EQUITY STRATEGY FOCUS

MAY, 2022

IN VIEW: The Economic Landscape

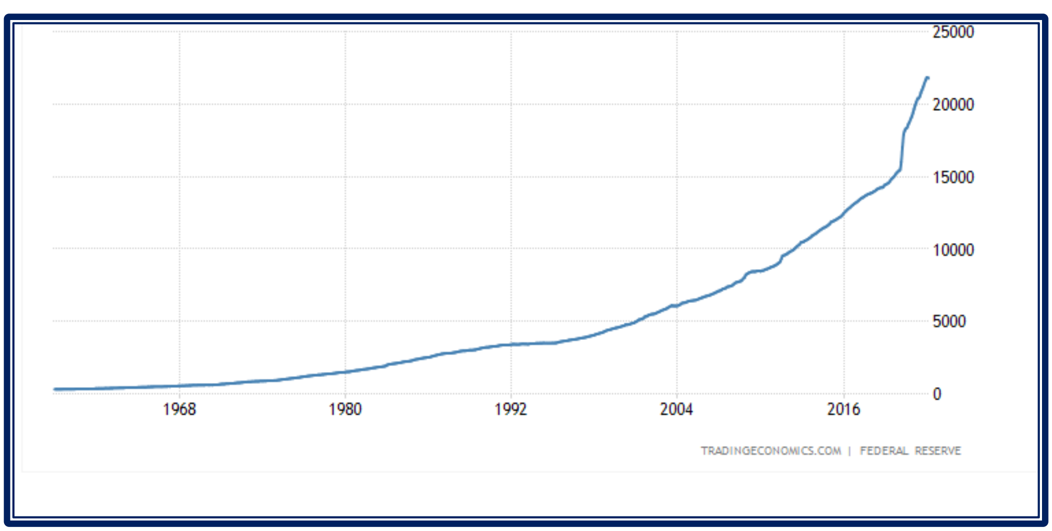
The advance estimate for Q1 GDP registered at an annual rate of -1.4% following 6.9% the prior quarter. A rise in imports plus declines in private inventory investment, exports, and government spending contributed to the negative GDP report. Offsetting some of the declines were higher personal consumption expenditures and fixed investment. For the duration of the year, pressures from the Ukraine/Russia War alongside perpetuating supply disruptions, and China's response to Covid-19 slowing an expected recovery path, should temper global growth and U.S. GDP. Support from strong labor trends along with the wealth effect from soaring asset values and built-up liquidity should help offset some of these pressures moderating growth in the range of 3.0-3.5% this year.

The Personal Consumption Expenditures (PCE) price index, the Fed's preferred measure of inflation, rose 6.6% in March over year ago figures. Higher oil prices played a significant role but wage pressures contributed as well. Last month Fed Chairman Powell categorized the labor market as "overheated" citing the growing trend of employee turnover as it stifles the ability to fill open positions. Ahead of the first interest rate hike in March, Powell expressed confidence in the Fed's ability to tap down excess demand without derailing labor gains by gradually raising borrowing costs. The market thus far has priced in a rate hike at each meeting this year, some with the possibility of a 50-basis point raise.

The markets are indicating sentiment is waning and faith in the Fed's ability to stave off a recession is limited. However, not all indicators are pointing towards a bleak economic future. The consumer is still showing strength in that personal consumption expenditures and gross private domestic investment rose in Q1 by 2.7% and 2.3% respectively. According to Yardeni Research, real personal income, excluding government stimulus, rose 8.6% year-over-year through March to a record high. We also believe there is a shift underway from goods to the service sector which should help offset any pullbacks in pocket of consumption as the demand for services grows. Excess liquidity remains a driving force as well with the level of M2 money supply still near peak levels at $21,811 Billion.

"M2" Money Supply

(Includes cash, checking/savings deposits and money market accounts)

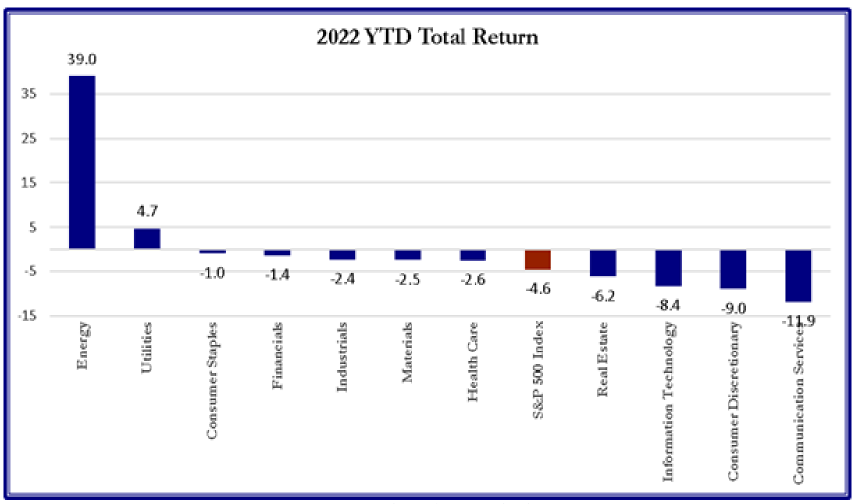


CLOSE-UP: Equity Investment Overview

Market Performance & Earnings:

After regaining some ground after a sharp selloff, the S&P 500 benchmark index ended the first quarter down -4.6%. Value stocks outperformed growth stocks by over 800 basis points, as investors sought quality in the face of inflation and the escalating war in Ukraine. Large caps outperformed small to mid-sized indexes, while U.S. stocks led all the major international indices. The composite index came in 493 ahead of the S&P 500 benchmark index. The overweight in Energy attributed to 184 basis points in relative performance. The underweight in Communications Services and Technology in favor of Financials added 95 basis points overall.

Energy stocks emerged as the frontrunner this year and outperformed the market by a significant margin - as the war in Ukraine threatened world energy supplies. Defensive sectors held up relatively well, while Communications, Discretionary and Technology sectors underperformed. Meta Platforms (formerly Facebook), Netflix, Home Depot, Microsoft and PayPal led these underperforming sectors lower. Energy was championed by Chevron, Exxon, and Conoco Phillips in the Index.



Source: Bloomberg and Altman Investment Management, LLC

Q4 earnings grew approximately 25% year-over-year with top line sales growth of 13.9%. Growth was most prevalent in the Energy, Materials, Industrials and Healthcare sectors, while growth in Utilities, Consumer Staples, Financials, and Consumer Discretionary was in the single digits. Overall earnings beat expectations by 5%, as companies pursued acquisitions and executed buybacks. Margin growth was less impactful as corporations struggled to pass along higher input prices. Topics most widely discussed by management during earnings calls were inflation and the ongoing pandemic.

Even as companies enter Q1 with optimism, expectations for consensus earnings estimates of 9% growth in 2022 may be too high as the full impact of the oil shock on consumption has yet to play out. Labor shortages are growing and supply disruptions are continuing to weaken visibility and weighing on corporate guidance. Furthermore, consumption sectors are not fully reflecting a slowdown as input prices rise and supply disruptions continue. Consensus earnings for 2022 however, continue to climb, supported predominately by upside revisions in Energy.

Business Roundtable released results from its survey for Q1 2022. The survey provides perspective from leading executives across the country who collectively account for over $18 trillion in market cap and employ approximately 20 million people. Expectations for sales, spending, and employment over the next 6 months are decelerating, yet remain well above the key indicator of 50 representing expansionary territory. The index last dipped below 50 in Q2 of 2020 when the pandemic hit. 60% of executives are expecting higher capex over the next 6 months. 82% anticipate higher sales, while 68% suggest higher employment. However, it's important to note that although only in the mid-single digits, prospects for declining sales and capex have doubled since last quarter.

Source: Business Roundtable

Equity Strategy:

We believe it is best to stay invested in equities at this time. Our view is supported by a favorable economic backdrop and lower risk of imminent recession than consensus; the favorable earnings growth backdrop; and an already bearish sentiment in the market place as U.S. and non-U.S. equities have already declined more than 10%. As always, we remain appropriately humble at this time of the heightened uncertainty.

Throughout the history of the stock market, some of the best trading days are often preceded by the worst trading days. Further observation tells us that someone who is lucky enough to have avoided a downturn by moving into cash at an optimal time, will unlikely have as much luck upon re-entry into stocks. Afterall, a trough in the market is determined in hindsight, making it impossible to identify its occurrence in real time.

A study by Merrill Lynch helps quantify our long-time view against market timing. Data reveals that missing the best 10 trading days each decade going back to the early 1900s lowers an investor's hypothetical price return to just 45% - as compared to nearly 20,000% had they remained fully invested. Further analysis shows that gains realized pre and post market peak (both on a 1- and 2-year basis) were enough to offset the losses incurred off the peak. Absent any guaranteed method of predicting market peaks and troughs, an investor is better off riding out the volatility and staying invested.

Average Daily Performance of the S&P 500
Before and after market peaks, since 1937

As sections of the yield curve suggest volatility, and monetary and fiscal stimuli roll off, a high-quality large cap value strategy should continue to outperform. Characteristics of value stocks tend to be more mature companies with a history of stable earnings, steady growth rates, and somewhat lower expectations. A rotation is already underway away from growth stocks whose valuations stretched during the pandemic. During Q1, large cap growth stocks are already showing vulnerability as uncertainty mounts, having traded down over 9%. Smaller cap growth stocks traded down even further, selling off more than 12% in the same time period. Lower quality companies especially in the tech space had become substantially overvalued temporarily supported throughout the pandemic by unprecedented stimulus and lots of liquidity.

Healthcare Overview:

During the quarter, we concentrated on two investment positions in the healthcare sector. We came to the decision to sell our position in Cardinal Health Inc. Cardinal as one of the major healthcare product distribution companies that operates in two segments: Pharmaceutical and Medical.

Upon initial purchase, Cardinal had underperformed owing to a series of earnings misses, concern surrounding the renewal of its contract with CVS, and management's delay in providing long-term guidance. Its valuation was attractive as one of the cheapest of the three major distributors, trading well below its historical price multiples. Compelling on a sum-of-the-parts basis, analysts appeared to be overly pessimistic concerning what we determined was the more valuable clinical products business that Cardinal later spun off. When we first purchased the stock, we did not have exposure to healthcare services, and we believed Cardinal would provide a diversified component of the healthcare group. At the time, distributors were generating higher operating margins on generic drugs, and Cardinal offered an attractive way to offset some of the generic risk inherent in emphasizing pharmaceutical holdings in the sector.

Over the past several years, Cardinal faced a number of challenges, including a deflationary environment for generic drug pricing, legislative risks related to potential healthcare policy changes, uncertainty around opioid liabilities for the company and its peers, and lower volumes in both the Pharmaceutical and Medical segments because of lower healthcare use related to COVID-19. The persistence of these challenges contributed to a revisitation of the long-term business model. Additionally, the company had a series of execution problems, primarily in the medical segment piece of its business, which repeatedly put pressure on the stock and contributed to the continuing loss in investor confidence.

In addition, Cardinal's strategic decision to prioritize its medical business growth over its specialty pharmaceutical business created a further headwind for the company. Specialty continues to be crucial to future pharmaceutical distribution growth and margins, and Cardinal's small share placed the company at a competitive disadvantage and created additional pressure on Cardinal's earnings performance over the past several years.

In summary, we mistakenly concluded how the longer-term fundamentals would develop and recognized the opportunity cost continuing to hold the position. Cardinal turned out not to be a successful investment by underperforming both the healthcare sector and the benchmark. While the stock still trades at low multiples and still offered an attractive cash flow yield and dividend yield in a more challenging investment environment, we concluded in mid-March that these characteristics alone did not provide enough of a rationale to continue holding the security for the longer term.

Proceeds from the sale of Cardinal were used to round out our holding in Baxter International Inc., which develops, manufactures, and markets medical products that save and sustain the lives of people with chronic and acute medical conditions. Baxter operates in two segments: Hospital Products and Renal. The Hospital Products segment manufactures intravenous (IV) solutions and administration sets, premixed drugs and drug-reconstitution systems, pre-filled vials and syringes for injectable drugs, IV nutrition products, infusion pumps, and inhalation anesthetics. The Renal segment provides products and services to treat end-stage kidney disease. Baxter has locations in more than 100 countries with revenues derived as follows: Americas (52%); Europe, the Middle East, and Africa (EMEA) (27%); and Asia-Pacific (APAC) (21%). We believe that this position further diversifies the portfolio into healthcare diagnostics and delivery solutions, a move that further reduces its exposure to the political and headline risk associated with drug price reform. It further expands the healthcare exposure to medical technology, an area within the healthcare sector that is still underrepresented. We added to our Baxter holdings, since the shares have underperformed in recent years - and its valuation touched a six-year low since the spinoff of its bioscience business to form Baxalta in 2015. With a price-to-earnings (P/E) ratio below 20 times based on estimated earnings for fiscal 2022, Baxter trades at a 25% discount to the broader Healthcare Equipment and Supplies industry (its average valuation has been in-line with the industry's).

Baxter has historically been more defensive than its peers during downturns owing, in part, to the life-sustaining technologies it provides. For example, during the market downturn in early 2020, Baxter's shares declined -23% compared to -35% for the Healthcare Equipment and Services group. Baxter was able to grow revenues + 2.7% in 2020, despite the pandemic. In September 2021, Baxter announced its intention to acquire Hill-Rom Holdings Inc. – a manufacturer of hospital beds, surgical products, medical devices, and diagnostics – for $10.2 billion. Initially, investors did not embrace the deal given Hill-Rom's lower revenue growth profile (Baxter's stock fell -10% when rumors of the deal surfaced). Although this acquisition in the near term has increased Baxter's net leverage close to 4 times, management is targeting 2.6 x at the end of year two, and we anticipate that leverage should continue trending downward from there. Baxter's management expects the Hill-Rom acquisition to be low-double-digit accretive to earnings per share (EPS) in the first full year following its completion, and increasing its growth targets to as high as 20% by year three. While Baxter has not provided revenue synergy guidance, we see several sales benefits of the deal, including synergies between Baxter's pumps business and Hill-Rom's beds and monitors, and greater emerging markets penetration for Hill-Rom given Baxter's strong presence in that business. Finally, we think the acquisition positions Baxter in an advantageous posture in this segment of the diagnostic industry - and complements our Phillips holding.

The migration to "connected care" and "care communications" is a key longer-term growth driver. We believe leveraging the data collected from connected devices by translating it into actionable information will be transformative for doctors and hospitals, and should facilitate better outcomes and improved efficiencies for patients. During the acquisition announcement, Baxter also offered positive long-term growth targets for the core business. The company anticipates 4%-5% annual revenue growth from 2021-2024 in addition to expanding its operating margins. This should translate into low-double-digit earnings growth along with free cash flow conversion of 80% or higher.

Overall, we saw Baxter as a high-quality, broadly diversified, medical technology company led by a well-regarded, experienced management team. The company's discounted valuation and strong market share positions across its business lines, along with the potential for consistent revenue and earnings growth, makes it an attractive long-term investment, in our view. Following our increase to a 3% target weight, the portfolio maintains its healthcare target weight at 14%.

Sector Focus:

Bank stocks have been harshly punished since mid-February, on recession concerns and fears of contagion risks from the war in Ukraine. Markets are too pessimistic on the outlook for the subgroup's earnings. The banks should benefit from Fed rate hikes and accelerating credit growth, which should drive a meaningful recovery in net interest income. We believe that fears concerning credit losses will offset tailwinds from rising interest rates and expanding loan balances are overblown. While loan delinquencies are likely to increase from abnormally depressed levels, as economic growth moderates, low unemployment and rising corporate profits should limit credit losses. We expect the relative performance of bank stocks to rebound as underlying relative forward earnings increasingly reflect a significant cyclical upswing in net interest income.

We remain cautious, however, on chasing the relative rallies in bond substitutes such as Utilities and Consumer Staples. Both sectors trade at elevated forward P/E multiples versus their history. Moreover, Utilities are growth constrained, while many Consumer Staples companies likely over-earned during the pandemic due to consumer hoarding and the greater consumption of homemade meals. We continue to look for investments in the pharmaceutical and health care providers & services for defensive exposure, given their more reasonable valuations and better earnings growth prospects. Within the Consumer Staples sector, we are a bit more bullish on the outlook for the beverage industry – in both equity and debt markets. This group didn't perform as well as other consumer staples subgroups during the pandemic, and therefore face less risk from a reversion in demand trends pre-pandemic. We have become less bullish on commodity-related sectors (ex-energy), despite rising aggregate inflationary trends. The past year's rally in commodities in aggregate is most likely overextended, thus providing an opportunity to take profits especially with central banks withdrawing liquidity, upside risks in real interest rates, and China's property sector in a downturn.

IN CONCLUSION:

Intermittent stock market corrections are more common than most realize. In fact, the stock market usually experiences several corrections on an annual basis. On average, a 5% correction can occur several times each year and 10% pullbacks tend to occur at least annually. By the end of Q1, the S&P 500 benchmark stock index regained nearly 60% of its loss suffered as a result of inflationary fears that have been compounded by the war in Ukraine. Since then, the markets are losing confidence in the Fed's ability to orchestrate a soft landing. Additionally, the yield curve had temporarily inverted indicating a potential recession is looming. The fact that other parts of the curve are steepening and are therefore not corroborating evidence of risk to available credit, appears to be failing to restore confidence.

Consensus estimates call for 10% earnings growth in 2022. This comes alongside a sell-off in the broader market year to date. The stock market is certainly focused on developments in the Russia/Ukraine War, looming inflation, negative Q1 GDP, and China's struggles amid more lockdowns and supply chain challenges. Despite these real concerns, falling prices are ignoring several key indicators that are pointing towards a brighter outlook. Forward earnings are rising fueled by pent up demand and ample liquidity. Corporate cash levels are near record levels solidifying dividend safety and buyback opportunities.

Supply chain disruptions will not last forever, in fact a NY Fed supply barometer measuring shipping costs, delay times and backlogs is improving in the first months of the year. The rise in inflation is due in large part to supply chain disruptions. Should this trend continue to recover, it could help clear the path towards a softer landing aided by Fed policy.

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Any performance reference represents a hypothetical composite compiled from actual equity, fixed income or balanced client portfolios and includes cash. These three composites reflect aggregated returns that address differing objectives. As such, the performance of each composite does not reflect the actual total portfolio returns earned by our clients. The investment performance records are compiled from a capital weighted average of the equity, bond and cash components of a broadly representative group of discretionary accounts that meet certain minimum size thresholds.

No gross performance returns that are referenced that are calculated after brokerage commissions but before investment counsel fees are presented without the comparable net performance figures after both commissions, investment counseling fees and other custodial charges. The net counseling fees are the actual average counseling fee calculated across all the portfolios included in the composite. All performance figures are presented on a time-weighted total return basis and assume all income is reinvested. The investment advisory fees are disclosed in Part II-A of the Investment Form ADV. Some clients may benefit from available discounting in the management fee schedule associated with the overall size of the portfolio. Management fees will reduce overall returns to the client.

The composites were created in 2001 and the inception dates start on August 17th, 2001.The composites include only discretionary fee-paying accounts managed in the strategies, and additional information associated with the composites are available such as: dispersion in individual portfolio results as well as the % of the firms AUM in the strategy. All performance calculations are presented within the GIPS® guidelines of the CFA Institute. The CFA institute does not endorse or promote this organization nor does it warrant the accuracy of the content herein.

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