disruptive" new technologies. If so, perhaps valuations are at a permanently new high plateau. Perhaps there is no reason to consider a return to "normal" levels of valuations and margins. This perspective, however, ignores competition, cost pressures, and impending policy changes which tend to push back against such "new normal" theories.

Yet, if we were to concede these points to the "new normal" theory, the forecast for equity returns would rely on growth and cash return alone.

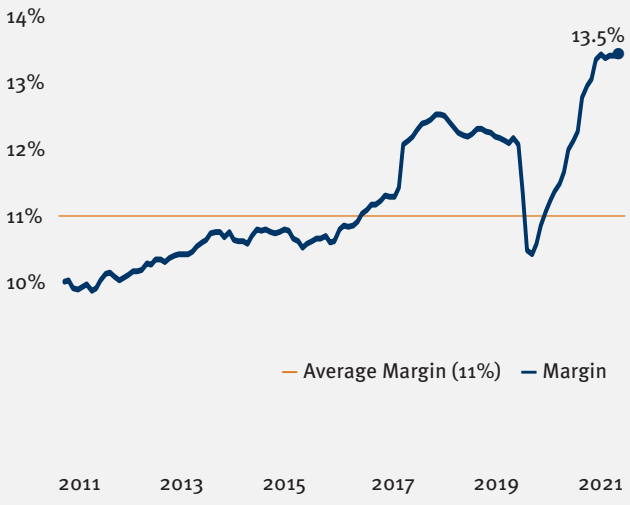
S&P 500 FORWARD 12-MONTH P/E RATIO

Source: Bloomberg



S&P 500 FORWARD 12-MONTH OPERATING MARGIN

Source: Bloomberg



Return Arithmetic

How might we estimate return from here? While we cannot know for sure, we imagine that the world can grow in real terms at just over 3% sustainably. This could be reasonable if the global quality and quantity of labor rise by 0.6% annually and capital investment and productivity contribute another 2.5%.

In such a world, we see no reason why domestic companies could not reasonably generate about 2.8% *real* top-line growth and 5.3% *nominal* top-line growth after factoring in inflation.

Beyond the contribution to return from growth, we envision that combined dividends and share repurchases (both cash returns to equity investors) could add an additional 2.9% to return. If so, equity returns could approach 8.2%, but only if valuations and margins remain elevated. Remember, however, that this case is a *very bullish expectation* and ignores the more likely potential for mean reversion of valuations and profit margins.

While we would like to play along, we are uncomfortable assuming this time is different. There is a long history of mean reversion in markets and ignoring this fact can prove dangerous. For this reason, we haircut our forecasts to account for some reversion to the mean for valuations and profit margins.

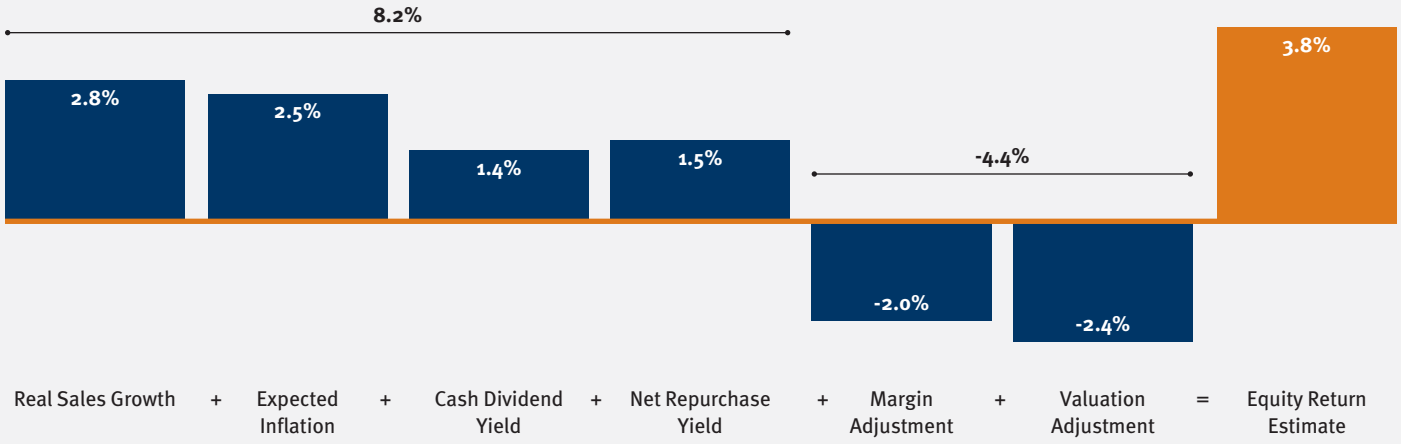
If you look at the charts on page 10, you will notice that stock valuations and margins are both more than 20% above average. Based on our math, normalizing valuations over the next ten years reduces return by about 2.4% and normalizing margins an additional 2%, respectively (see chart below). The resulting expectation is an equity return of 3.8% overall, about 3.4% above our long-term Treasury expected return.

Tactical Positioning

As we start 2022, we favor domestic over foreign equity markets given better domestic growth prospects. We also lean toward developed over emerging equity markets as vaccinations rates and policy choices are better among developed nations.

Lastly, we are overweight growth versus value given an expected move toward higher-quality issues in the coming year.

FORWARD-LOOKING FACTORS CONTRIBUTING TO LONG-RUN (10 YEARS) EQUITY MARKET RETURN EXPECTATIONS



Source: These views are provided by Washington Crossing Advisors, LLC. Assumptions are estimates based on historic performance and an evaluation of the current market environment. These are estimates only and not intended to represent future performance. References to future expected returns and performance do not constitute a promise of performance for any asset class or investment strategy. The forecasts contained herein are for illustrative purposes only and not to be relied on as advice or interpreted as a recommendation to engage in the purchase or sale of any security or financial product. Margin and valuation adjustments assume normalization measured as annualized log return differentials over our forecast horizon.

Fixed Income Outlook

After years of worry about deflation, the old nemesis of inflation returned in 2021. Consumer prices are up 6.8% through November from a year earlier, the highest rate since 1982.

As monthly inflation figures rose, the Fed signaled its intent to raise interest rates. The charts on the next page show how inflation is shaping expectations for interest rates.

How inflation and interest rate expectations evolve in 2022 will be crucial for investors. Throughout 2021, the Fed raised its forecast path for interest rates (see chart below, left). If these forecasts are correct, rate increases could prove modest, keeping forecast cash returns near 1.25-1.50%. The linchpin, however, is the Fed's inflation forecast. If they are right that inflation does not persist beyond 2021, rate increases could prove well tolerated. Then again, if inflation proves to be more persistent, markets could struggle. By ending a program of asset purchases and raising short-term interest rates, the Fed hopes to curb rising inflation. The ahead-of-schedule winding down of asset purchases and rate increases scheduled for 2022 mark a clear-cut policy shift from what we saw in 2020-2021.

Policy Shift

Throughout 2020-2021, the Fed bought a large pile of assets, swelling their balance sheet to nearly $9 trillion in 2021 from $4 trillion in 2019. The ongoing program of asset purchases drove a vast increase in money supply, provided liquidity for many businesses, and encouraged borrowing. Excess liquidity caused a record surge in asset values and total wealth among American households. This process initially helped sustain economic momentum but may now be contributing to problematic imbalances.

The Fed's asset purchases also helped keep a lid on long-term interest rates. The yield on 30-year Treasury bonds closed 2021 at 1.9%, near all-time lows and far below the inflation rate. Over time, we expect 30-year Treasury bond rates to move higher. Under our base case scenario, the 30-year Treasury yield could move toward 3% over time, given our 1.3% expected cash return and 1.7% average historical 30-year Treasury bond yield spread over T-bills. If interest rates normalize in this way, returns on long-dated Treasury bonds could fall below today's stated yields.

Corporate Bonds

Corporate defaults remain low, and a growing economy suggests that defaults and bankruptcies could remain scarce. Moody's Investor Service recorded only 45 global corporate defaults in the first ten months of 2021, below the 184 seen over the same period in 2020.* Moody's also expects the global speculative-grade default rate to stay below 2% in 2022, far below the 2020 6.8% cycle peak and below the prevailing average pre-pandemic rate.

Substantial profits underpin this healthy corporate backdrop. Although corporations borrowed a record $2 trillion during the pandemic, economy-wide pre-tax profits also surged $3 trillion. Today, outstanding total U.S. corporate debt of $11 trillion is just 3.7 times economy-wide pre-tax corporate profits, below the 30-year average of 4.3 times. Thus, an argument can be made that overall debt loads appear reasonable despite the recent rise in debt.

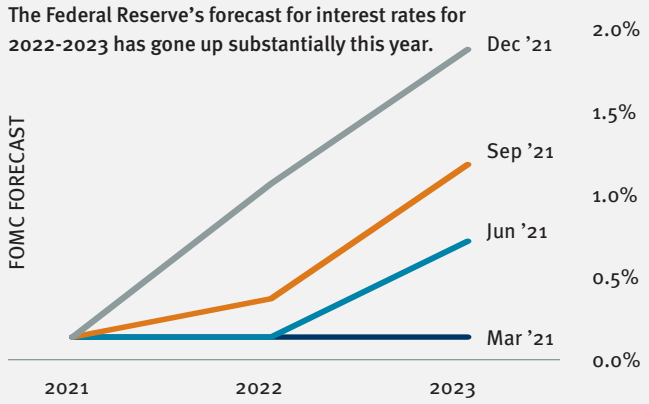
Then again, corporate bonds are not cheap compared with Treasuries by historical standards. For example, the Barclays Capital U.S. Corporate High Yield bond index yield is only 2.6% over the 10-year U.S. Treasury yield, near prior cycle lows.

Final Thoughts

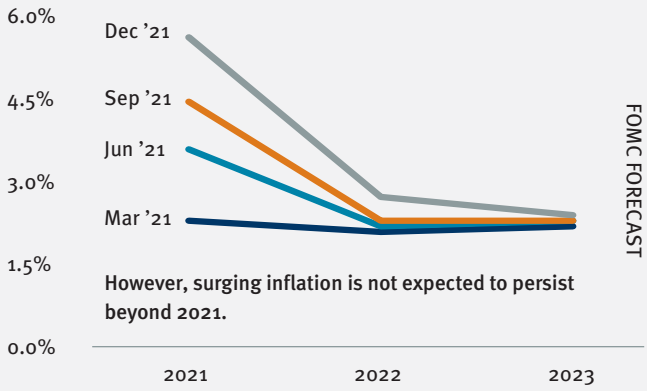
Although 2021 saw an increase in inflation and a rise in the expected path of short-term interest rates, expected returns for fixed-income remain exceptionally low given low current yields. With this backdrop, we remain tactically tilted toward shorter-duration and higher-quality corporate bonds as we start 2022.

**Credit Outlook December 2021.*

FEDERAL RESERVE POLICY RATE PROJECTION



FEDERAL RESERVE INFLATION PROJECTION (PCE INFLATION)



Description of Indices and Terms: All performance calculations of indices are calculated on a total return basis (reflecting reinvestment of dividends and other earnings). Indices are unmanaged, are not available for direct investment, and have no associated management fees.

Barclays Aggregate Bond Index: A composite of the Barclays Gov't/Corp Index, Mortgage-Backed Securities Index, and Asset-Backed Securities Index, including securities that are investment grade or better, have at least one year to maturity, and have an outstanding par value of at least $100 million.

S&P 500 Index: Capitalization-weighted composite of 500 stocks traded on the NYSE, AMEX, and NASDAQ; not the largest 500 stocks in U.S., but rather a blend of leading companies in leading industries in the U.S. economy; index comprised of 10 broad industrial sectors.

Dow Jones U.S. Select REIT: The Dow Jones U.S. Select REIT Index intends to measure the performance of publicly traded REITs and REIT-like securities. The index is a subset of the Dow Jones U.S. Select Real Estate Securities Index (RESI), which represents equity real estate investment trusts (REITs) and real estate operating companies (REOCs) traded in the U.S.

The ICE U.S. Treasury 1-3 Year Bond Index is a market value weighted index designed to measure the performance of U.S. dollar-denominated, fixed rate U.S. Treasury securities with minimum term to maturity greater than one year and less than or equal to three years.

Markit iBoxx USD Liquid High Yield Index consists of liquid USD high yield bonds, selected to provide a balanced representation of the broad USD high yield corporate bond universe.

The Bloomberg Global Aggregate Index is a flagship 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 developed and emerging market issuers.

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

The FTSE Developed All Cap ex U.S. Index is part of a range of indices designed to benchmark international investments. The index comprises large, mid and small cap stocks from developed markets excluding the U.S.

The FTSE Emerging Markets All Cap China A Inclusion Index is a market-capitalization weighted index representing the performance of large, mid and small cap stocks in Emerging markets. The index is comprised of approximately 3350 securities from 21 countries.

The MSCI ACWI Index is a free-float weighted equity index. The index tracks the performance of the world's equity markets, including both emerging and developed markets.

Moody's Baa Corporate Bond Index—An index comprised of industrial bonds rated Baa by Moody's with a minimum maturity of 20 years.

The Bloomberg US Corporate High Yield Bond Index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below.

Consumer Price Index—A measure of the average change in prices over time for a basket of consumer goods.

Asset Allocation—Asset allocation does not ensure a profit or protect against loss.

International and Emerging Markets Investing—There are special considerations associated with international investing, including the risk of currency fluctuations and political and economic events. Investing in emerging markets may involve greater risk and volatility than investing in more developed countries.

Bonds and High Yield Bonds—When investing in bonds, it is important to note that as interest rates rise, bond prices will fall. High yield bonds have greater credit risk than higher quality bonds.

Commodities and Futures—The risk of loss in trading commodities and futures can be substantial. You should therefore carefully consider whether such trading is suitable for you in light of your financial condition. The high degree of leverage that is often obtainable in commodity trading can work against you as well as for you. The use of leverage can lead to large losses as well as gains.

Real Estate—When investing in real estate companies, property values can fall due to environmental, economic, or other reasons, and changes in interest rates can negatively impact the performance.

Opportunity Disclosure: The Washington Crossing Advisors, LLC Stifel Conquest and Dynamic Strategies Portfolios require a $25,000 and $50,000 minimum investment, respectively. Strategies in the Stifel Opportunity Program are proprietary products developed by Stifel. More information on the Opportunity Program is included in the Stifel Consulting Services Disclosure Brochure and Part II of the Manager's Form ADV, which may be obtained from your Financial Advisor and which further outlines the fees, services, exclusions, and disclosures associated with this program. The information contained herein is believed to be reliable and representative of the portfolios available through Stifel; however, the accuracy of this information cannot be guaranteed. Investors should consider all terms and conditions before deciding whether the Opportunity Program is appropriate for their needs.

Indices are unmanaged, do not reflect fees and expenses, and are not available for direct investment. Past performance does not guarantee future results. This commentary often expresses opinions about the direction of market, investment sector and other trends. The opinions should not be considered predictions of future results. The information contained in this report is based on sources believed to be reliable, but is not guaranteed and not necessarily complete.

All investments involve risk, including loss of principal, and there is no guarantee that investment objectives will be met. It is important to review your investment objectives, risk tolerance and liquidity needs before choosing an investment style or manager. Equity investments are subject generally to market, market sector, market liquidity, issuer, and investment style risks, among other factors to varying degrees.

Fixed Income investments are subject to market, market liquidity, issuer, investment style, interest rate, credit quality, and call risks, among other factors to varying degrees.

Any projections, targets, or estimates in this report are forward looking statements and are based on WCA's research, analysis, and assumptions made by the Adviser. Due to rapidly changing market conditions and the complexity of investment decisions, supplemental information and other sources may be required to make informed investment decisions based on your individual investment objectives and suitability specifications.

All expressions of opinions are subject to change without notice. Clients should seek financial advice regarding the appropriateness of investing in any security or investment strategy discussed in this commentary.

Assets Under Management represents the aggregate fair value of all discretionary and non-discretionary assets, including fee paying and non-fee paying portfolios. Assets Under Advisement represent advisory-only assets where the firm provides a model portfolio and does not have trading authority over the assets.

We regularly assess changes in fundamental conditions to help guide near-term asset allocation decisions. Analysis incorporates approximately 30 forward-looking indicators in categories ranging from Credit and Capital Markets to U.S. Economic Conditions and Foreign Conditions. From each category of data, we create three diffusion-style sub-indices that measure the trends in the underlying data. Sustained improvement that is spread across a wide variety of observations will produce index readings above 50 (potentially favoring stocks), while readings below 50 would indicate potential deterioration (potentially favoring bonds). The WCA Fundamental Conditions Index combines the three underlying categories into a single summary measure. This measure can be thought of as a "barometer" for changes in fundamental conditions.

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