



Market Review & Outlook

First Quarter 2022

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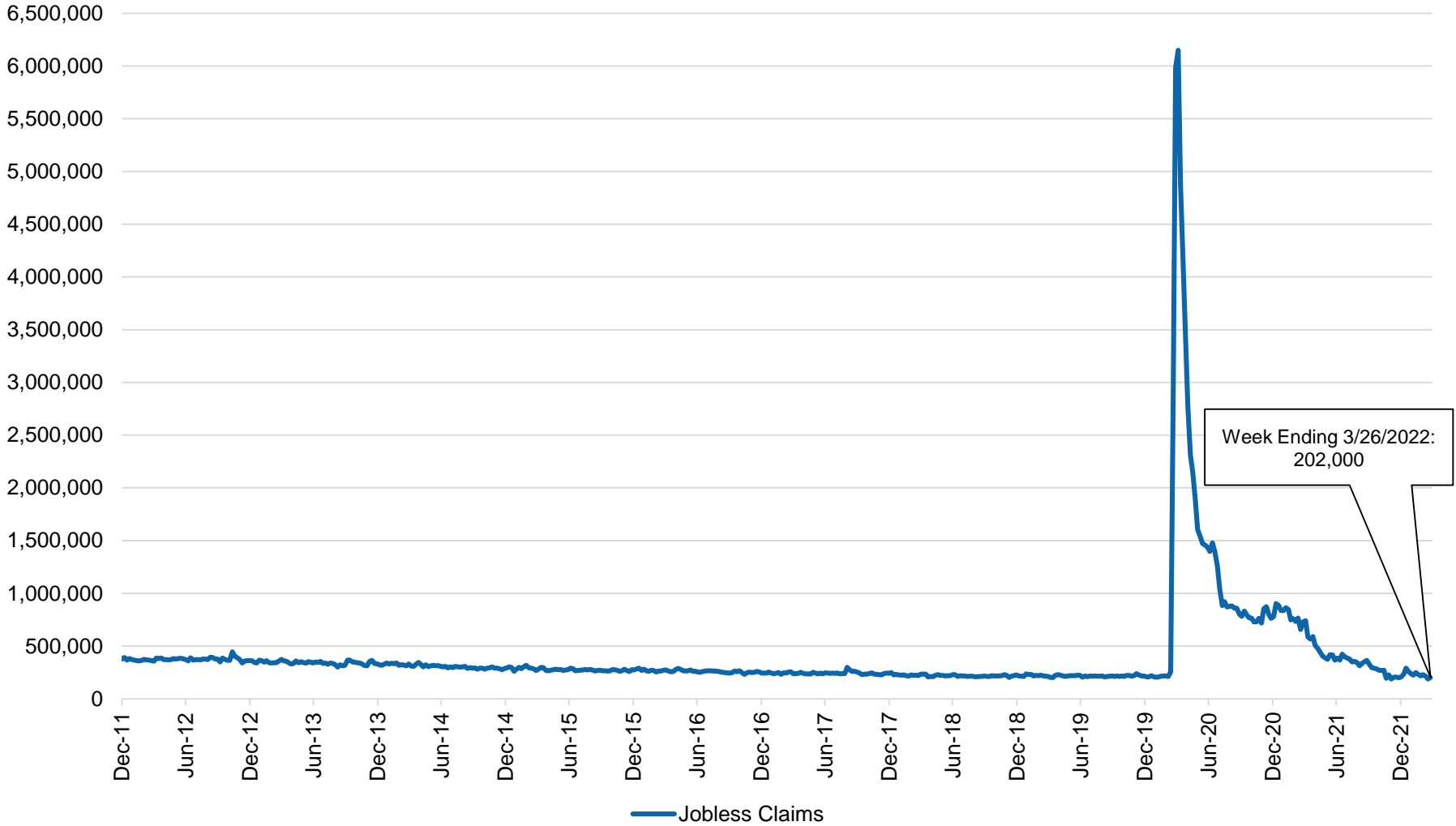
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Summary

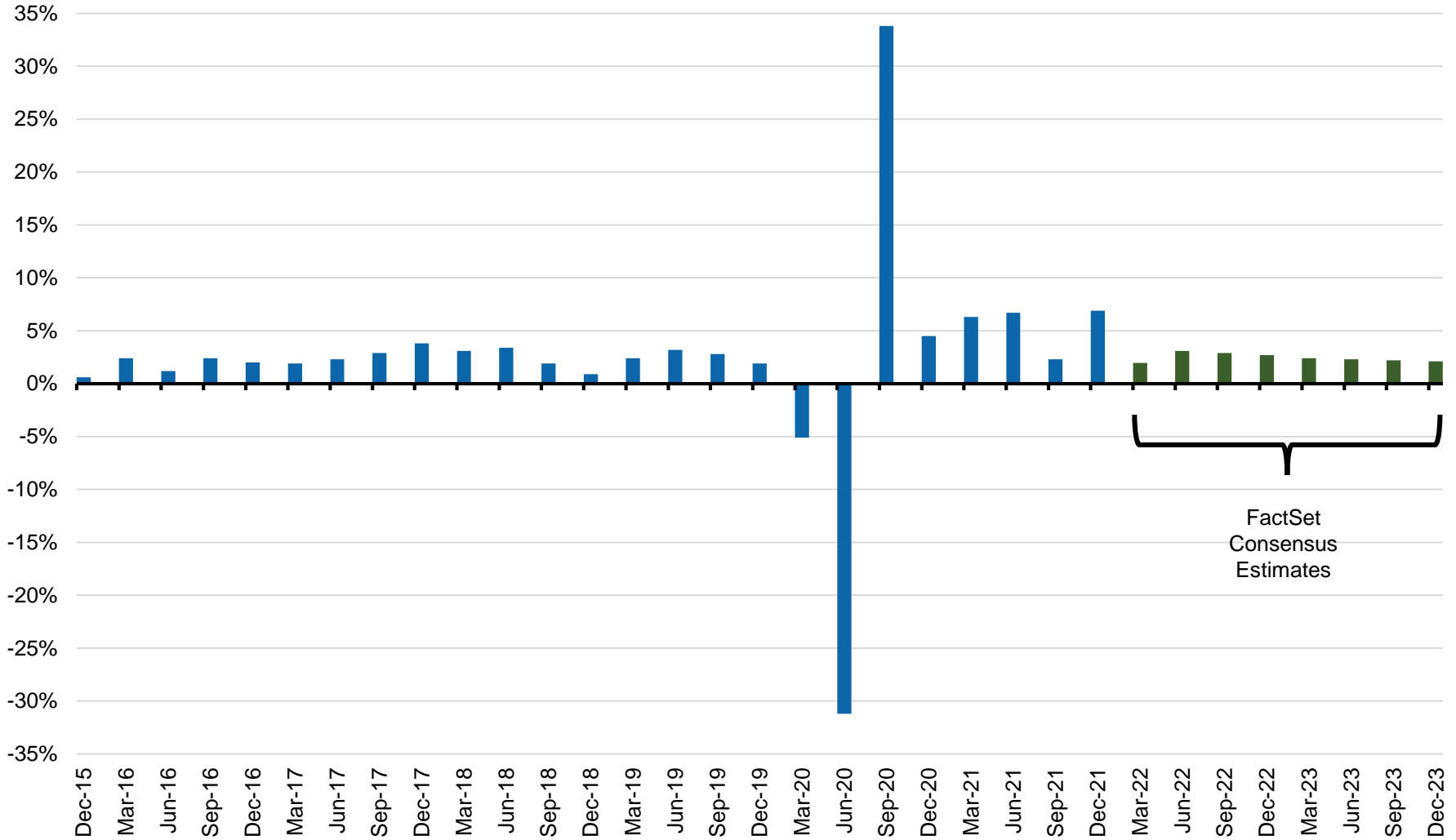
- 1** A Russian military invasion into Ukraine and lingering COVID variants are creating substantial uncertainty in the global economy.
- 2** Inflation has broadened and remains frustratingly persistent. Above trend inflation remains the greatest risk to the U.S. economy as excess demand coupled with supply-chain disruptions continue to drive prices higher. The war in Ukraine exacerbates this trend.
- 3** The upper income U.S. consumer remains in a favorable financial position and the U.S. economy seems poised to continue growing. The extraordinarily strong labor market supports personal income growth even as real wage gains are not keeping pace with short term inflation pressures.
- 4** The tailwind from government spending is abating, and the Federal Reserve is being compelled to tighten financial conditions as inflation remains stubbornly high.
- 5** Equity markets have been volatile, and the backdrop of rising interest rates limits potential future returns as multiple expansion from here is unlikely in the face of significant economic uncertainty.

U.S. Employment : Jobless Claims



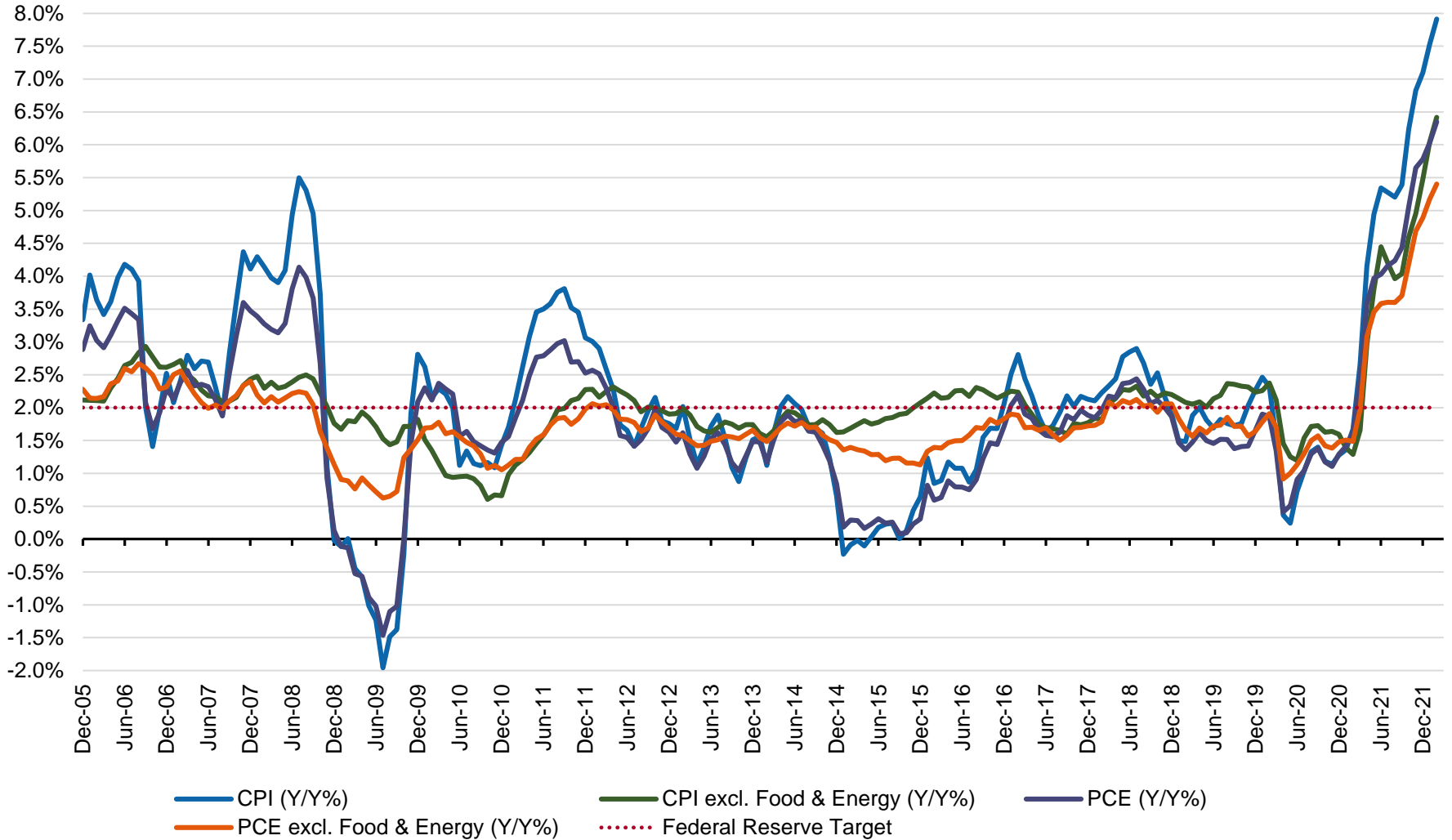
Source: U.S. Employment and Training Administration, FRED. As of 3/26/2022.

U.S. Real GDP Growth (Q/Q Annualized % Change)



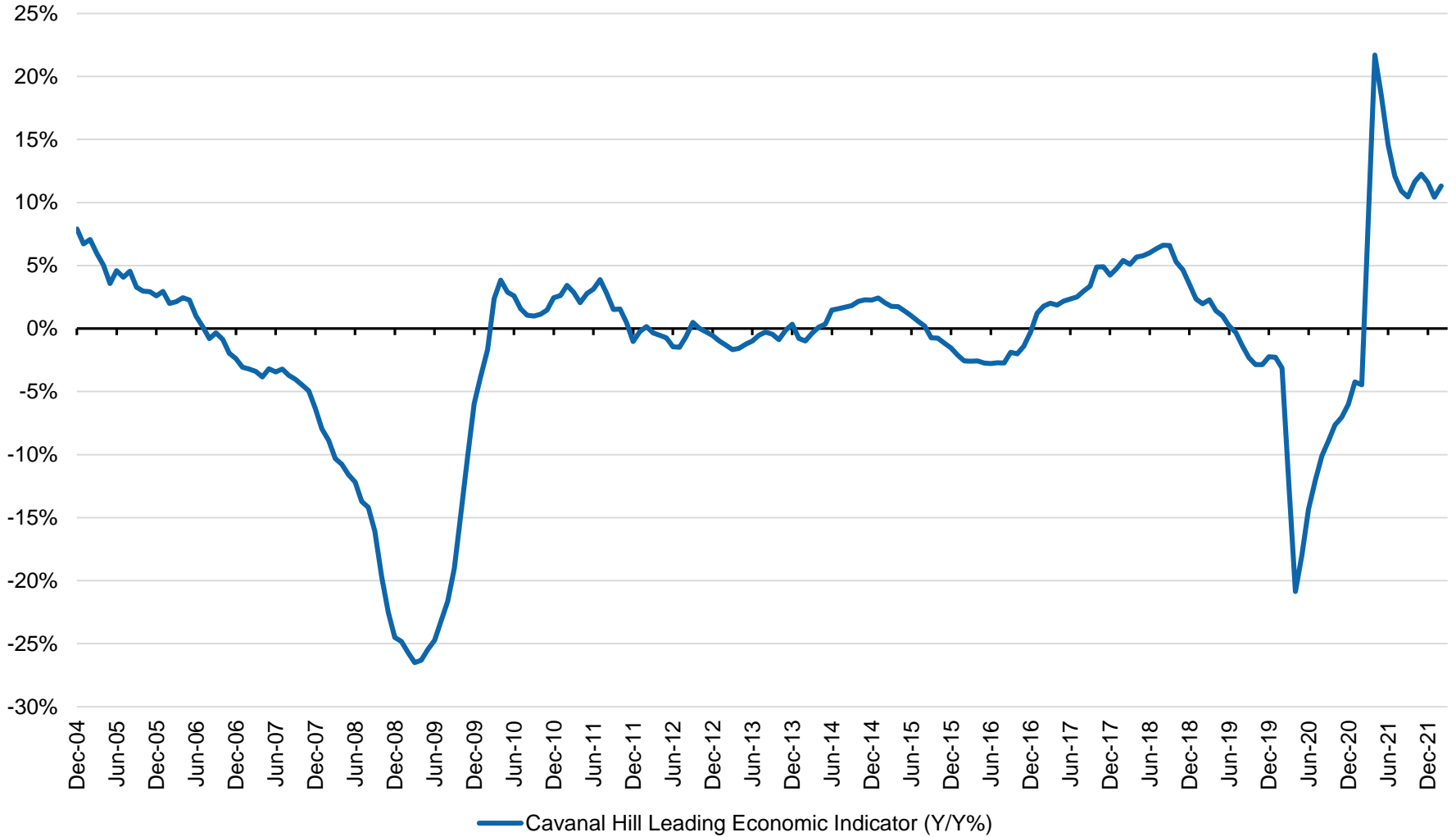
Source: U.S. Bureau of Economic Analysis, FRED, FactSet. As of 3/31/2022

U.S. Headline and Core Inflation



Source : US Bureau of Economic Analysis, US Dept. of Labor, FactSet. As of 2/28/2022.

Caval Hill Leading Economic Indicator



Source : Caval Hill, Bloomberg. As of 2/28/2022. ²See appendix for indicator description.

Broad Asset Classes

Market Performance

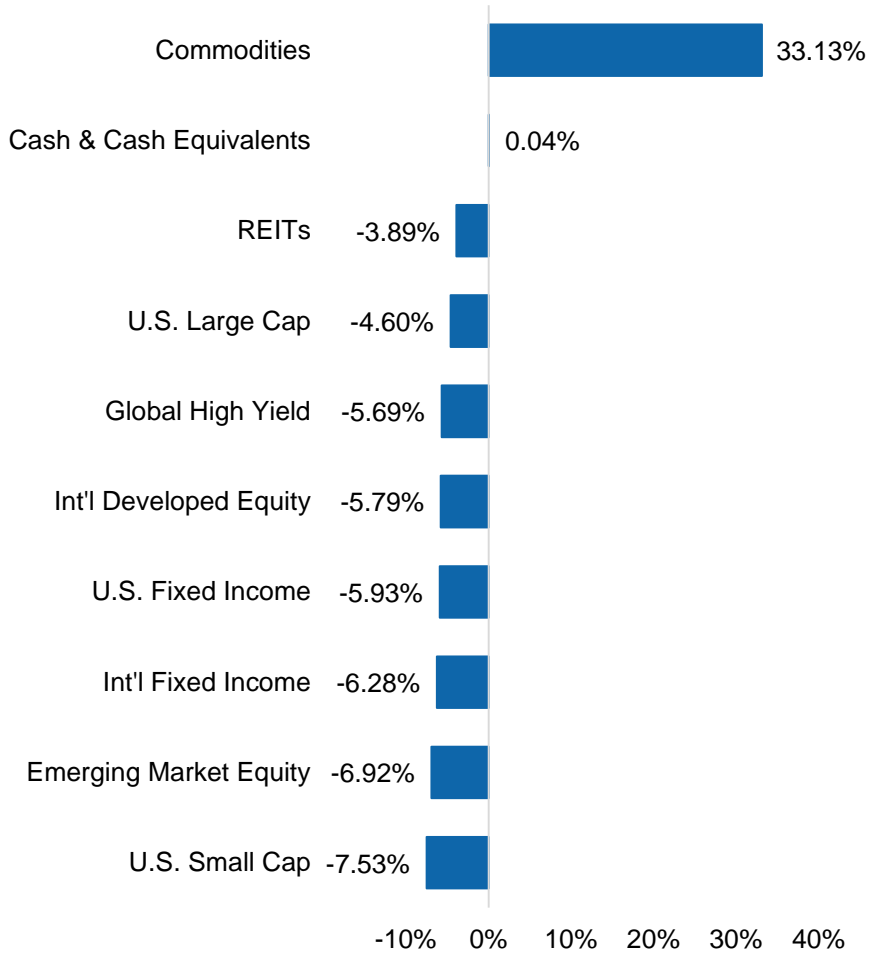
	1Q2022	Last 12 Months
Headline Index Returns		
Russell 1000 Value	-0.74%	11.67%
Dow Jones Industrial Average	-4.10%	7.11%
S&P 500	-4.60%	15.65%
Russell 1000	-5.13%	13.27%
Russell 800 MidCap	-5.68%	6.92%
Barclays Global High Yield Fixed Income	-5.69%	-3.84%
MSCI EAFE	-5.79%	1.65%
Barclays U.S. Aggregate Fixed Income	-5.93%	-4.15%
Barclays Global Aggregate Fixed Income	-6.16%	-6.40%
MSCI Emerging Markets	-6.92%	-11.08%
Russell 2000	-7.53%	-5.79%
NASDAQ Composite	-8.95%	8.06%
Russell 1000 Growth	-9.04%	14.98%

*Sorted by Quarterly Returns

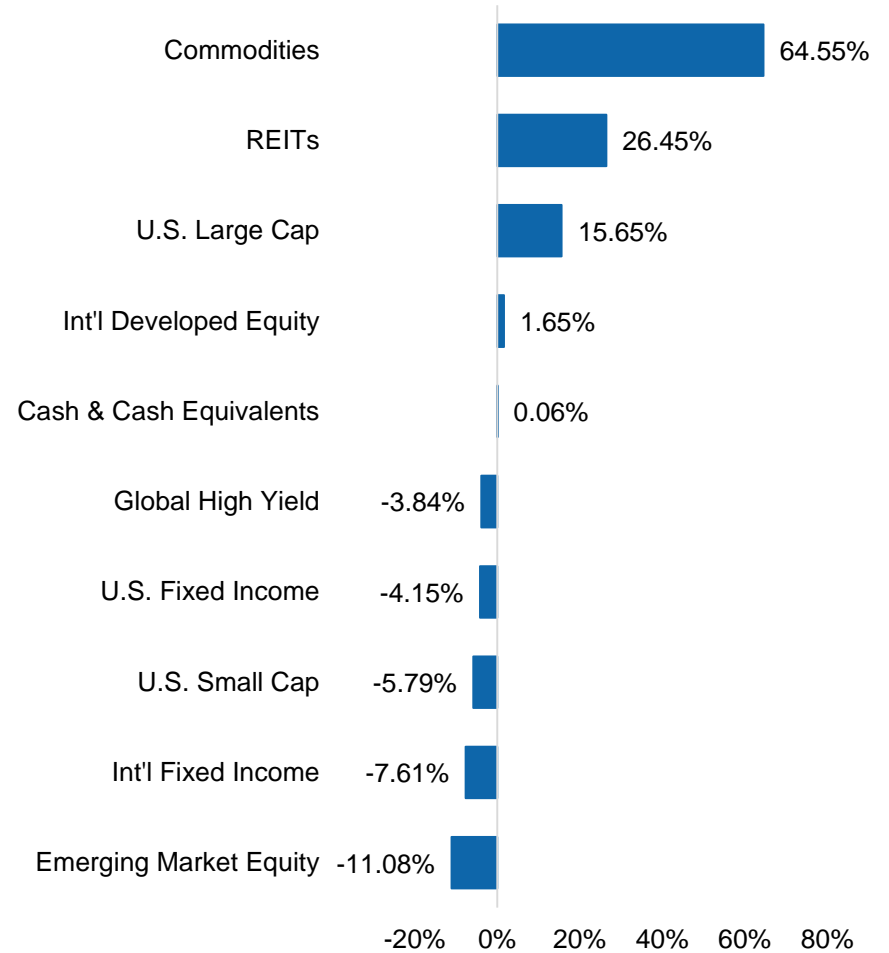
Source : S&P Dow Jones Indices, FTSE Russell, MSCI, NASDAQ, FactSet. As of 3/31/2022.

Asset Class Returns

Quarterly Returns

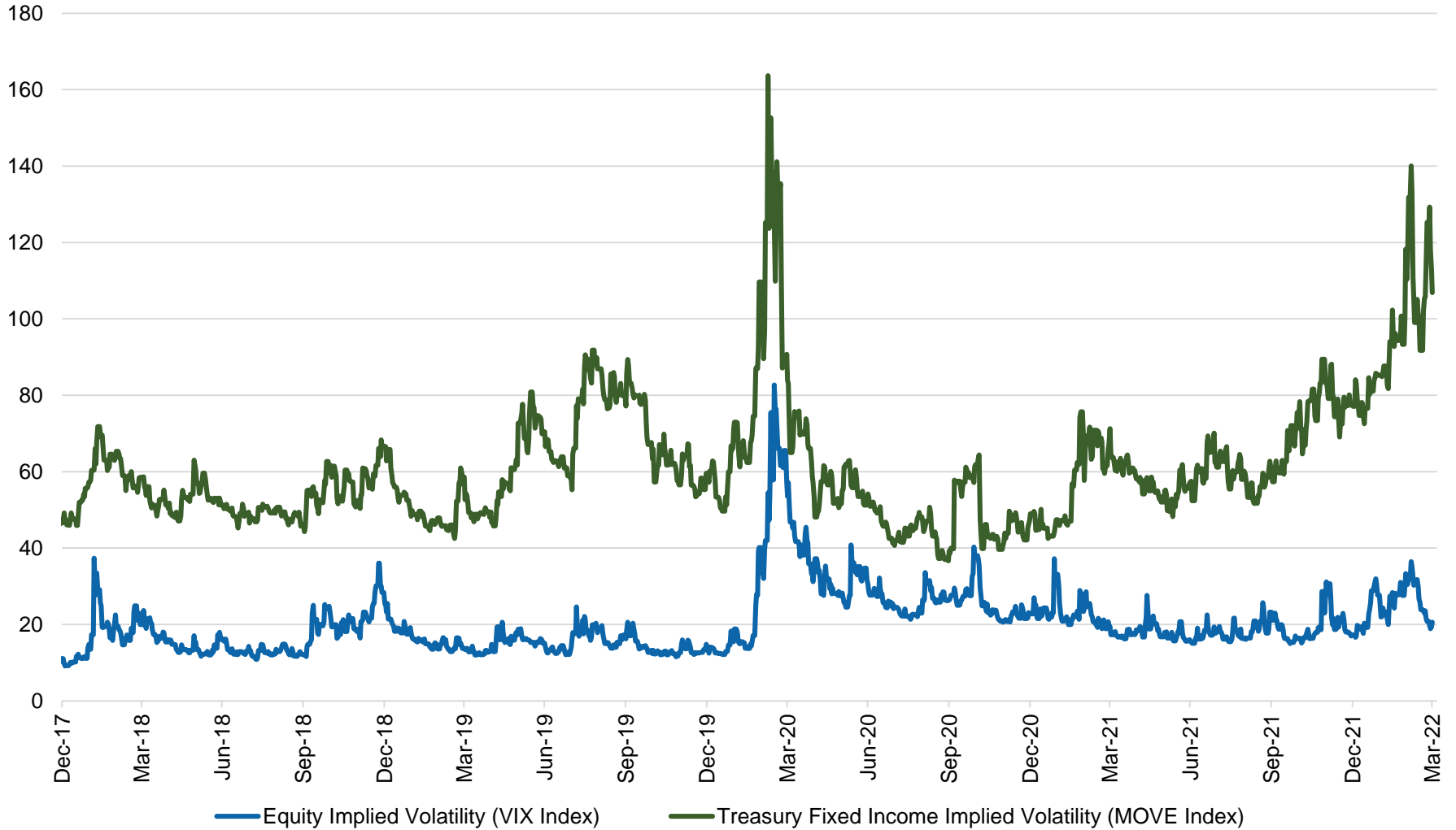


Last 12 Months



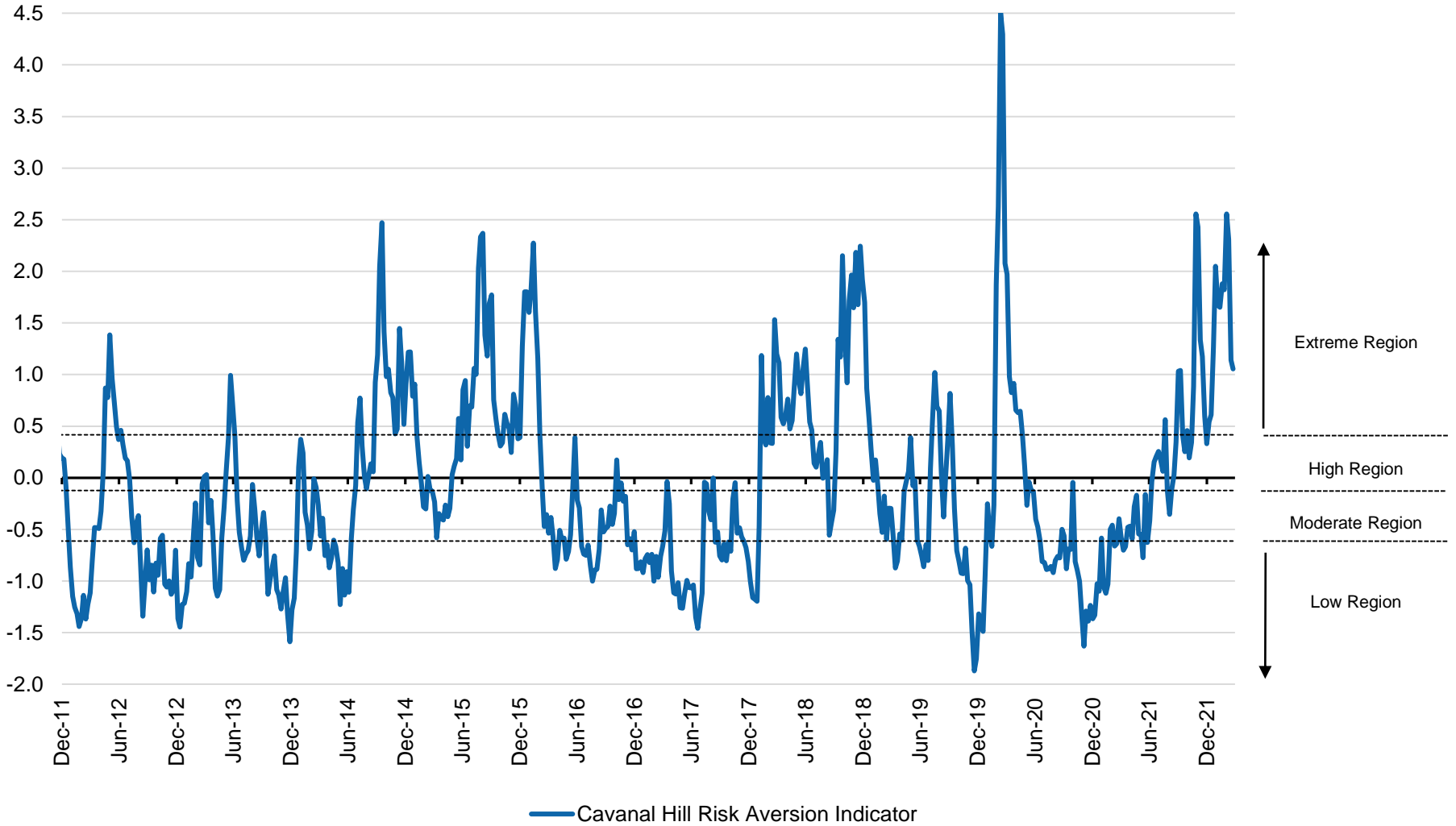
Source : S&P Dow Jones Indices, FTSE Russell, MSCI, NASDAQ, FactSet. As of 3/31/2022. ¹See appendix for index descriptions.

Implied Volatility : Equity vs. Treasury Fixed Income



Source : ICE BofA, Bloomberg, CBOE, FactSet. As of 3/31/2022.

Cavalan Hill Risk Aversion Indicator



Source : Cavalan Hill, Bloomberg. As of 3/31/2022. ³See appendix for indicator description.

U.S. Equity Market

U.S. Equity Market Outlook

1 It remains to be determined how higher inflation will impact earnings. Given that earnings drive stock prices, this implies a wider range of potential outcomes compared to our outlook at the end of 2021.

2 Rising interest rates are a risk to equity valuations and to economic growth more broadly.

3 The war in Ukraine has reintroduced geopolitical risk to the macroeconomic environment. We expect increased volatility in energy and commodity prices which could have negative implications for trade and global economic growth.

4 The combined impact of higher inflation and geopolitical uncertainty obfuscates near-term preferences with regard to style (i.e. growth versus value) and cyclicalities.

Equity Style Returns

1Q2022

	Value	Core	Growth
Large	-0.74%	-5.13%	-9.04%
Mid	-1.82%	-5.68%	-12.58%
Small	-2.40%	-7.53%	-12.63%

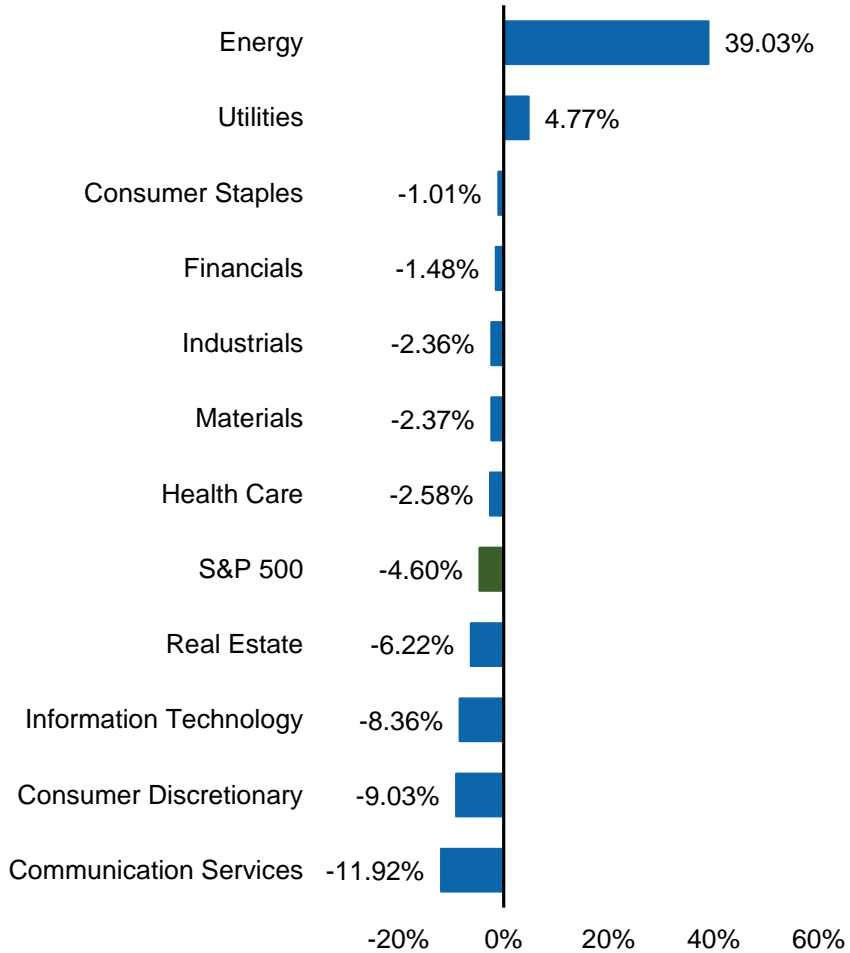
Last 12 Months

	Value	Core	Growth
Large	11.67%	13.27%	14.98%
Mid	11.46%	6.92%	-0.89%
Small	3.32%	-5.79%	-14.33%

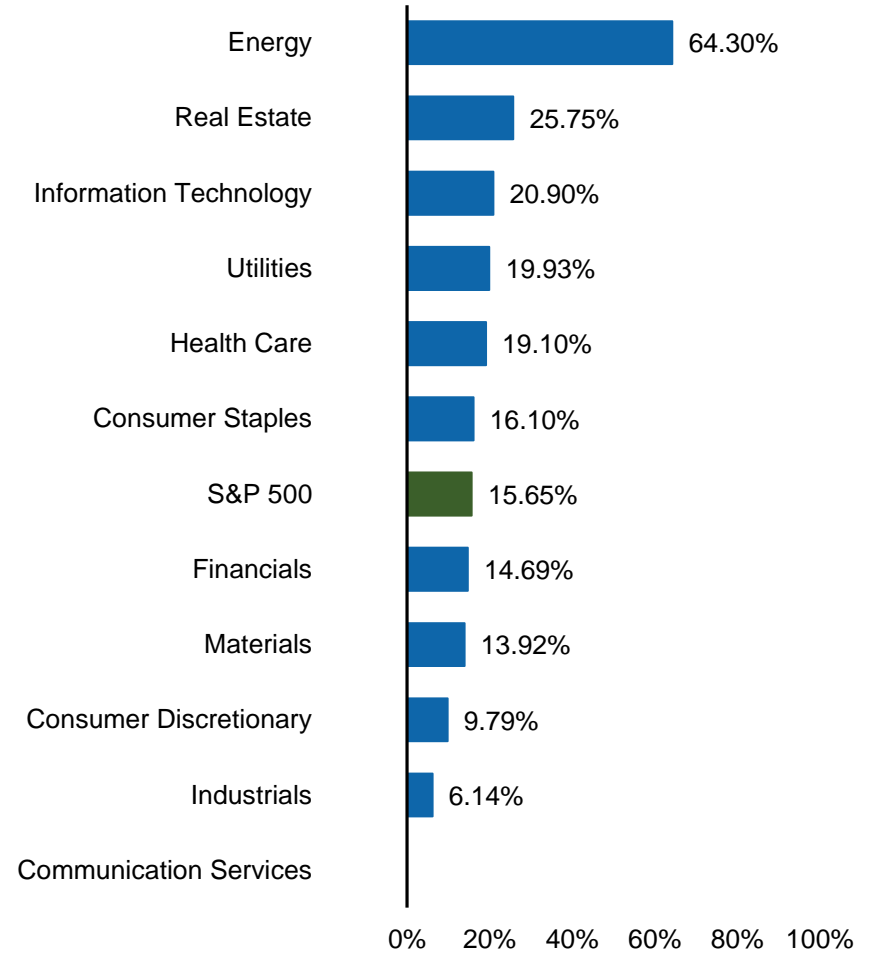
Source : S&P Dow Jones Indices, FTSE Russell, MSCI, Bloomberg Barclays, FactSet. As of 3/31/2022. ¹See appendix for index descriptions.

S&P 500 Sector Returns

Quarterly Returns



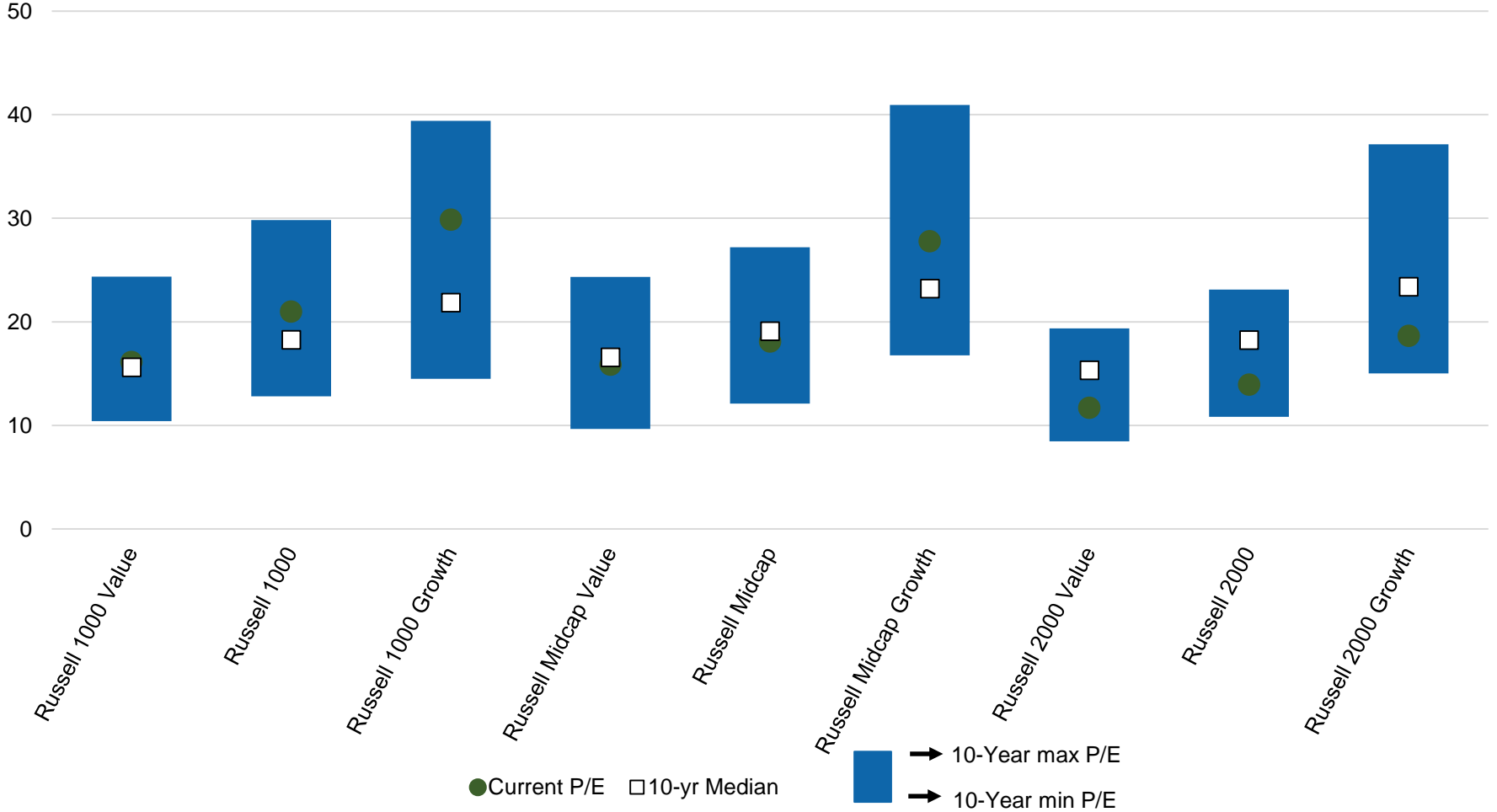
Last 12 Months



Source : S&P Dow Jones Indices, FactSet. As of 3/31/2022.

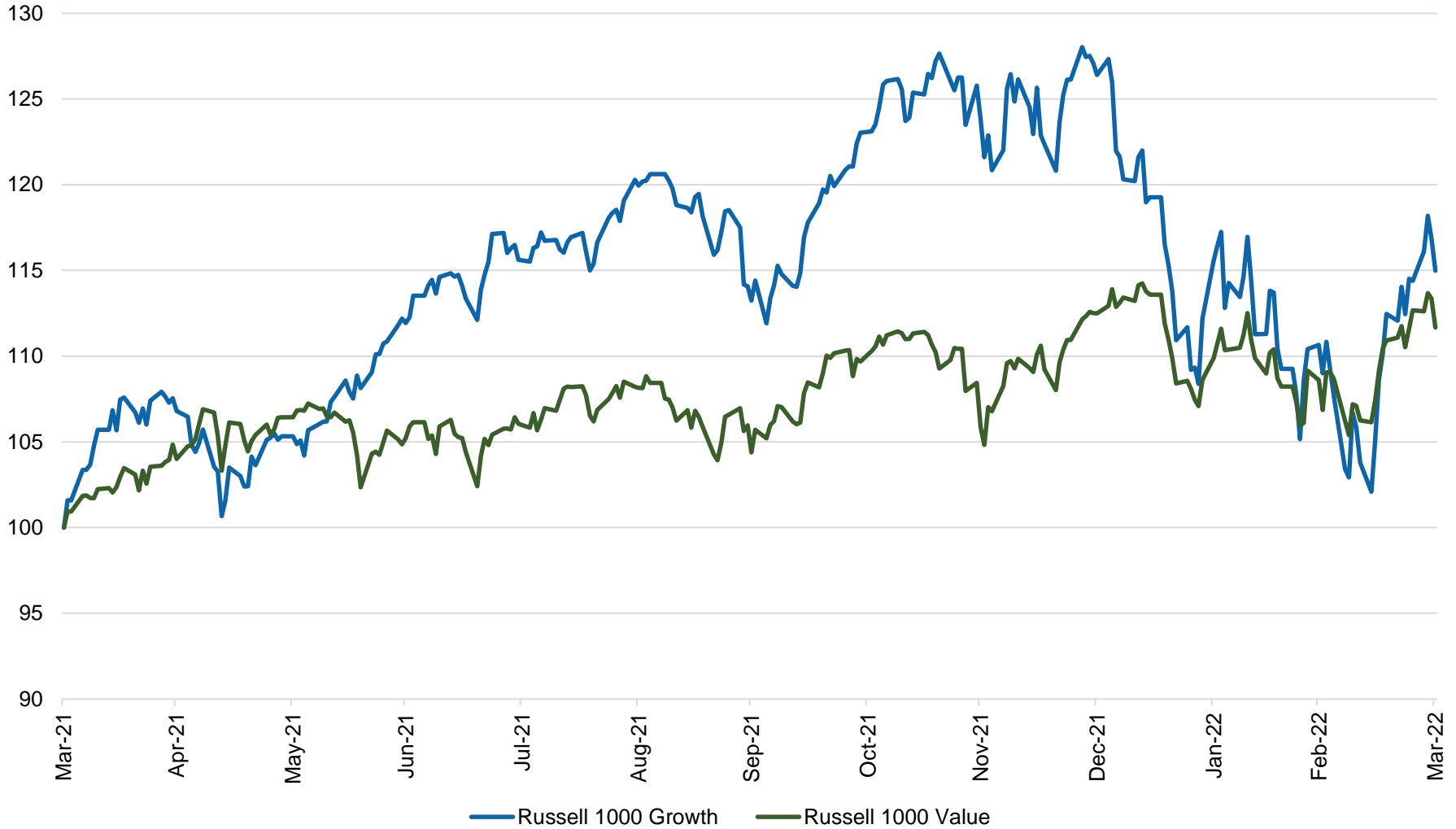
Equity Style Valuation

Last 12 Months P/E Ratios 10-Year High/Low (excludes negatives)



Source : FTSE Russell, FactSet. As of 3/31/2022.

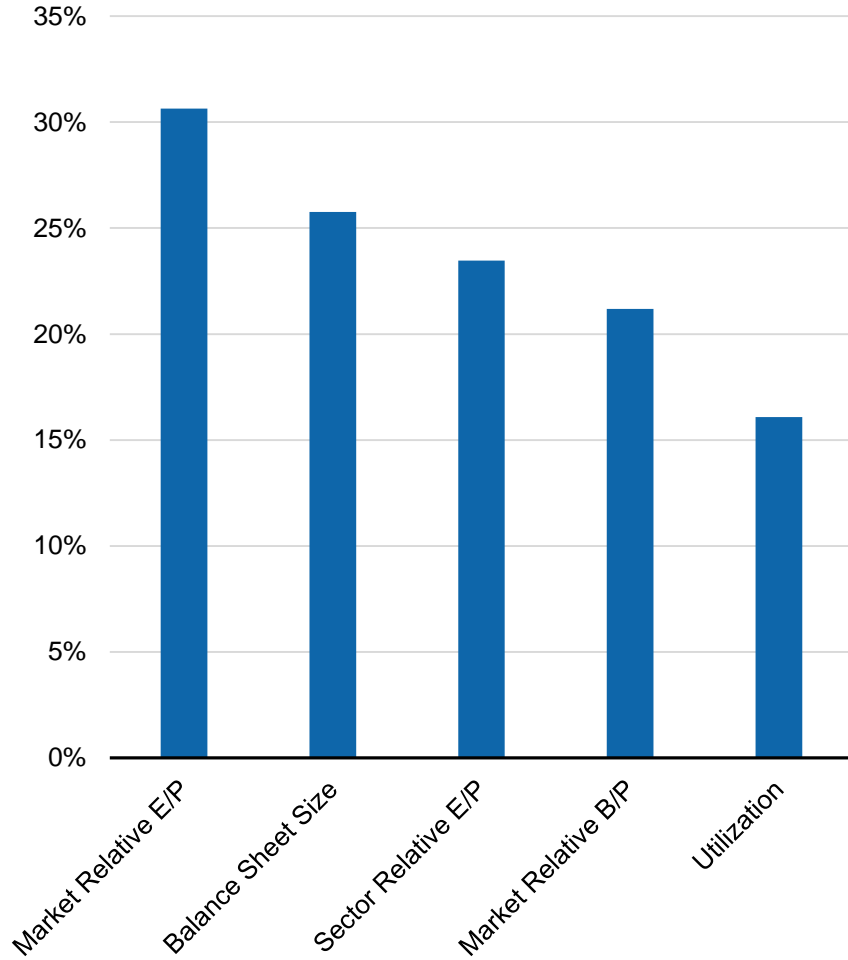
Equity Style : Large Cap Growth vs Value



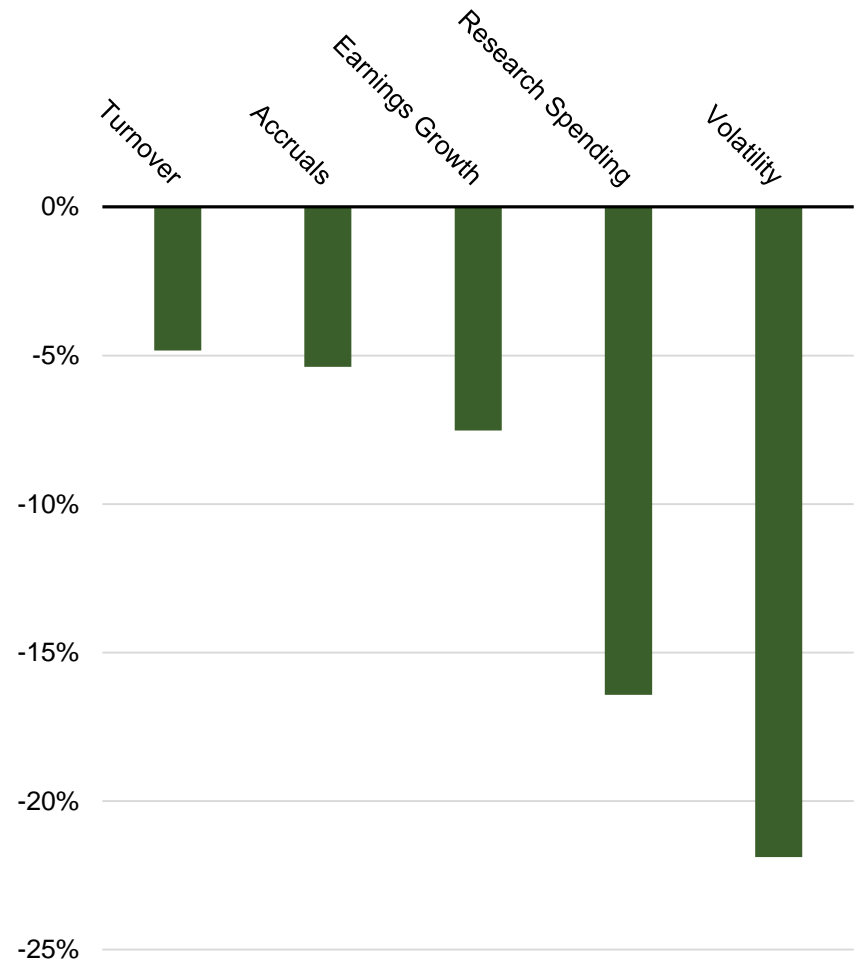
Source : FTSE Russell, FactSet. As of 3/31/2022.

Trailing 12 Month Russell 1000[®] Factor Returns

Top 5 Factor Returns



Bottom 5 Factor Returns



Source : Cavanal Hill, FTSE Russell, FactSet. For the period 3/26/2021 to 3/25/2022. ⁴See appendix for factor descriptions.

Fixed Income

U.S. Fixed Income Outlook

1

Inflation has supplanted COVID-19 as the market's primary concern. Inflation has been far more persistent than originally expected and the market is still reckoning with the consequences of massive monetary and fiscal stimulus.

2

After an initial rate hike in the first quarter of 2022, the Fed is likely to increase the pace of rate hikes. The target Fed Funds rate is now expected to reach 2.5% by the end of 2022 and 3.25% by the end of 2023.

3

We believe duration should be added opportunistically as the rise in rates has been rapid in the first quarter. If inflation is not tamed quickly, the Fed may need to raise rates high enough to induce a recession. This would drive long term rates lower.

4

While we currently remain in an expansion, the pace of economic growth is slowing. Investors should still own credit, but be increasingly selective in their allocation.

5

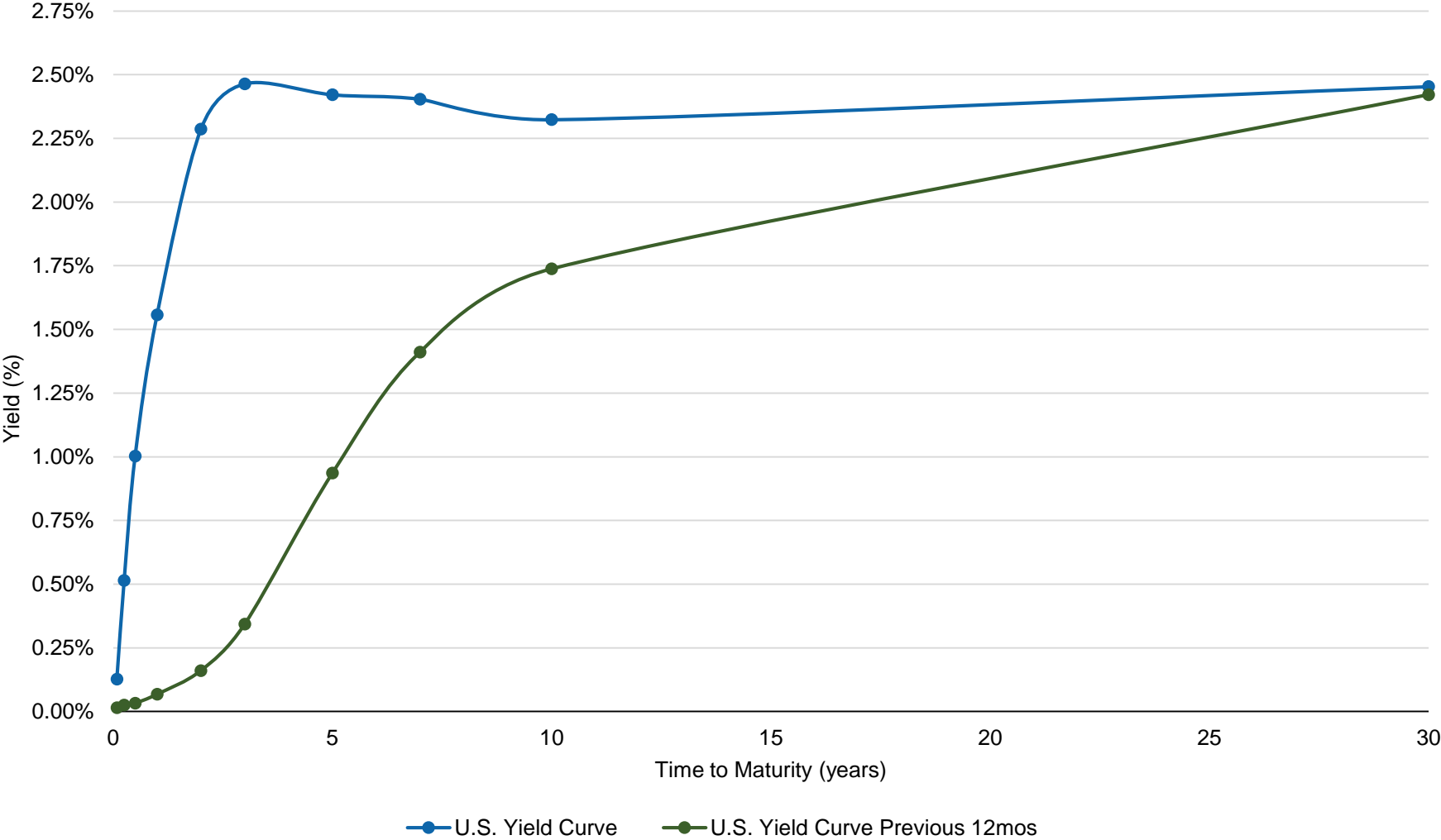
Despite highly liquid fixed income markets, there remains a premium for less liquid securities. Investors should consider a moderate allocation to higher quality securities with lower liquidity.

Fixed Income Returns, as of 3/31/2022

	1Q2022	1 Year	3 Year (Ann.)
Fixed Income Index Returns			
BB Aggregate Index	-5.93%	-4.15%	1.69%
BB Intermediate Aggregate Index	-4.69%	-4.38%	1.19%
BB Municipal Index	-7.13%	-3.85%	2.62%
BB Treasury Index	-5.58%	-3.67%	1.39%
BB Agency Index	-4.20%	-3.94%	1.22%
BB Corporate Index	-7.69%	-4.20%	3.02%
BB Agency MBS Index	-4.97%	-4.92%	0.56%
BB High Yield Index	-4.84%	-0.66%	4.58%

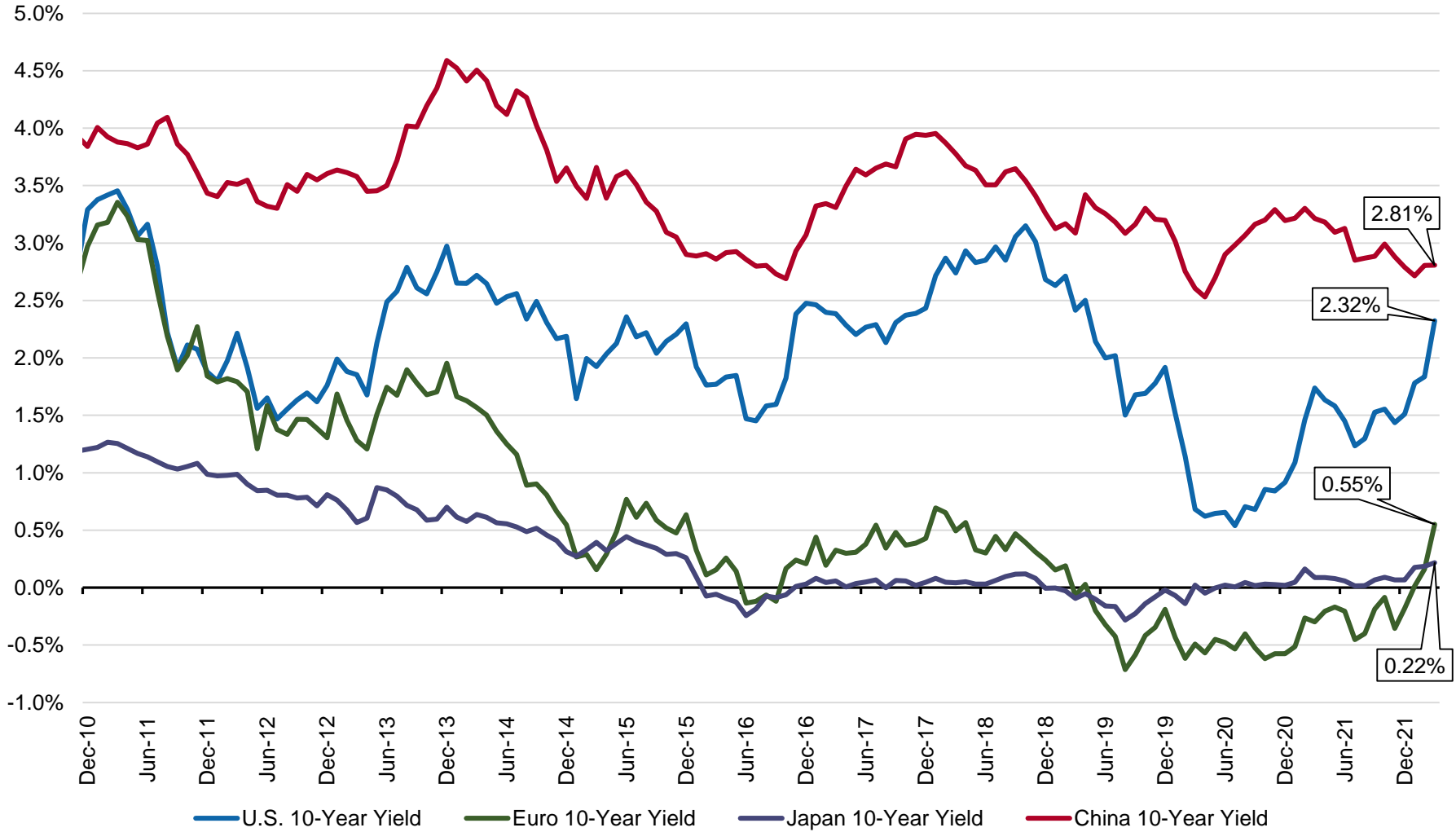
Source : Cavanal Hill, Bloomberg. As of 3/31/2022.

The U.S. Treasury Yield Curve



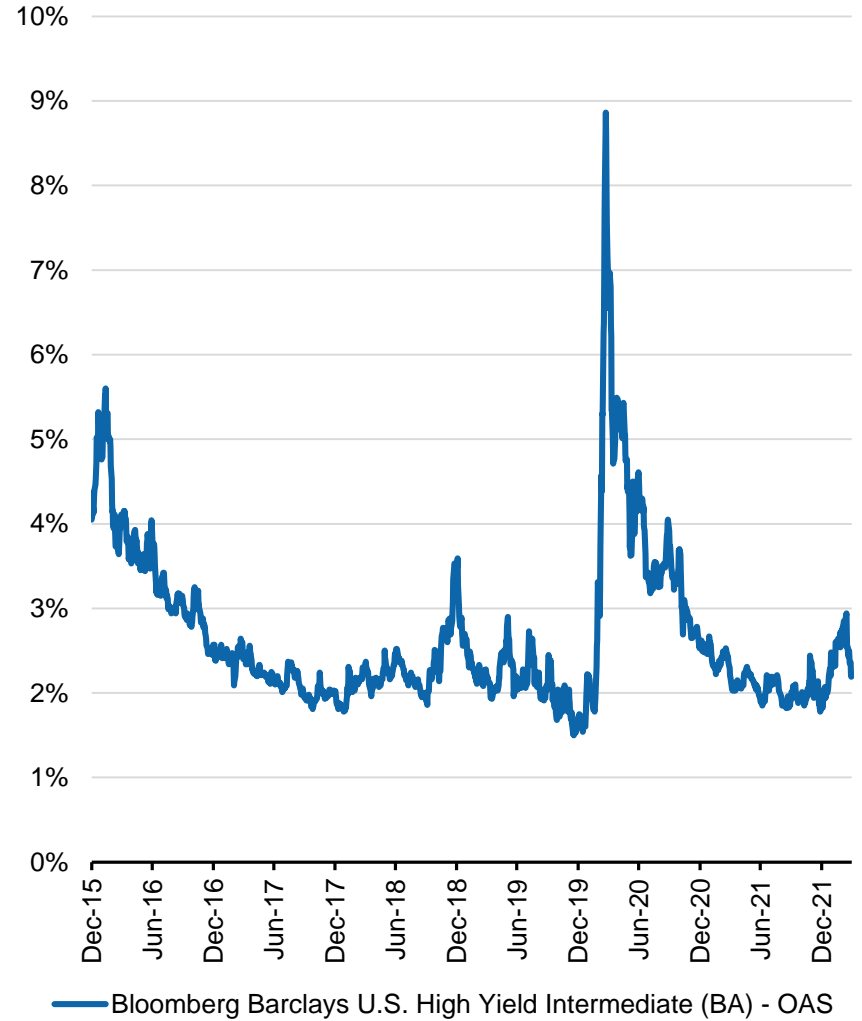
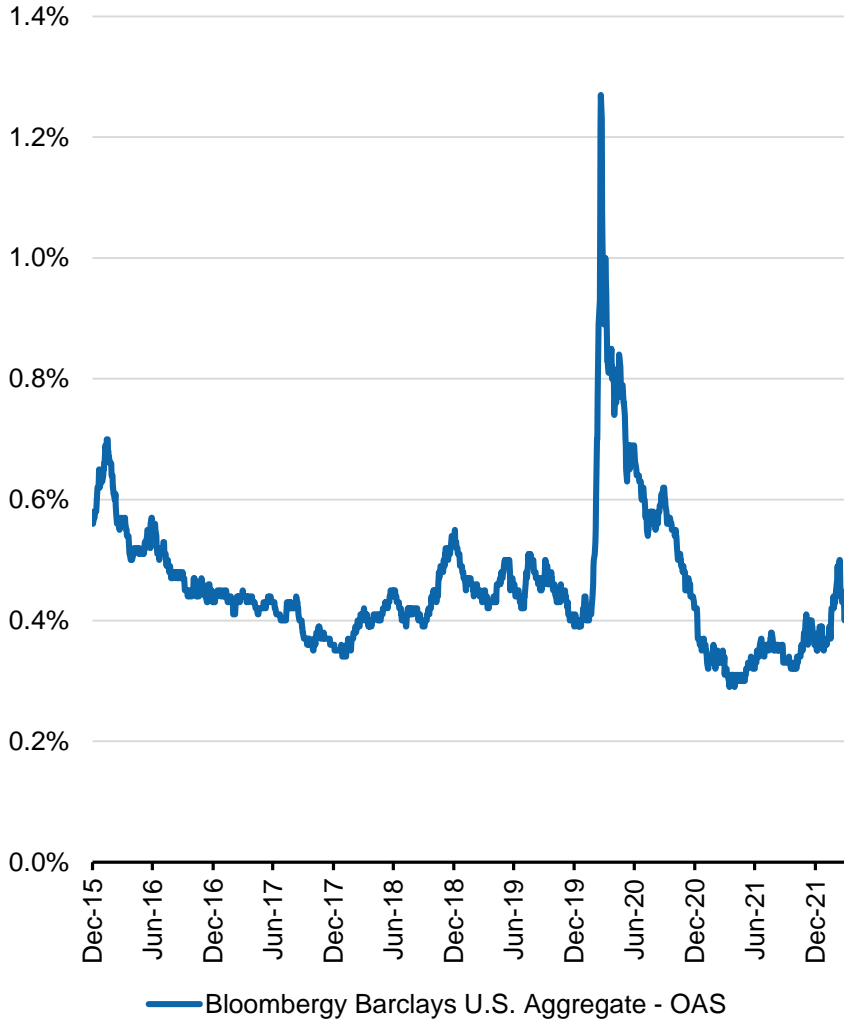
Source : Tullett Prebon Information, FactSet. As of 3/31/2022.

Global 10 Year Yields



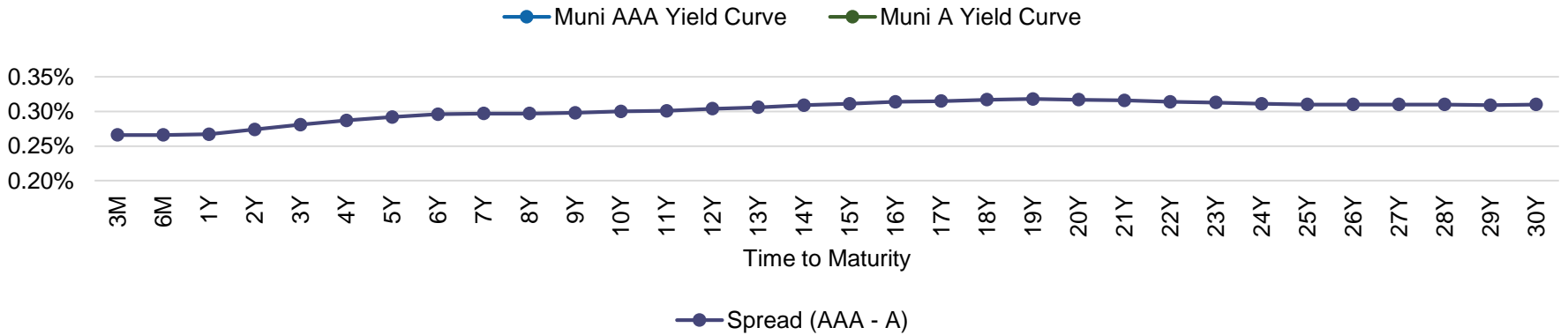
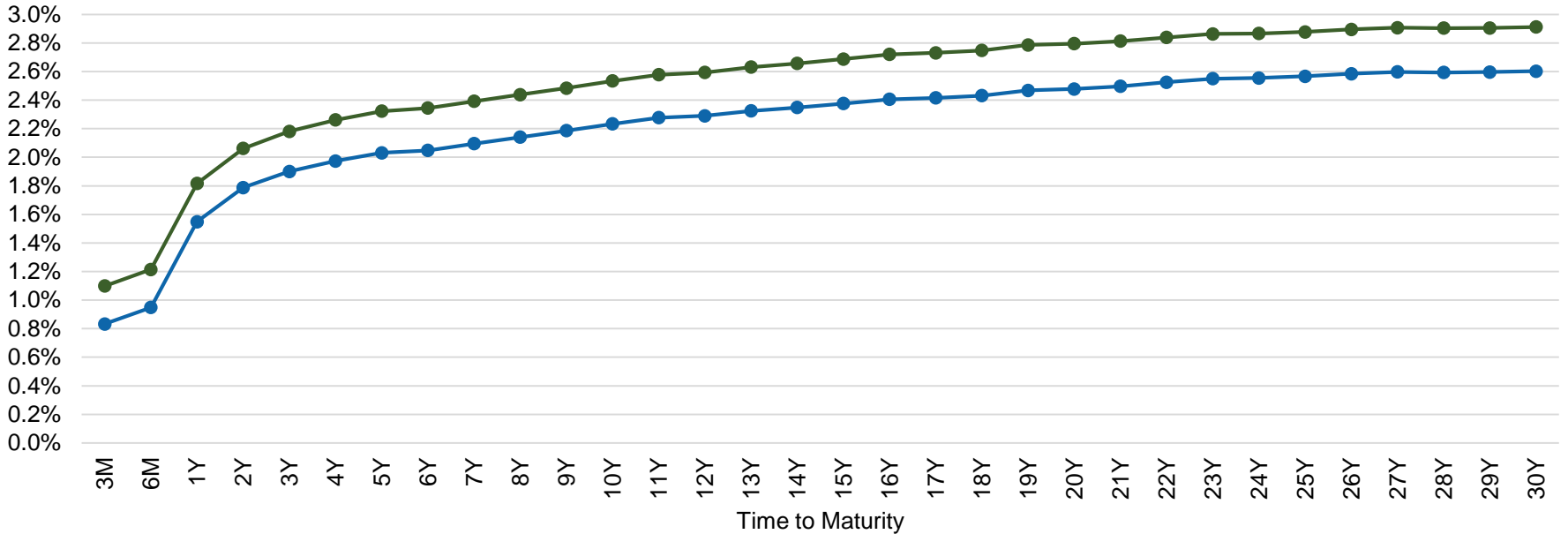
Source : Tullett Prebon Information, JP Morgan Chase, FactSet. As of 3/31/2022.

U.S. Fixed Income Spreads



Source : Tullett Prebon Information, JP Morgan Chase, FactSet. As of 3/31/2022.

Muni Yield Curve & Spread



Source : Cavanal Hill, Bloomberg. As of 3/31/2022.

1 Appendix : Asset Class & Equity Style Benchmarks

Asset Class & Equity Style	Benchmark
U.S. Large Cap	S&P 500
U.S. Small Cap	Russell 2000
Int'l Developed Equity	MSCI EAFE
Int'l Emerging Markets	MSCI EM
Commodities	S&P GSCI
U.S. Fixed Income	Barclays U.S. Aggregate
Global Fixed Income	Barclays Global Aggregate
Global Fixed Income ex. U.S.	Barclays Global Aggregate ex. U.S.
Global High Yield	Barclays Global High Yield
U.S. REITs	FTSE NAREIT All Equity REITs
Cash & Cash Equivalents	Barclays 3-Month T-Bill
Large Value	Russell 1000 Value
Large Core	Russell 1000
Large Growth	Russell 1000 Growth
Mid Value	Russell Midcap Value
Mid Core	Russell MidCap
Mid Growth	Russell Midcap Growth
Small Value	Russell 2000 Value
Small Core	Russell 2000
Small Growth	Russell 2000 Growth

2Appendix : Cavanal Hill Leading Economic Indicator

The **Cavanal Hill Leading Economic Indicator** is a proprietary model that the Cavanal Hill Quantitative Group uses in making macroeconomic assessments and forecasts. It is a dynamically weighted combination of the following data items:

Data Item	Source
10 Year Breakeven	Bloomberg
Capacity Utilization	US Federal Reserve
Conference Board LEI	Conference Board
Consumer Sentiment	Conference Board
ECRI LEI	Economic Cycle Research Institute
Existing Home Sales	National Association of Realtors
Industrial Production	US Federal Reserve
ISM Manufacturing	Institute for Supply Management
ISM Manufacturing New Orders	Institute for Supply Management
ISM Services	Institute for Supply Management
ISM Services New Orders	Institute for Supply Management
Jobless Claims	US Dept. of Labor
Multi Housing Permits	US Census Bureau
Real Retail Sales	US Census Bureau
Retail Sales ex Autos	US Census Bureau
Single Housing Permits	US Census Bureau
Small Business Optimism	NFIB
Temp Payrolls	US Dept. of Labor

3 Appendix : Cavanal Hill Risk Aversion Indicator

The **Cavanal Hill Risk Aversion Indicator** is a proprietary model that the Cavanal Hill Quantitative Group uses to assess how markets are pricing risk and the potential impacts of shifts in risk aversion. It is a dynamically weighted combination of the following data items:

Data Item	Source
AA/AAA Yield Spread Over Treasuries	Moody's, Bloomberg
Ba/B Yield Spread Over Treasuries	Bloomberg
Baa Yield Spread Over Treasuries	Bloomberg
BBB Yield Spread Over Treasuries	Bloomberg
St. Louis Federal Reserve Bank Financial Stress Index	US Federal Reserve, Bloomberg
Euro Area Systematic Stress Indicator Composite Index	ECB, Bloomberg
Euro Stoxx 50 Volatility Index	Deutsche Borse, Goldman Sachs, Bloomberg
Euro/US Dollar Exchange Rate	Bloomberg
Europe 5Y Generic Corporate CDS Spread	Markit, Bloomberg
Global Financial Stress Index	BOA Merrill Lynch, Bloomberg
Japan 5Y Generic Corporate CDS Spread	Markit, Bloomberg
Japanese Yen/US Dollar Exchange Rate	Bloomberg
KOSPI 200 Volatility Index	Bloomberg
S&P 500 Index P/E	Bloomberg
South Korean Won/US Dollar Exchange Rate	Bloomberg
SPX Volatility Index (VIX)	CBOE, Bloomberg
Swiss Franc/US Dollar Exchange Rate	Bloomberg
US 5Y Generic Corporate CDS Spread	Markit, Bloomberg
US Dollar Index	Bloomberg
Volatility Index Japan	CSFI-Osaka Univ., Bloomberg
Westpac Japan Financial Stress Index	Westpac Strategy Group, Bloomberg

4 Appendix : Cavanal Hill Factor Returns

Cavanal Hill Factor Returns are built using the proprietary factor definitions that the Cavanal Hill Quantitative Group uses to assess market trends and construct portfolios. Raw data is provided by FactSet and the factors are constructed and tested using the FactSet Alpha Testing tool. Currently, there are 20 factors. The factor names and a short description of each are listed below.

Factor	Description
Accruals	Ranks according to how heavily a company relies on the use of accruals.
Debt Burden	Ranks according to leverage and/or interest burdens relative to income.
Earnings Growth	Ranks according to historical growth in earnings.
Market Relative E/P	Ranks according to the stock's E/P relative to the entire market.
Sector Relative E/P	Ranks according to the stock's E/P relative to its' sector peers.
Foreign Exposure	Ranks according to how much of a company's business is foreign or domestic.
Margin Expansion	Ranks according to historical growth in profit margins.
Momentum	Ranks according to stock performance over the prior 12 month period (excluding the most recent month).
Profitability	Ranks according to profit margins.
Reinvestment	Ranks according to capex spending relative to revenues.
Research Spending	Ranks according to R&D spending relative to revenues.
Reversal	Ranks according to stock performance over the prior 1 month.
Sales Growth	Ranks according to historical growth in sales/revenues.
Balance Sheet Size	Ranks according to total balance sheet assets.
Market Capitalization	Ranks according to total market capitalization.
Turnover	Ranks according to sales relative to total assests.
Utilization	Ranks according to margin growth relative to growth in other balance sheet items (e.g. debt, expenses, etc.)
Market Relative B/P	Ranks according to the stock's B/P relative to the entire market.
Sector Relative B/P	Ranks according to the stock's B/P relative to its' sector peers.
Volatility	Ranks according to stock price volatility.

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