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Dear Partners in Ministry,

Enclosed is the 2022 2nd quarter statement for your account(s) at the United Methodist Foundation (statements from 7/1/17 are accessible online). Net of fees, the returns of the fund models are:

As of 6/30/2022	2nd Qtr 2022	Year to Date	Last 1 Year†	Last 3 Years†	Last 5 Years†	Last 10 Years†
Aggressive Fund	**-13.60%**	**-18.71%**	**-13.70%**	**6.63%**	**7.79%**	**7.83%**
Agg. Climate	-14.18%	-19.76%	-14.78%	n/a	n/a	n/a
benchmark*	-13.29%	-18.07%	-14.19%	6.31%	7.29%	8.30%
Moderate Fund	**-10.37%**	**-15.05%**	**-11.64%**	**4.74%**	**5.92%**	**6.01%**
Mod. Climate	-10.59%	-15.36%	-11.86%	3.27%	n/a	n/a
benchmark*	-10.09%	-14.62%	-11.81%	4.59%	5.73%	6.50%
Conservative Fund	**-6.90%**	**-11.17%**	**-9.60%**	**2.30%**	**3.59%**	**3.91%**
Con. Climate	-6.92%	-11.10%	-9.29%	n/a	n/a	n/a
benchmark*	-6.68%	-10.98%	-9.54%	2.40%	3.79%	4.49%

*"Benchmark" is a blend of benchmarks for the fund's underlying portfolios of stocks and fixed income, relative to the portfolio allocations within the fund's model. †Rates of return (1+ years) are annualized. See the monthly performance reports online: https://umfnic.org/investment-performance-reports/

Market Commentary from Envestnet | PMC

Brandon Thomas, Co-Founder and Chief Investment Officer, Envestnet, concluded their "Economic and Market Overview: Second Quarter 2022" report with the following observations and commentary:

> "US consumers and investors have become increasingly pessimistic this year as a result of historically high inflation, the FOMC's aggressive interest rate increases, and the war in Ukraine, among other things. High inflation continues to be the biggest challenge confronting the world's policymakers. Analysts believe the volatility in global commodity markets – including both energy and food products - likely means that above-target inflation will remain throughout 2022. As a result, world central banks have begun to tighten monetary policy after more than a decade of quantitative easing. Restrictive monetary policy is not always an effective tool to dampen inflation resulting from supply-side pressures, and a primary concern with rising interest rates and tighter monetary policy is recession. The consensus among economists is that the US economy has only about a 50% chance of a recession in the next two years due to strong economic fundamentals, but nervous consumers and investors waylaid by the combination of rising interest rates and high inflation could see additional asset valuation erosion. There are a number of potential downside risks outlined by economists, including a continuation of the negative supply shock resulting in part from the war in Ukraine; the potential for spread of future Covid variants; the global semiconductor shortage; and property market weakness in countries where real estate valuations have been surging."[1]

"High inflation continues to be the biggest challenge confronting the world's policymakers."

Inflation remains elevated. The Consumer Price Index rose 9.1% in June over the last 12 months, the highest rate in 40 years and the highest rate since inflation started rising in the current environment.[2] Inflationary pressures may be peaking. Particularly, the price of oil has come down:

Source: Bloomberg, WTI crude[3]

Because the price of oil underlies much of the input cost for manufacturing goods and providing services, the decline in oil prices is a welcome sign. However, the Russian war of aggression in Ukraine continues, and European countries are moving as swiftly as they can to decouple from their reliance on Russian natural gas and oil. There is irony in this new dynamic: Russia is critically dependent on selling its natural resources to the rest of the world; they are selling oil below market prices, a lot to India and China.[4] We have already started to see some relief in prices at the pump. It takes time for crude to get refined into gasoline, so there is a lag between the trading price of oil and gas prices at the pump.

What causes inflation and how it (hopefully) resolves is complex. If you are interested in learning about those complexities, I recommend the latest *New Bazaar* podcast, "Inflation: a guide for the perplexed."[5] Until inflation moderates, we will continue to hear about consumer and investor pessimism.

"US economy has only about a 50% chance of a recession in the next two years"

Recession is a technical term referring to negative economic growth for at least two consecutive quarters. As we discussed in our May 5 investment overview, "Pin the tail on the next recession,"[6] the Federal Reserve is trying to guide the economy down a "goldilocks" path to a "soft landing," i.e. trying to get their policies just right to bring down inflation while not causing too deep of an economic downturn.

For investors, the question at this point is how well has the market already priced in whatever economic downturn, recession or not, may be or is coming or is already here? Last quarter I highlighted Morningstar's "Market Fair Value" indicator at a 6% discount for the stocks they evaluate. Currently, the discount is 17%.[7] Before the pandemic shutdown shock and dramatic decline in March 2020, the last time Morningstar's "Market Fair Value" indicated this deep discount was at the end of 2018, which, in hindsight, proved to be a buying opportunity for long-term investors in stocks.

"number of potential downside risks outlined by economists"

Mr. Thomas reminds us of the conditional nature of economic forecasting. Recession in the near-term is 50/50 "due to strong economic fundamentals," but he reminds us of several uncertainties still swirling around: supply issues from the war in Ukraine, possible COVID variants, the global semiconductor shortage, and problematic property markets. We have to remind ourselves that high inflation is also currently a symptom of "strong economic fundamentals." The labor market is healthy and despite consumer sentiment survey responses, consumers are still spending at a healthy rate.

"Climbing the wall of worry"

The current funk in the stock market is a healthy response to the various factors at play in the economy and several uncertainties. I think we are in a classic case of the stock market having to "climb the wall of worry" before stock prices achieve new all-time highs.[8] The last time I wrote extensively about recession "fear" and "worry" in the investor letter was October 2019. No one knew it then, but we did have a recession in the first half of 2020, which was deep and brief. Jesus said in Matthew 6:34, "So do not worry about tomorrow, for tomorrow will bring worries of its own. Today's trouble is enough for today."

Mine is only an opinion, of course, but I sense we are tiring ourselves out from worrying about tomorrow. If and when we see the rate of inflation drop (soon, I hope), that may be just the cue we are looking for to begin to climb the wall of worry.

Respectfully,

Chris Walters

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[1] https://www.investpmc.com/sites/default/files/documents/PMC_QuarterlyMarketEnvironment.pdf

[2] https://www.bls.gov/cpi/

[3] https://www.bloomberg.com/quote/CL1:COM

[4] https://www.brookings.edu/blog/up-front/2022/07/05/the-story-behind-the-proposed-price-cap-on-russian-oil/

[5] https://shows.acast.com/the-new-bazaar/episodes/inflation-a-guide-for-the-perplexed

[6] https://umfnic.org/may-5-2022-pin-the-tail-on-the-next-recession/

[7] https://www.morningstar.com/market-fair-value

[8] https://www.investopedia.com/terms/w/wallofworry.asp