

TRUST COMPANY OF THE SOUTH

because wealth management is more than managing money

Outer Banks Community Foundation

State of the Financial Markets and Current Investment Themes

Trust Company of the South

15 September 2022

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State of the Markets

- After a powerful 2021 (S&P 500 + 28.7%, DJIA + 20.9%, NASDAQ + 22.2%), markets have been more volatile in 2022.
- Major index total returns were significantly negative in 1H22 (S&P 500 - 20%, DJIA - 14%, NASDAQ - 29%), though equities have rallied so far in 3Q.
- 10-year Treasury yields have more than doubled this year, rising from 1.51% on 12/31/21 to 3.42% on 9/13/22.
- Inflationary pressures have significantly impacted interest rate expectations.
- Concerns have emerged that rate hikes will cause the global economy's post-Covid growth to tilt into a recession.

S&P 500 Index at Inflection Points



Source: Compustat, FactSet, Federal Reserve, Refinitiv Datastream, Standard & Poor's, J.P. Morgan Asset Management.

Dividend yield is calculated as consensus estimates of dividends for the next 12 months, divided by most recent price, as provided by Compustat. Forward price-to-earnings ratio is a bottom-up calculation based on IBES estimates and FactSet estimates since January 2022. Returns are cumulative and based on S&P 500 Index price movement only, and do not include the reinvestment of dividends. Past performance is not indicative of future returns.

Guide to the Markets – U.S. Data are as of September 13, 2022.

S&P 500 Valuation Measures

S&P 500 Index: Forward PE Ratio



Source: FactSet, FRB, Refinitiv Datastream, Robert Shiller, Standard & Poor's, Thomson Reuters, J.P. Morgan Asset Management.

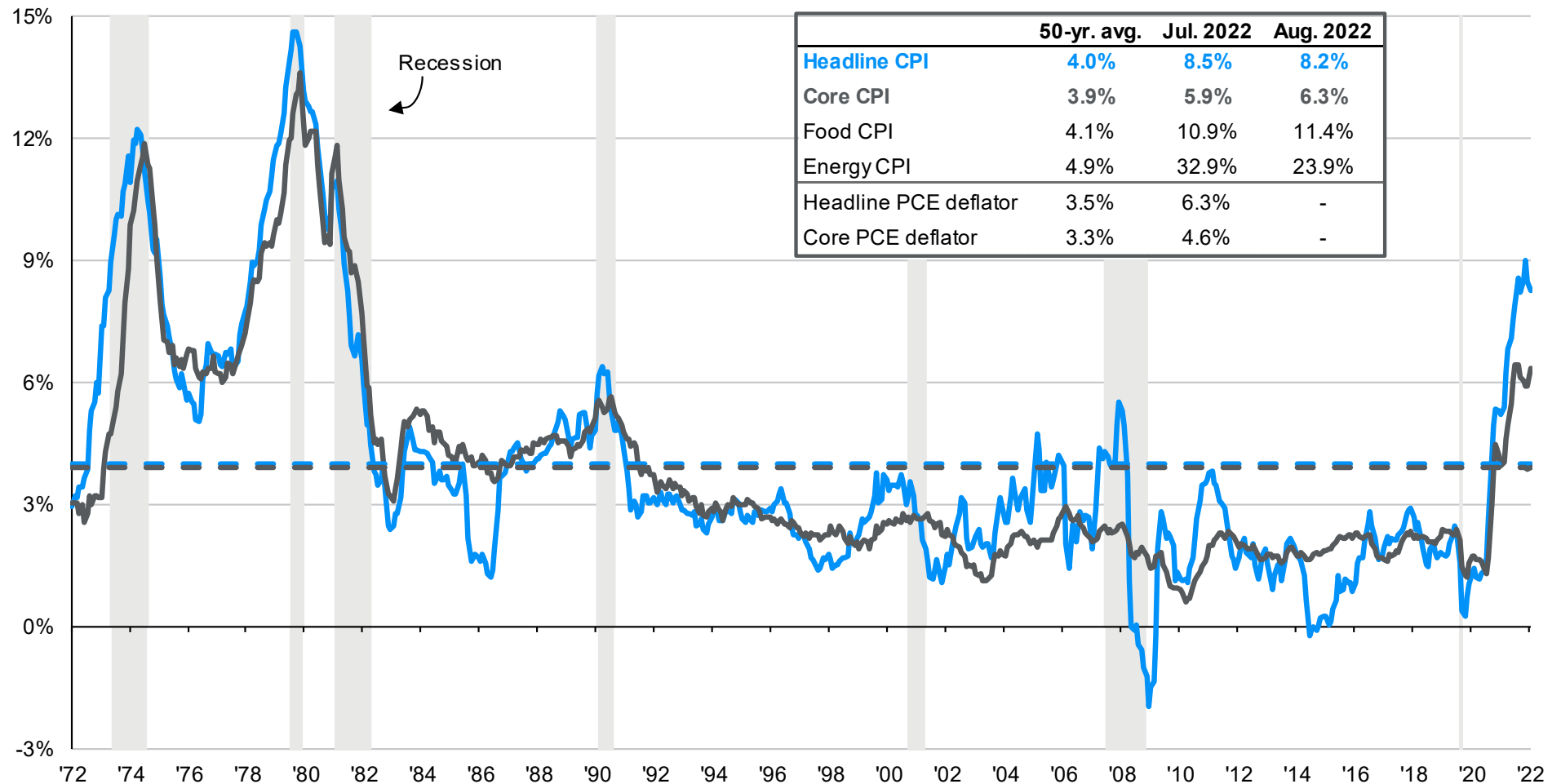
Price-to-earnings is price divided by consensus analyst estimates of earnings per share for the next 12 months as provided by IBES since April 1997 and by FactSet since January 2022. Current next 12-months consensus earnings estimates are \$235. Average P/E and standard deviations are calculated using 25 years of history. Shiller's P/E uses trailing 10-years of inflation-adjusted earnings as reported by companies. Dividend yield is calculated as the next 12-months consensus dividend divided by most recent price. Price-to-book ratio is the price divided by book value per share. Price-to-cash flow is price divided by NTM cash flow. EY minus Baa yield is the forward earnings yield (consensus analyst estimates of EPS over the next 12 months divided by price) minus the Moody's Baa seasoned corporate bond yield. Std. dev. over-/under-valued is calculated using the average and standard deviation over 25 years for each measure. *P/CF is a 20-year average due to cash flow availability.

Guide to the Markets – U.S. Data are as of September 13, 2022.

U.S. Inflation

CPI and core CPI

% change vs. prior year, seasonally adjusted



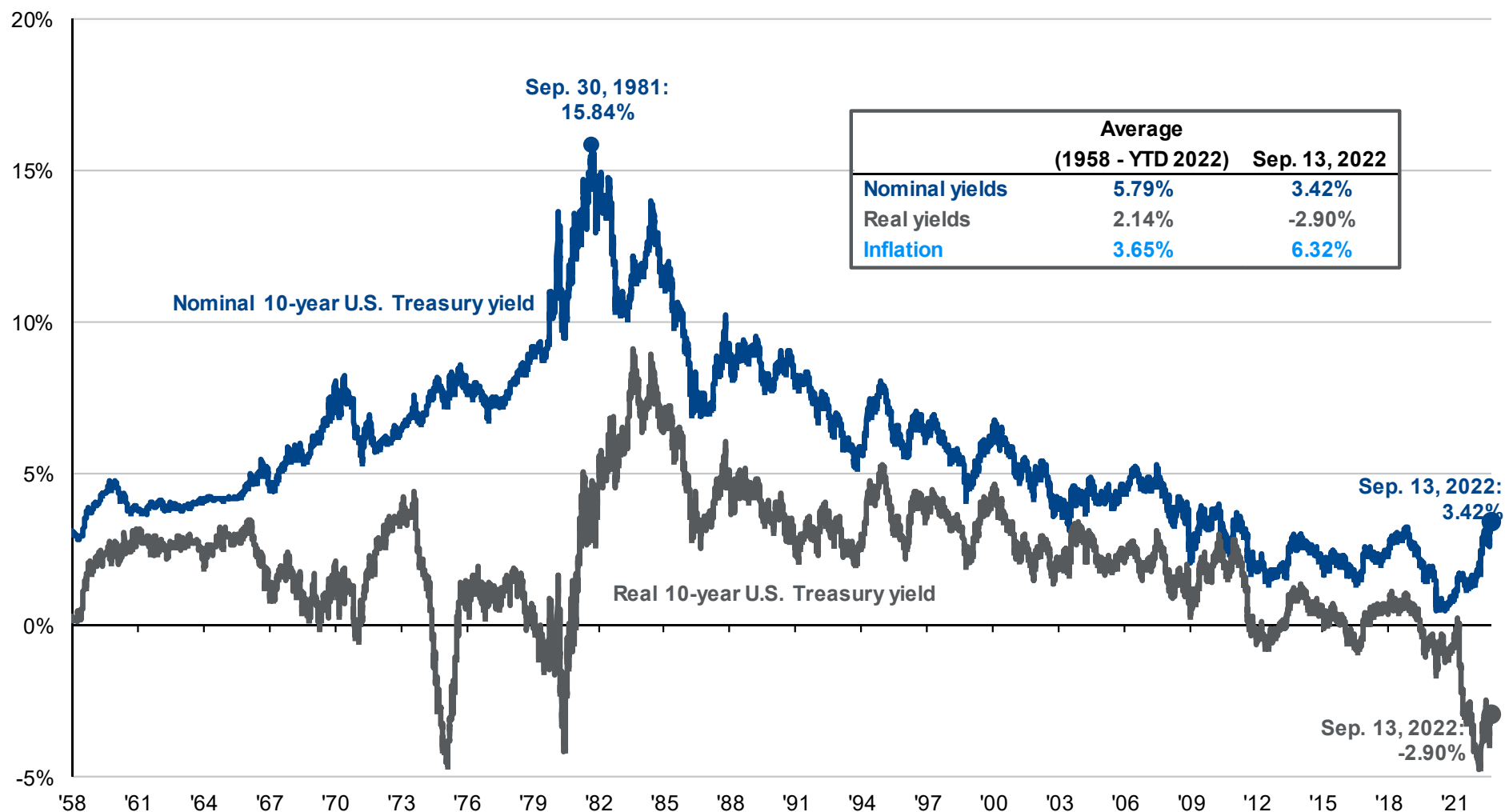
Source: BLS, FactSet, J.P. Morgan Asset Management.

CPI used is CPI-U and values shown are % change vs. one year ago. Core CPI is defined as CPI excluding food and energy prices. The Personal Consumption Expenditure (PCE) deflator employs an evolving chain-weighted basket of consumer expenditures instead of the fixed-weight basket used in CPI calculations.

Guide to the Markets – U.S. Data are as of September 13, 2022.

Interest Rates and Inflation

Nominal and real U.S. 10-year Treasury yields



Source: BLS, FactSet, Federal Reserve, J.P. Morgan Asset Management.

Real 10-year Treasury yields are calculated as the daily Treasury yield less year-over-year core CPI inflation for that month. For the current month, we use the prior month's core CPI figures until the latest data is available.

Guide to the Markets – U.S. Data are as of September 13, 2022.

S&P 500: Index concentration, valuations and earnings

P/E ratio of the top 10 and remaining stocks in the S&P 500

Next 12 months



Weight of the top 10 stocks in the S&P 500

% of market capitalization of the S&P 500



Earnings contribution of the top 10 in the S&P 500

Based on past 12 months earnings



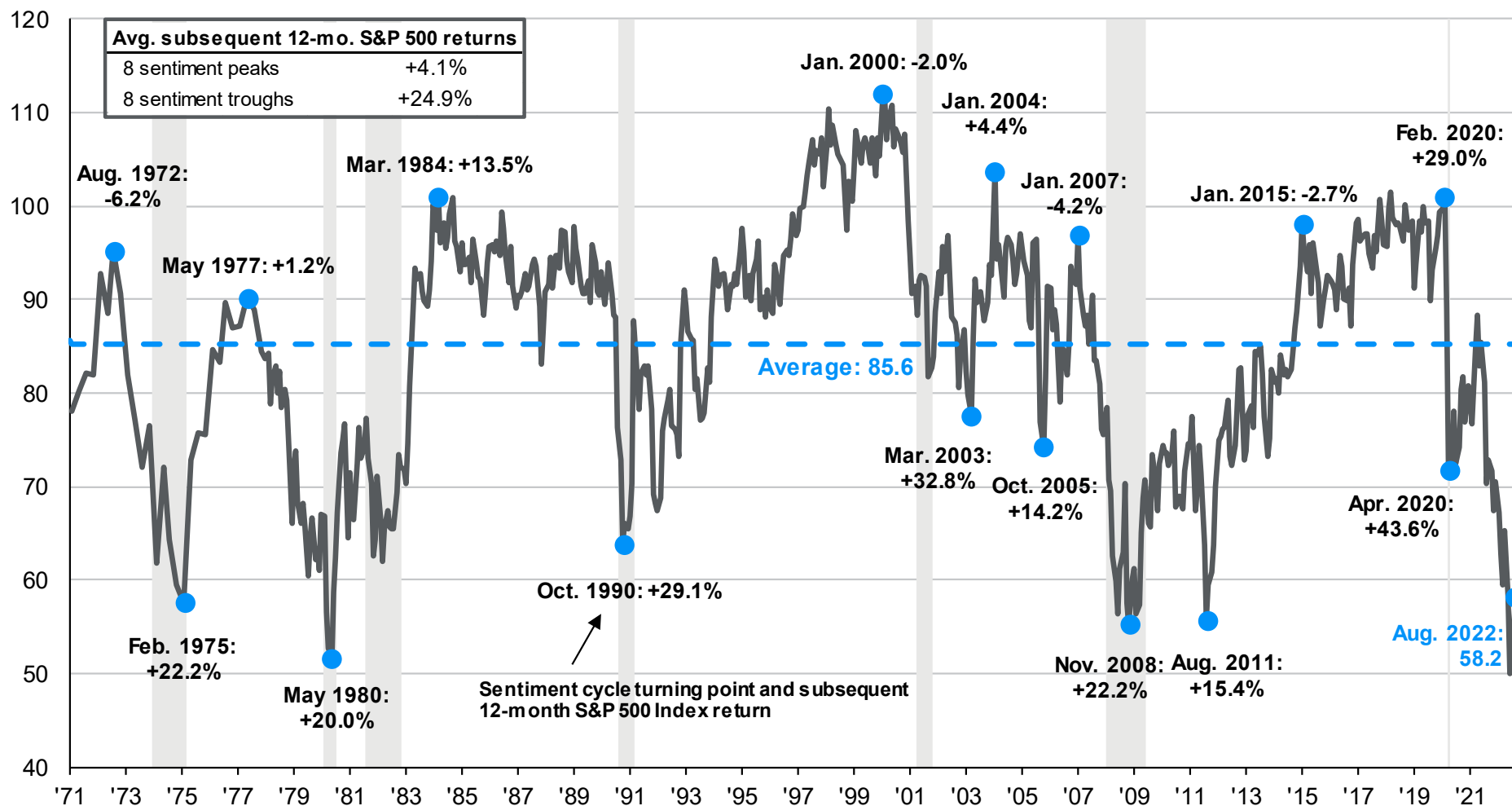
Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management.

The top 10 S&P 500 companies are based on the 10 largest index constituents at the beginning of each month. As of 8/31/2022, the top 10 companies in the index were AAPL (7.3%), MSFT (5.9%), AMZN (3.3%), TSLA (2.1%), GOOGL (2.0%), GOOG (1.8%), BRK.B (1.5%), UNH (1.5%), JNJ (1.3%), XOM (1.2%) and NVDA (1.3%). The weight of each of these companies is revised monthly. The remaining stocks represent the rest of the 494 companies in the S&P 500.

Guide to the Markets – U.S. Data are as of September 13, 2022.

Consumer Confidence and the Stock Market

Consumer Sentiment Index and subsequent 12-month S&P 500 returns



Source: FactSet, Standard & Poor's, University of Michigan, J.P. Morgan Asset Management.

Peak is defined as the highest index value before a series of lower lows, while a trough is defined as the lowest index value before a series of higher highs.

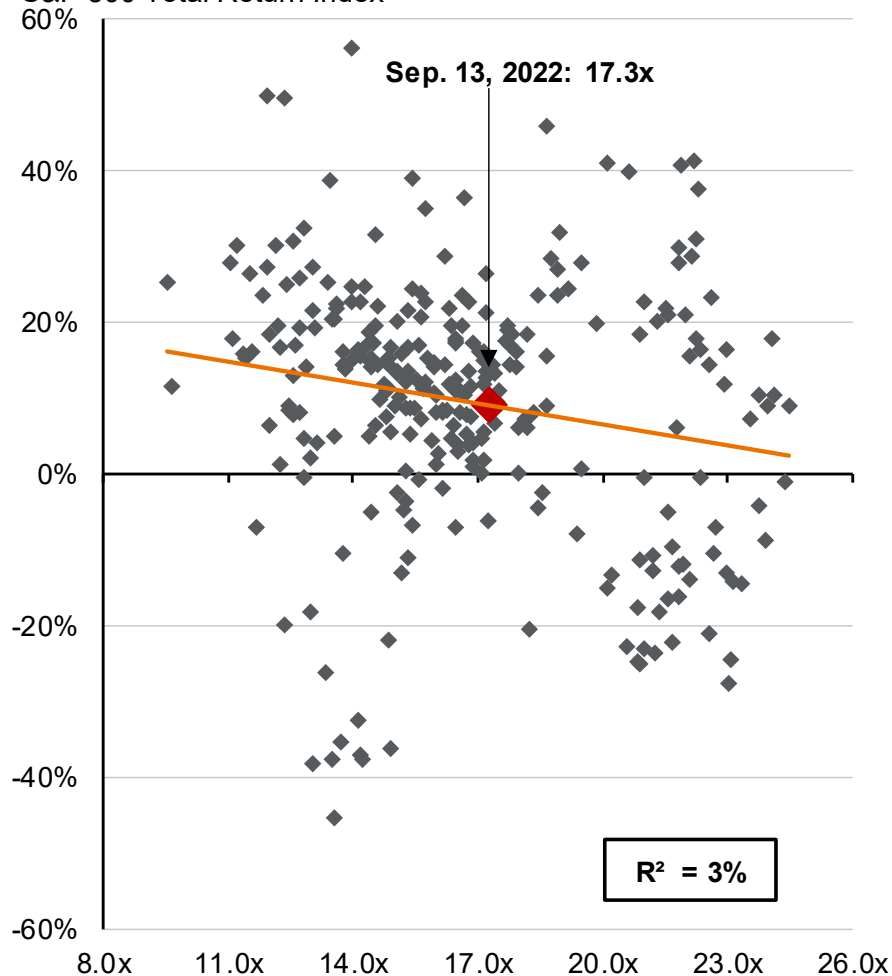
Subsequent 12-month S&P 500 returns are price returns only, which excludes dividends. Past performance is not a reliable indicator of current and future results.

Guide to the Markets – U.S. Data are as of September 13, 2022.

P/E Ratios & Equity Returns

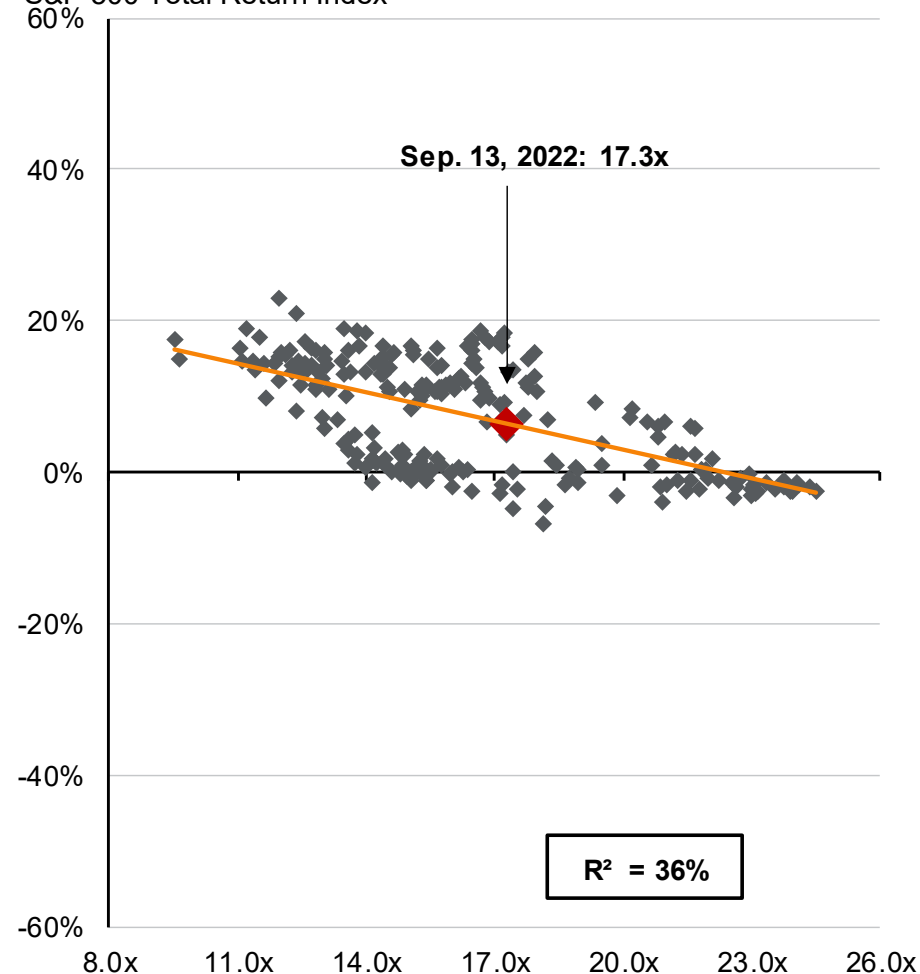
Forward P/E and subsequent 1-yr. returns

S&P 500 Total Return Index



Forward P/E and subsequent 5-yr. returns

S&P 500 Total Return Index



Source: FactSet, Refinitiv Datastream, Standard & Poor's, Thomson Reuters, J.P. Morgan Asset Management. Returns are 12-month and 60-month annualized total returns, measured monthly, beginning 5/31/97.

R^2 represents the percent of total variation in total returns that can be explained by forward price-to-earnings ratios.

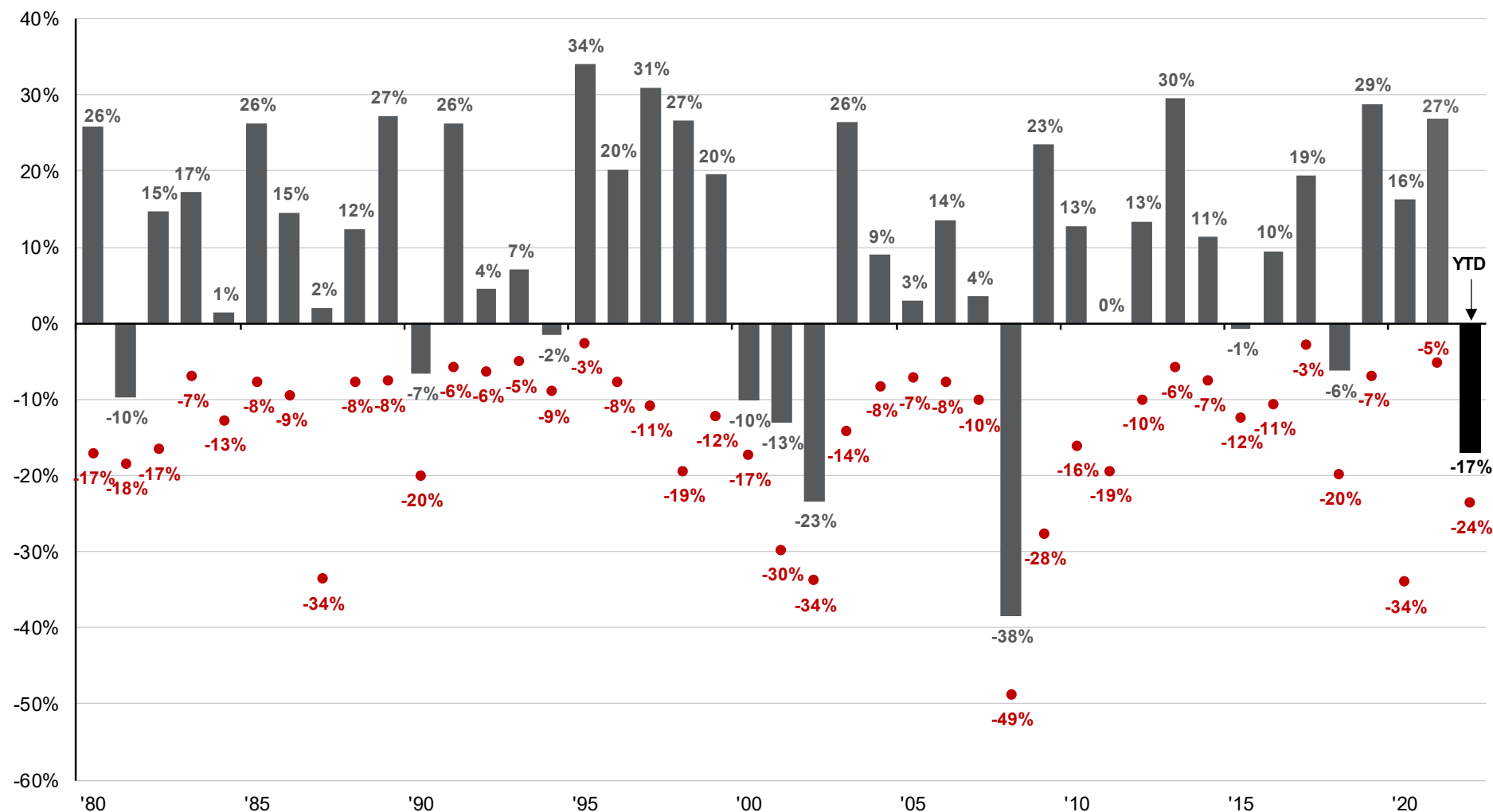
P/E is price divided by consensus analyst estimates of earnings per share for the next 12 months as provided by IBES since January 1997 and by FactSet since January 2022.

Guide to the Markets – U.S. Data are as of September 13, 2022.

Market Volatility

S&P intra-year declines vs. calendar year returns

Despite average intra-year drops of 14.0%, annual returns were positive in 32 of 42 years



Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management.

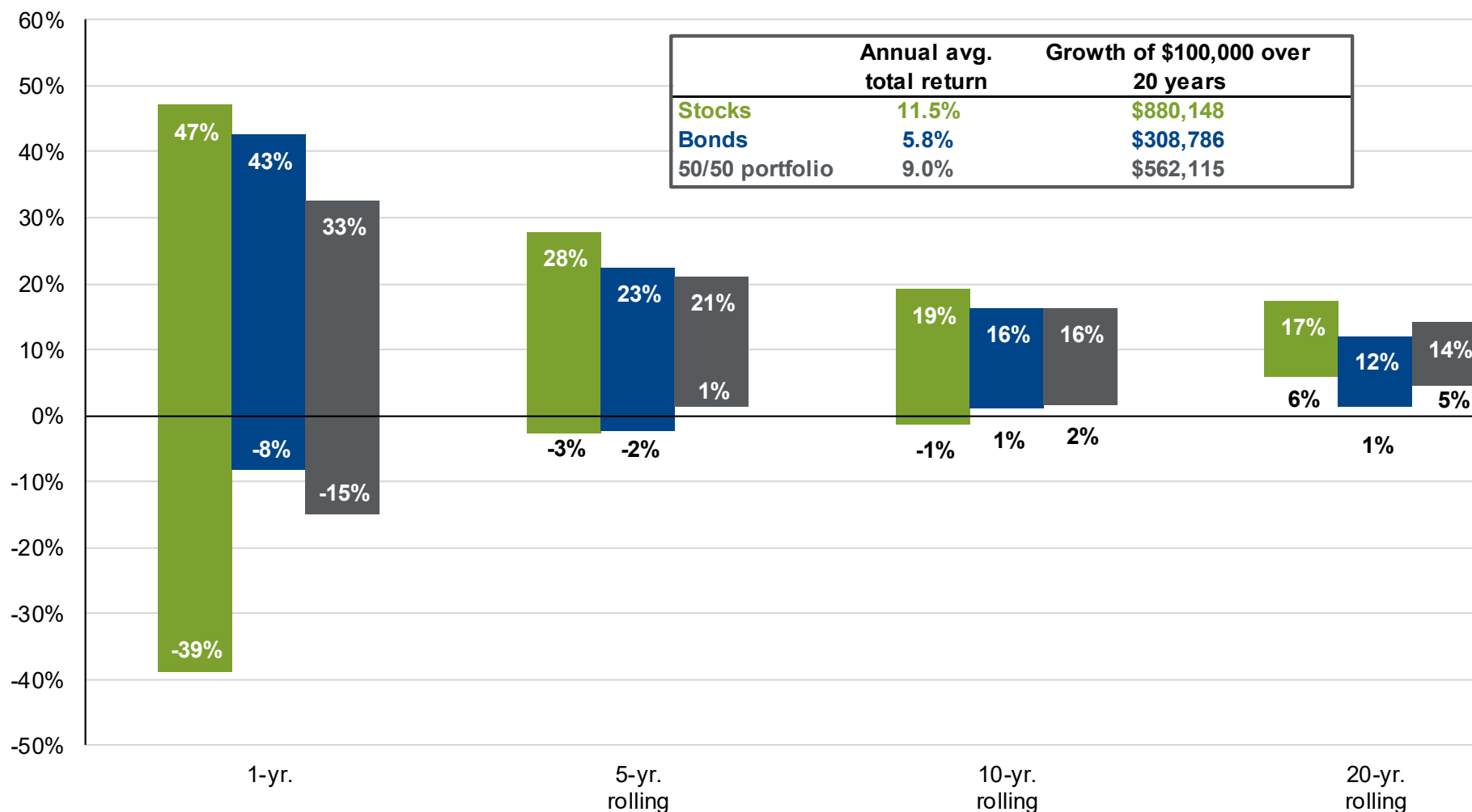
Returns are based on price index only and do not include dividends. Intra-year drops refers to the largest market drops from a peak to a trough during the year. For illustrative purposes only.

Returns shown are calendar year returns from 1980 to 2021, over which time period the average annual return was 9.4%.

Guide to the Markets – U.S. Data are as of September 13, 2022.

Time, Diversification and the Volatility of Returns

- Range of stock, bond and blended total returns
- Annual total returns, 1950 - 2021



Source: Bloomberg, FactSet, Federal Reserve, Robert Shiller, Strategas/Ibbotson, J.P. Morgan Asset Management.

Returns shown are based on calendar year returns from 1950 to 2021. Stocks represent the S&P 500 Shiller Composite and Bonds represent Strategas/Ibbotson for periods from 1950 to 2010 and Bloomberg Aggregate thereafter. Growth of \$100,000 is based on annual average total returns from 1950 to 2021.

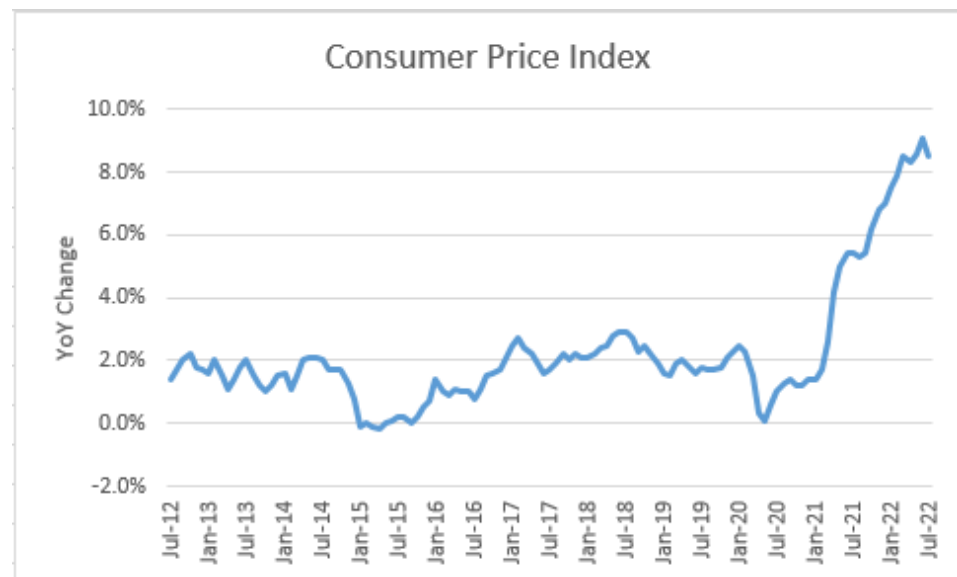
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Current Investment Themes

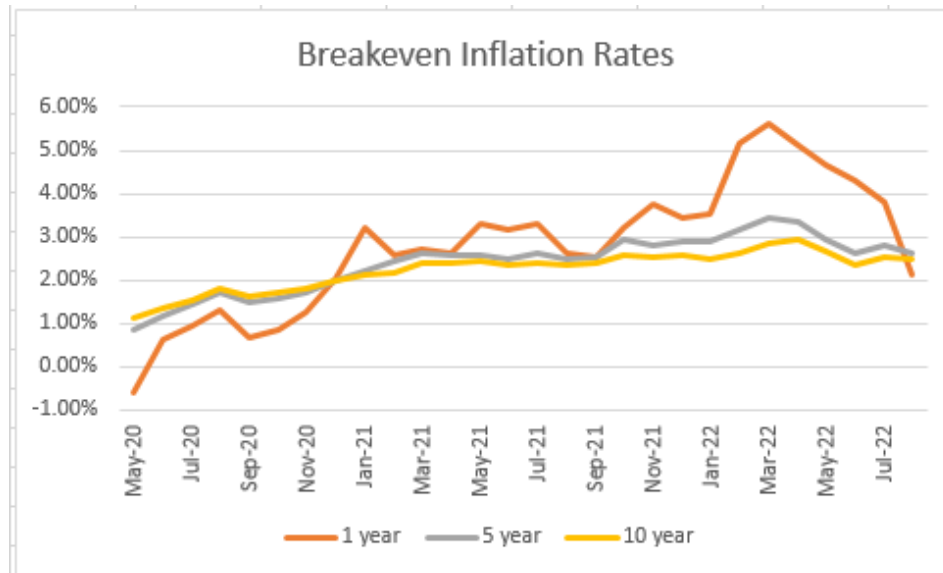
- Inflation
- Interest rates
- Recession
- Recent volatility

Inflation

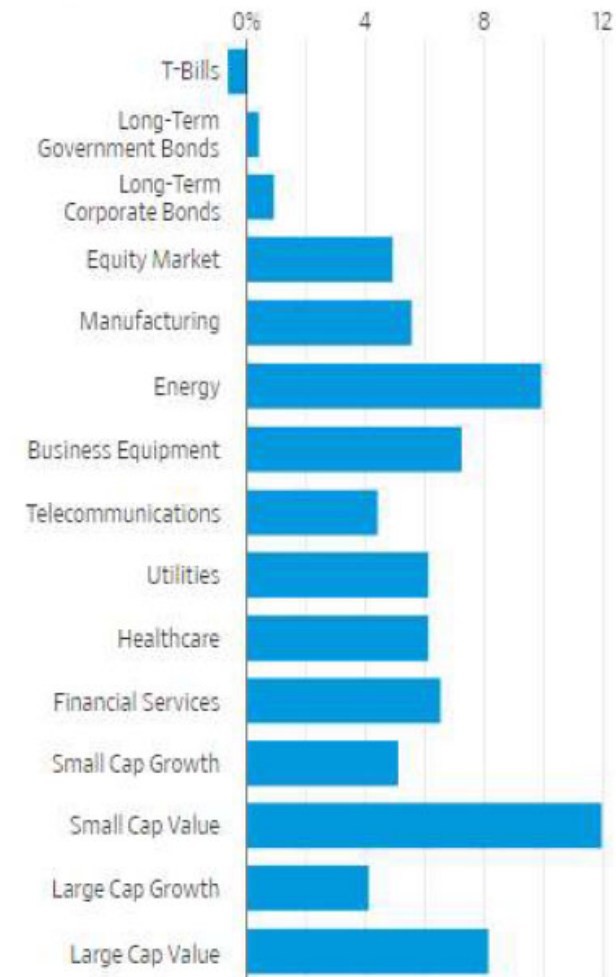
- Supply issues
- Demand issues
- Exacerbating factors
- Outlook



Inflation



Average real returns in years with high inflation

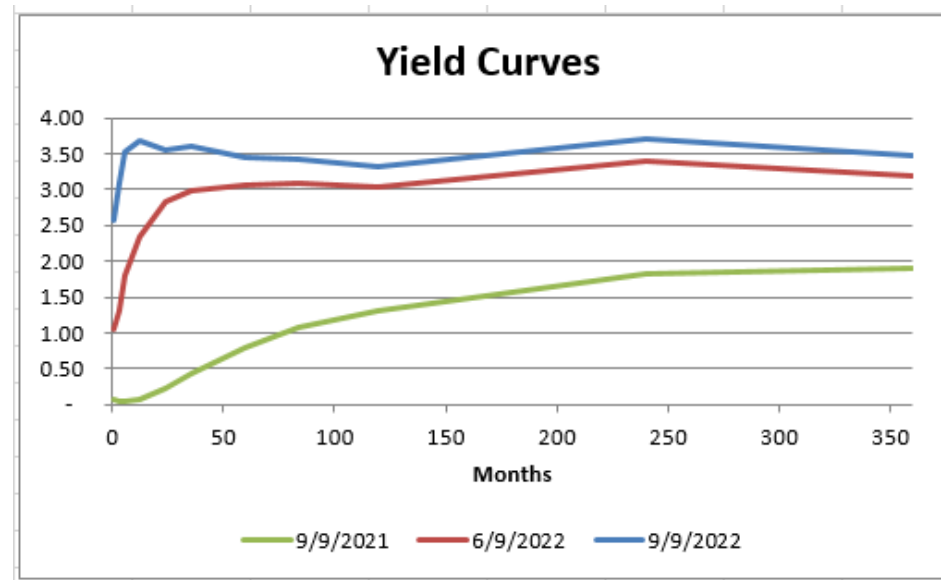


Note: Data for years from 1927-2020 in which inflation was above the median
Source: Dimensional Fund Advisors

Inflation

- Companies with demonstrated earnings power possess the power to raise prices even during inflationary periods.
- Going back to 1926, the annualized inflation-adjusted return on stocks is 7.3%.
- Value is “denomination agnostic.”
- Markets are unpredictable, but if inflation does persist, we expect value stocks to outperform.

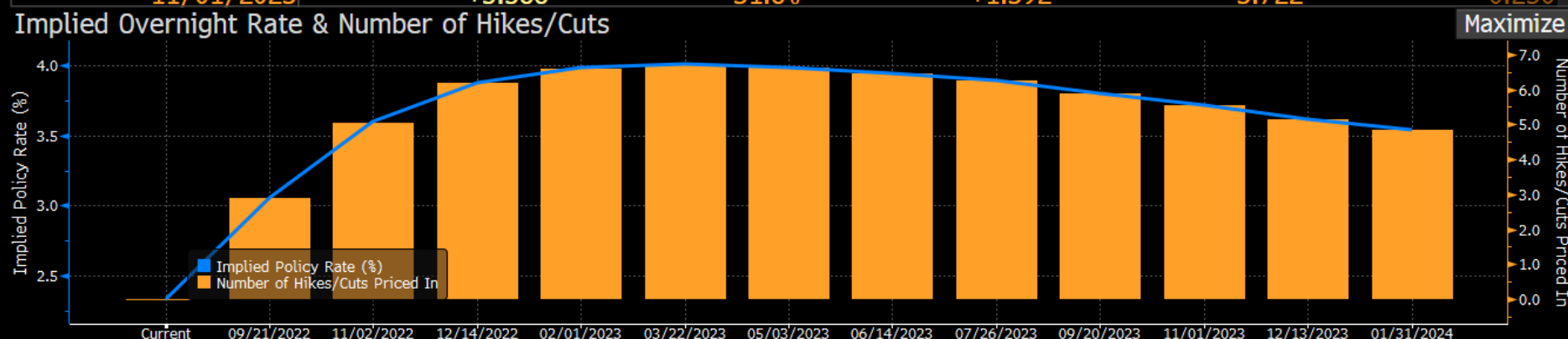
Interest Rates



Interest Rates

Target Rate 2.50 Pricing Date 09/09/2022
Effective Rate 2.33 Cur. Imp. O/N Rate 2.331

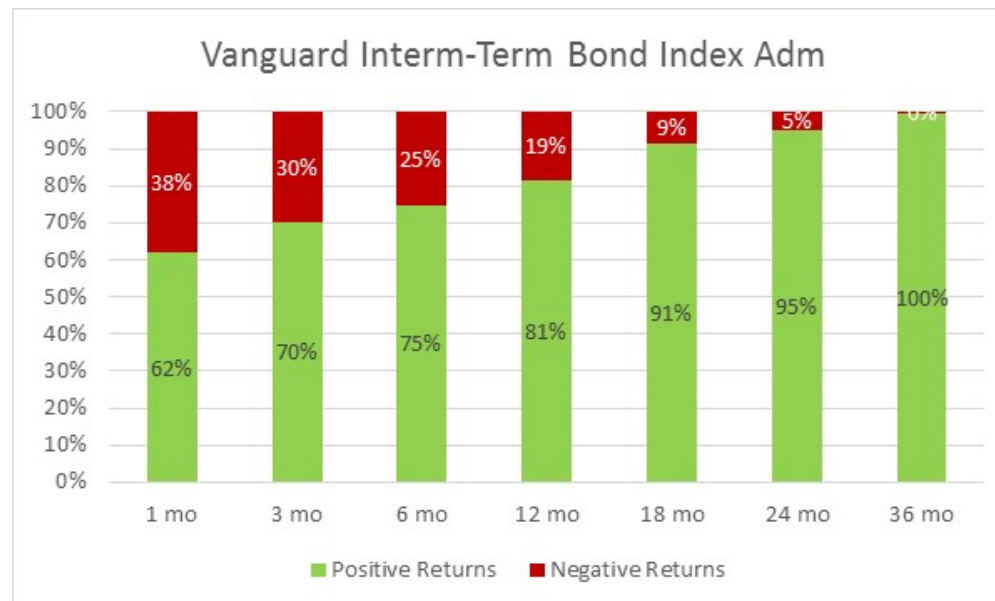
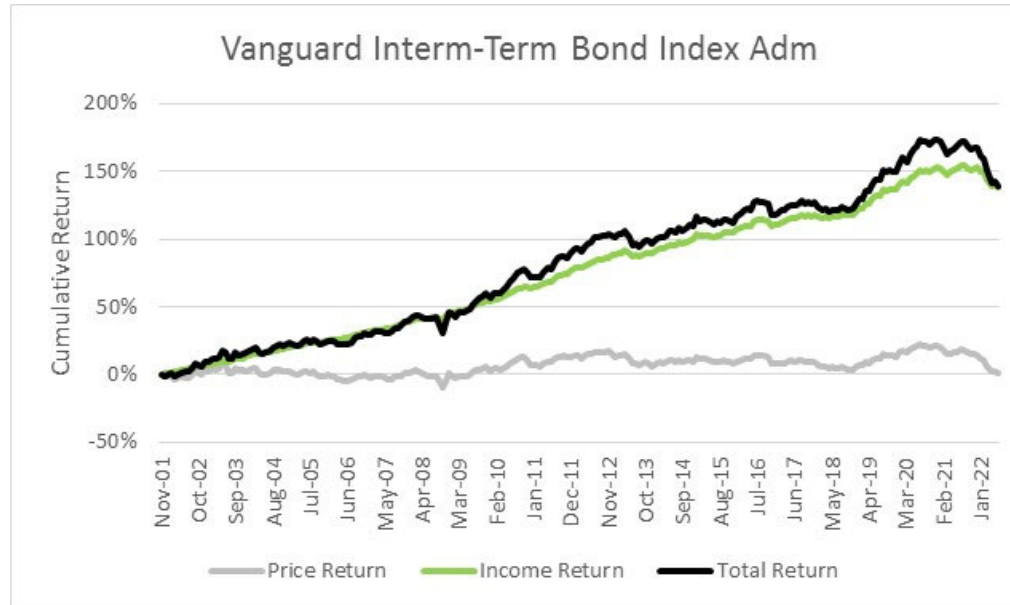
| Meeting | #Hikes/Cuts | %Hike/Cut | Imp. Rate Δ | Implied Rate | A.R.M.▲ |
|------------|-------------|-----------|-------------|--------------|---------|
| 09/21/2022 | +2.907 | +290.7% | +0.727 | 3.057 | 0.250 |
| 11/02/2022 | +5.060 | +215.3% | +1.265 | 3.596 | 0.250 |
| 12/14/2022 | +6.187 | +112.8% | +1.547 | 3.878 | 0.250 |
| 02/01/2023 | +6.608 | +42.1% | +1.652 | 3.983 | 0.250 |
| 03/22/2023 | +6.727 | +11.9% | +1.682 | 4.012 | 0.250 |
| 05/03/2023 | +6.639 | -8.9% | +1.660 | 3.990 | 0.250 |
| 06/14/2023 | +6.458 | -18.1% | +1.614 | 3.945 | 0.250 |
| 07/26/2023 | +6.257 | -20.0% | +1.564 | 3.895 | 0.250 |
| 09/20/2023 | +5.882 | -37.5% | +1.471 | 3.801 | 0.250 |
| 11/01/2023 | +5.566 | -31.6% | +1.392 | 3.722 | 0.250▼ |



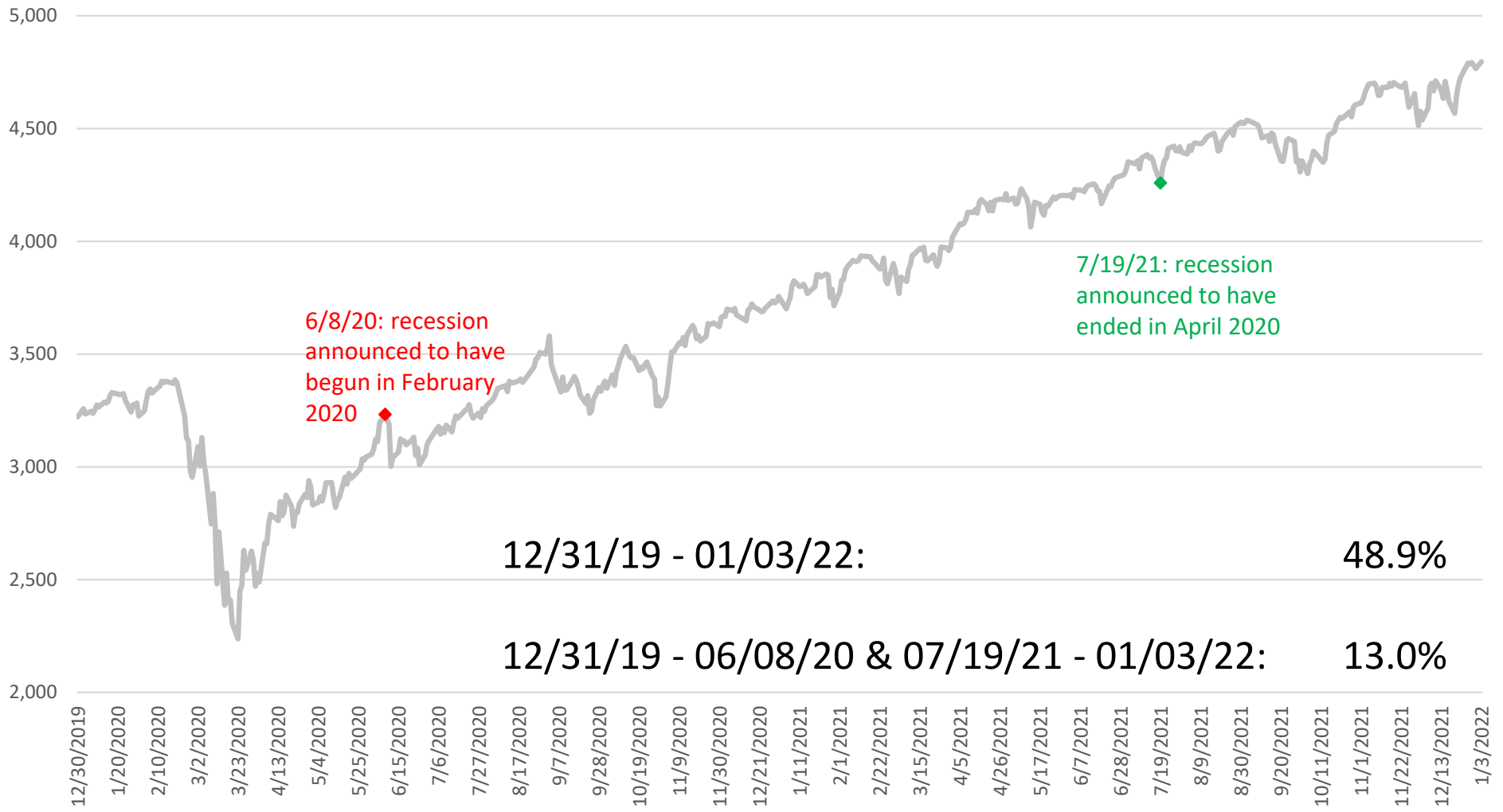
Interest Rates

- Trust Company of the South manages portfolios utilizing a value tilt, which supports outperformance during periods of rising interest rates.
- Rising interest rates affect stocks in different ways. Broadly speaking, expensive “growth” stocks are more negatively impacted than “value” stocks because their future earnings are discounted back at those higher rates.
- Some stocks commonly found in “value” portfolios, particularly financials, normally benefit from higher interest rates.

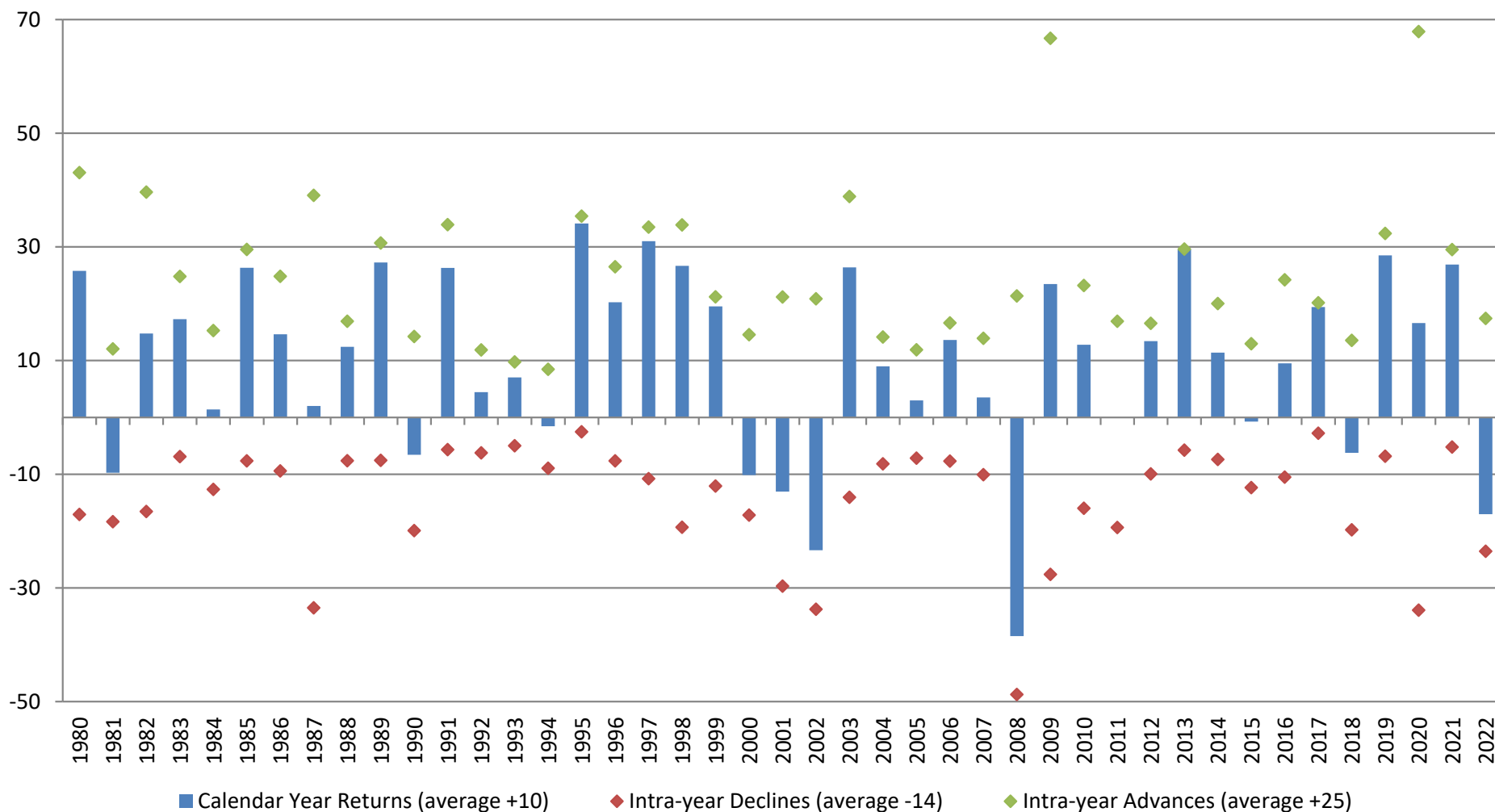
Interest Rates



Recession

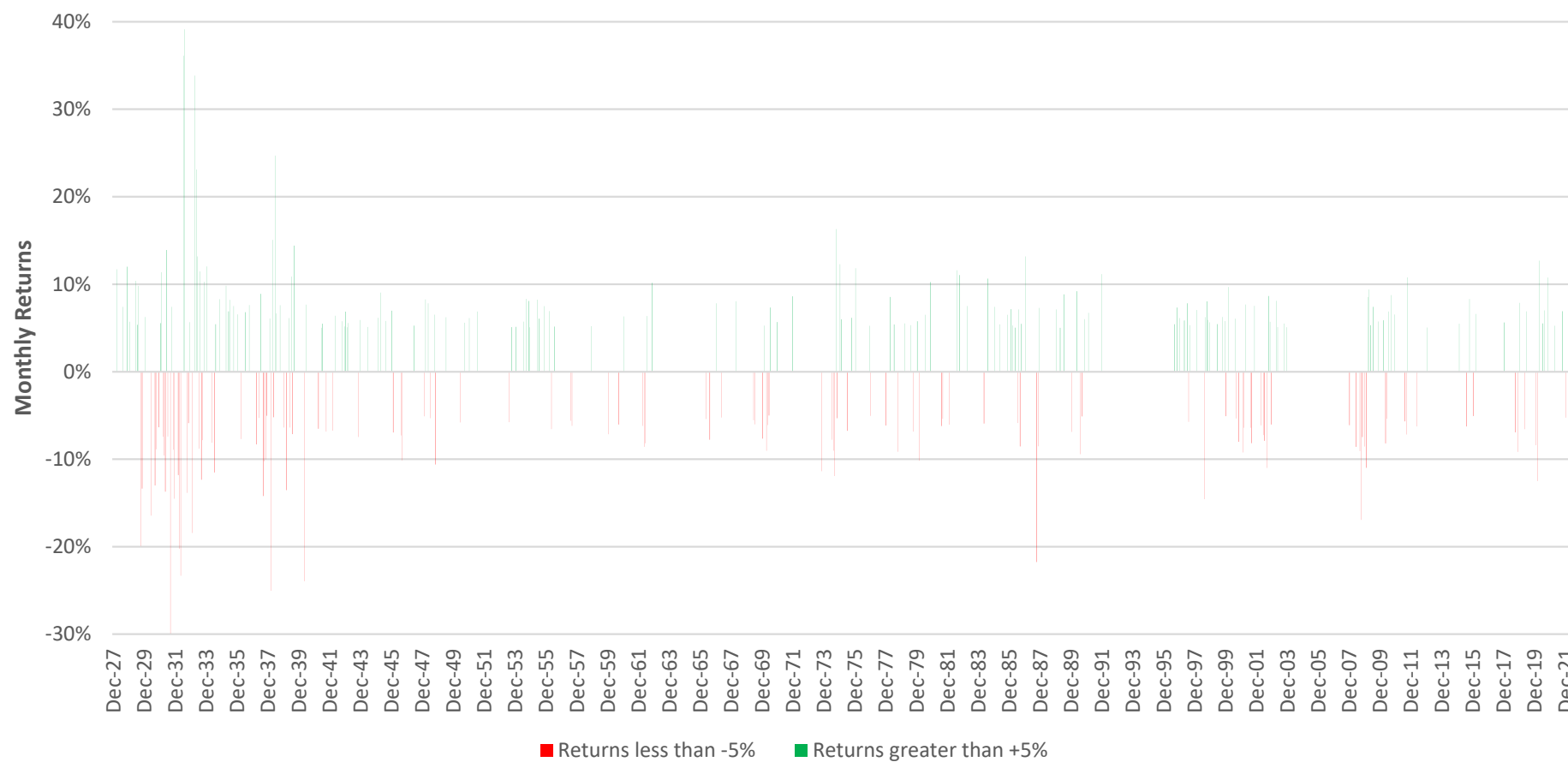


Recent Volatility



Recent Volatility

S&P 500
12/31/1927-8/31/22



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