ASSOCIATION FINANCIAL SERVICES, LLC
A REGISTERED INVESTMENT ADVISER FIRM
Your Path To A Brighter Future

Encompass Portfolios Quarterly

First Quarter 2022

First Quarter 2022 – Global Headwinds Confront Financial Markets

Equity indices started the new year at all-time highs but got there on diminishing breadth and elevated valuations. This proved a challenging backdrop as markets faced the triple-threat of a newly hawkish Federal Reserve, war in Eastern Europe, and the resultant possibility of slowing global growth ahead. Although earnings and jobs growth have remained robust, these headline risks took stocks into official correction territory even as bonds recorded one of their worst-ever quarterly performances. Excepting inflation-sensitive commodities, the quarter was difficult for many investors, especially those with more conservative portfolios traditionally tilted towards fixed income, which underperformed stocks.

The S&P 500 finished down -4.6% (*'SPY' ETF proxy*) after experiencing a maximum drawdown of -12.4% in early-March. In comparison, the technology-laden Nasdaq 100 index was down as much as -20%, finishing the quarter off -8.8% (*'QQQ'*). This reflected the relatively rich valuation of growth over value stocks, as well as a general preference for value stocks later in an economic cycle. Overseas issues struggled even more after Russia's horrific invasion of Ukraine in late-February, as well as China's major lockdown later in the quarter as Covid cases there reached new highs (*CNN, "There's no end in sight for China's Covid lockdowns," 4/6/22*). Foreign developed nations returned -6.5% (*'EFA'*) for the quarter, while emerging markets fell by -7.6% (*'EEM'*).

A larger surprise was the rapid and volatile repricing of bonds as heightened inflation persisted and the US Federal Reserve doubled-down on its rhetoric towards reversing its pandemic-era quantitative easing policies. The Bloomberg Aggregate Bond index fell -5.8% (*'AGG'*) with longer-duration treasuries performing worse yet. Indeed, it was the worst quarter in fixed income since the early 1980s (*MarketWatch, "US Government Bonds Are Having One of Their Worst Quarters Since the US Civil War," 3/30/22*). The only positive standout were commodities, up a whopping +25.4% (*'DBC'*) fueled by on-going supply chain disruptions and the Russia-Ukraine conflict's impact on oil and wheat.

The unique combination of market headwinds has many concerned about the global economy's future growth prospects (*Reuters, "A Recession Shock Is Coming, BofA Warns," 4/8/22*). A brief inversion of the treasury yield curve had pundits particularly abuzz, as it has been a past predictor of many recessions. However, such indicators typically have lead times of a year or more, gross domestic product has been recently strong (*US News, "Gross Domestic Product Rose 7%...," 2/24/22*), and first-quarter earnings may again exceed expectations despite rising labor costs (*Factset, "S&P 500 Likely to Report Earnings Growth of More than 10% for Fifth Straight Quarter," 4/8/22*). We thus maintain a cautiously positive outlook for markets overall. Meanwhile, our thoughts go out to Ukraine, and be assured we are closely monitoring markets and your accounts during this uncertain period.

**Dividend-adjusted ETF data from Commodity Systems, Inc.*

Market Outlook-at-a-Glance

Economy
Valuation
Price Trends
Choppiness

Association Financial Services

Association Financial Services brings together a team of experts to provide portfolio solutions to its clients.

The firm's founder, Roffé Hofmann, feels an important sense of accomplishment in helping his clients achieve their financial goals.

The Encompass Portfolios managed by our sub-advisor are comprised of five diversified, objectives-based core strategies that adapt to changing market conditions to help you achieve your goals. May not apply to all clients.

Discussion	Chart (Available Data as of 3/31/22)

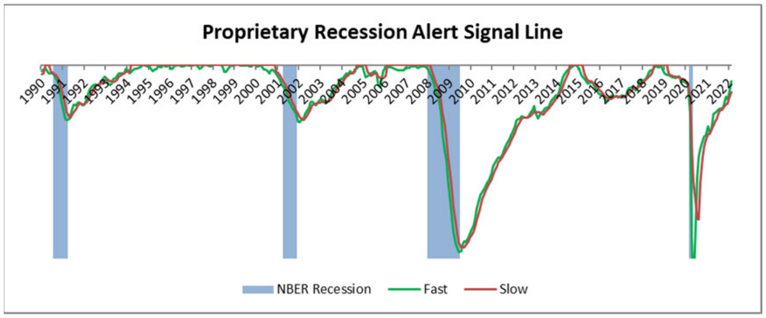
US Economy ●●●●●

Our proprietary recession alert signal line indicates that the US economy still has further to go to fully recover, even as global growth forecasts are being reduced for 2022.

While markets face several headwinds, there is still the prospect of a real post-pandemic economic recovery featuring more normalized consumer spending patterns on higher wages and employment. Q1 monthly job gains averaged 562,000, taking unemployment down to 3.6% (*LPL Research, "Labor Market Is Tightening," 4/1/22*). This is contingent on Covid infection rates remaining low and inflation peaking very soon.

With jobs strong, the US Federal Reserve has cover to fully address inflation, which it has confirmed (*CNBC, "New… Projections Show Six More Rate Hikes…", 3/16/22*). However, there are concerns the Fed has acted too late, and that they will have to either force a recession to cool inflation or leave the economy in a stagflationary state.

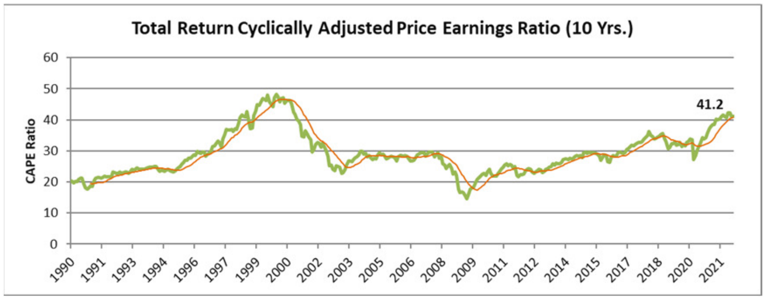
Period	Non-Farm Payroll PAYEMS	Personal Income PI (Net)	Retail Sales RSAFS	Industrial Production INDPRO	Service Activity NMFBAI	Weighted Economic Assessment Overall	Weighted Economic Assessment Acceleration
Year-over-Year	4.71%	2.48%	9.05%	7.45%	7.93%	Positive	Plus
Feb-22	0.50%	0.07%	-0.49%	0.53%	-12.30%	Positive	Minus
Jan-22	0.34%	-0.24%	4.26%	1.39%	1.04%	Positive	Plus
Dec-21	0.40%	-0.06%	-3.25%	-0.40%	-9.38%	Flat	Minus
Nov-21	0.44%	0.00%	0.01%	0.80%	6.88%	Positive	Minus
Oct-21	0.46%	0.24%	0.90%	1.36%	12.04%	Positive	Plus



Source: Federal Reserve Bank of S. Louis; assessments and signal line are proprietary.

Stock Valuation ●●●●●

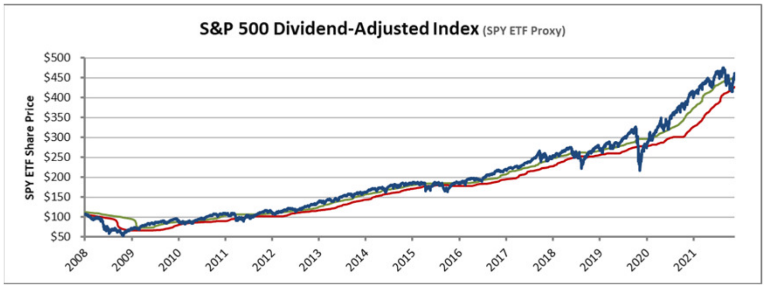
The total return adjusted stock Price/Earnings (PE) ratio fell slightly from a recent high of 43.2 to 41.2, but still portends lower average returns for the decade ahead. A concern for 2022 is last year's concentration of returns among a narrow field of stocks. A normalization in valuation among cap-weights, and between value and growth issues could continue to make sector and stock selection particularly important this year.



Source: Professor Robert J. Shiller, Yale University; Price/ Smoothed 10-yr Earnings.

Price Trends ●●●●●

There was very little "green on the screens" during Q1 with commodities as the sole exception to an otherwise negative outcome across the board. While upward trendlines have broken across multiple timeframes, it is true that corrections of -10% to -14% in equities are quite common. It has only been in the recent post-2008 era of quantitative easing that we have become accustomed to markets with limited downside. Investors may need to adapt to higher, more normal long-term volatility ahead.

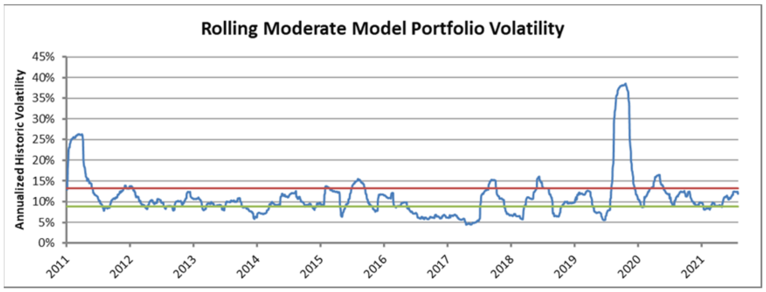


Source: Dividend adjusted data from Commodity Systems, Inc.; technical channels.

Portfolio Choppiness ●●●●●

Last quarter we stated a belief that volatility may be heightened in 2022 as compared to recent years, and that this may benefit more tactical approaches incorporating effective risk management techniques.

While this certainly proved true in Q1, it was interesting that the period was more choppy than volatile by traditional statistical measures. Indeed, the VIX options volatility index remained relatively well contained, as did overall portfolio volatilities.



Note: Historic volatility of the Moderate ETF Index portfolio; annualized dispersion from mean calculation.

Trend Outlooks for Q1 2022

Asset Class (Representative ETP)	Proprietary Outlook*	Quarterly Performance	Price Chart (As of 3/31/22)**
United States Stocks Vanguard Total Stock Market ETF (VTI)	Neutral (Downgrade) ●●○○○	-5.4%	
Overseas Stocks Vanguard FTSE Developed All Cap ex-US ETF (VEA)	Neutral ●●○○○	-5.8%	
Emerging Stocks iShares Core MSCI Emerging Markets ETF (IEMG)	Negative (Downgrade) ●○○○○	-7.2%	
US Aggregate Bonds iShares Core US Aggregate Bond ETF (AGG)	Negative (Downgrade) ●○○○○	-5.8%	
Global Fixed Income Vanguard Total International Bond ETF (BNDX)	Negative (Downgrade) ●○○○○	-4.8%	
Global Real Estate SPDR Dow Jones Global Real Estate ETF (RWO)	Neutral (Downgrade) ●●●○○	-4.1%	
Commodities PowerShares DB Commodity Tracking ETF (DBC)	Constructive ●●●●●	+25.4%	
Alternatives IQ Hedge Multi-Strategy Tracker ETF (QAI)	Neutral ●●○○○	-3.0%	

***** *Based on a proprietary indicator, not trading advice; ** Representative ETP index proxies, dividend-adjusted time series from Commodity Systems, Inc.*

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