PIEDMONT

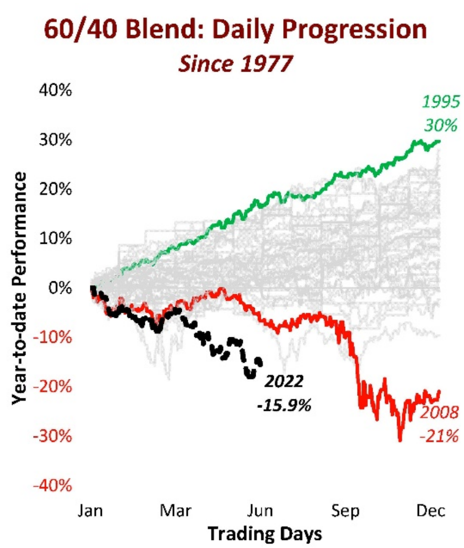
Second Quarter Review and Outlook

Gee, that sure was fun. Fears that surfaced in late-2021 and early-2022 only intensified during Q2. Investors reacted to rising interest rates and uncertainty about economic growth by dumping stocks, especially those with longer-term growth horizons. Incidentally, speculators also unloaded some of the more ephemeral "assets" like cryptocurrencies, NFTs, SPACs, etc. Those truly deserved to be sold. Many companies with strong long-term prospects, whose valuations did get a little too high in late-2021, have been whittled down to interesting levels.

Market Performance	Q1 22	Q2 22	Apr	May	Jun	YTD 22	1 Yr	2 Yrs	3 Yrs	5 Yrs	10 Yrs
S&P 500	-4.6%	-16.1%	-8.7%	0.2%	-8.3%	-20.0%	-10.6%	12.2%	10.6%	11.3%	13.0%
Russell 2000	-7.5%	-17.2%	-9.9%	0.2%	-8.2%	-23.4%	-25.2%	10.1%	4.2%	5.2%	9.4%
MSCI ACWI	-5.3%	-15.5%	-8.0%	0.2%	-8.4%	-20.0%	-15.4%	8.8%	6.7%	7.5%	9.3%
MSCI EAFE	-5.8%	-14.3%	-6.4%	0.9%	-9.3%	-19.3%	-17.3%	4.8%	1.5%	2.7%	5.9%
MSCI EM	-6.9%	-11.3%	-5.5%	0.5%	-6.6%	-17.5%	-25.0%	3.0%	0.9%	2.5%	3.4%
CSFB High Yield	-4.2%	-9.7%	-3.5%	0.3%	-6.6%	-13.4%	-12.1%	0.8%	-0.0%	1.9%	4.3%
Bloomberg U.S. Agg Bd	-5.9%	-4.7%	-3.8%	0.6%	-1.6%	-10.3%	-10.3%	-5.4%	-0.9%	0.9%	1.5%
Bloomberg U.S. TIPS	-3.0%	-6.1%	-2.0%	-1.0%	-3.2%	-8.9%	-5.1%	0.5%	3.0%	3.2%	1.7%

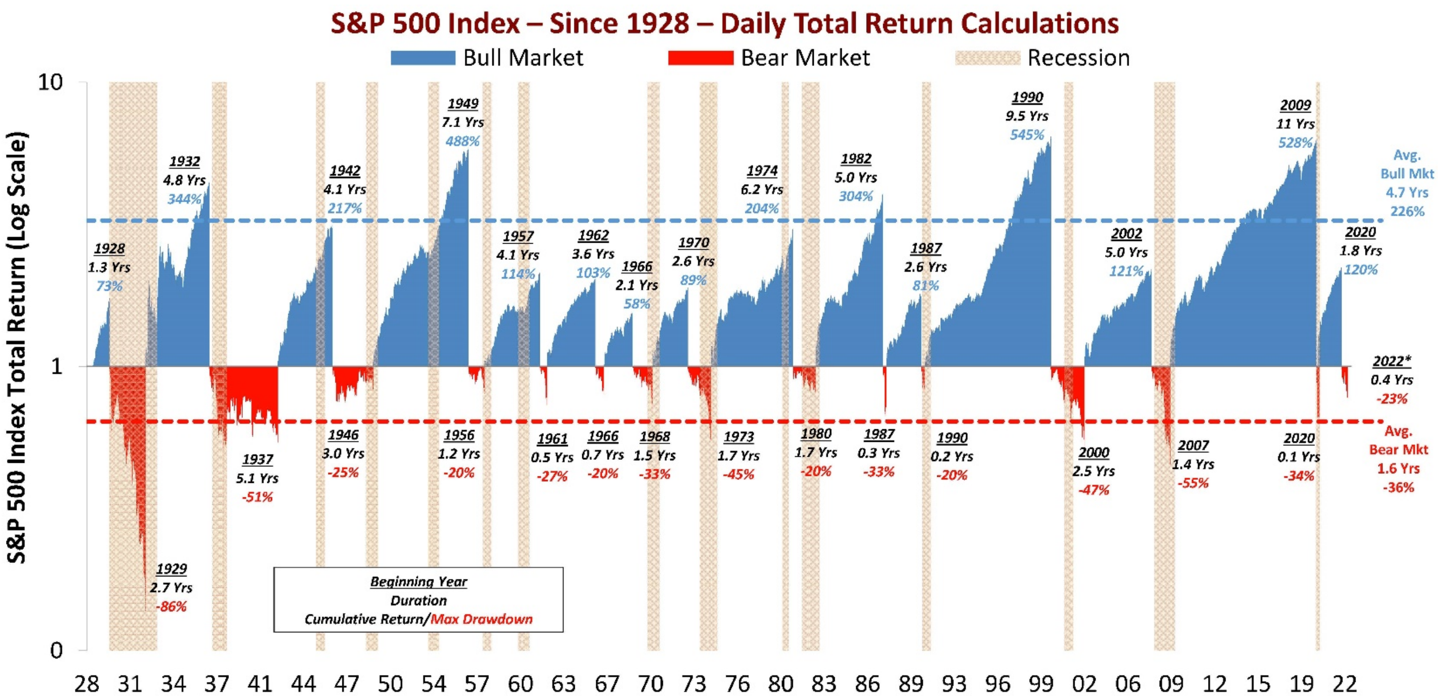
Source: Bloomberg and Monticello Associates

The Fed continued its aggressive rate increases to fight persistently higher than expected inflation. This is the worst six months for fixed income investors in 40 years. The 10-year Treasury yield rose to a peak of 3.48% in mid-June before falling to 3.02% at quarter's end. That still represented an increase of almost 0.70% from March 31. Rates remain historically low, but volatility in interest rates has been exceptionally large and has whipsawed financial markets and investors. This year's decline of both stocks and bonds has challenged the traditional mindset around diversification. The black line in the chart below shows the returns of a 60% equity, 40% bond portfolio through June of this year. Traditionally, investors have been able to rely on fixed income to support portfolios in times of equity market disruption. That has not been the case in 2022.



Source: Bloomberg and Monticello Associates

As we have often reminded people, long-term investors sign up for the bull and bear markets alike. However, as the chart below demonstrates, bear markets, while extremely uncomfortable, have historically been shorter and less impactful compared to bull markets. Since 1928, the average bear market has lasted 1.6 years with an average return of -36%. On the other hand, bull markets have averaged 4.7 years with an average return of 226%. For long-term investors, remaining invested is often the best course of action so that portfolios are positioned for the inevitable recovery.



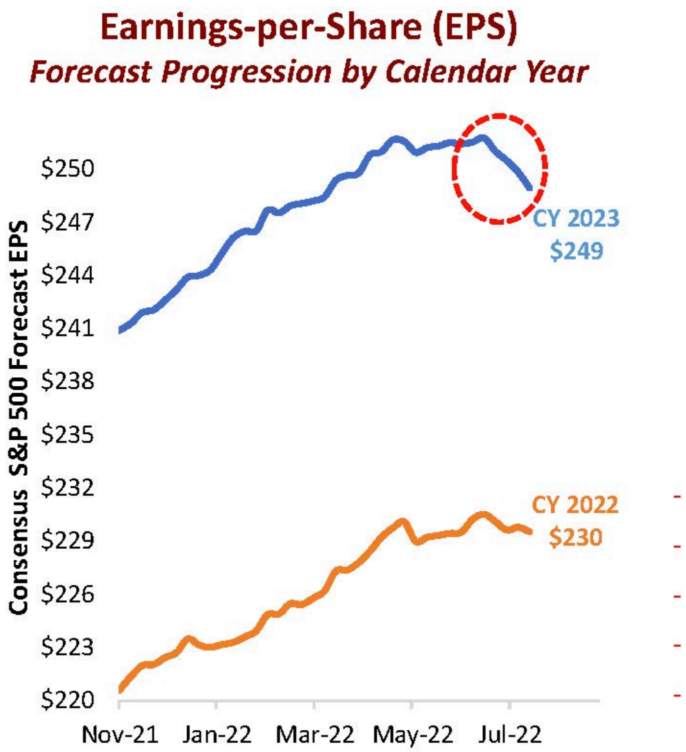
2022 bear market started on 1/3/2022, data through 6/16/2022; Source: Bloomberg and Monticello Associates

Our focus today is twofold: (1) to implement an appropriate asset allocation for the environment that looks likely going forward; and (2) to populate that asset allocation with the right managers. We have much more to say about this below.

Portfolio Positioning and Manager Visit

Our managers continue to use the current market volatility to “improve” their portfolios. This usually means putting more dollars into their highest-conviction stocks and adding stocks whose prices have come down enough to be good additions to their portfolio. Our managers always have a “wish list” of stocks they would like to own for their long-term potential. In the past, valuations were too high, but this bear market action has brought many of these wish list stocks down to levels where our managers judge their valuations to be compelling. We believe will see the fruits of their efforts going forward.

Earnings drive stock prices over time. One feature of the current bear market has been the slow decline in earnings estimates for 2023. The chart below on the left shows that 2022 earnings estimates have changed very little recently, but 2023 estimates have begun to be revised lower. The state of the economy matters a lot to the evolution of these estimates over time. As the chart below on the right shows, earnings have historically declined over 30% during recessions. Whether the U.S. economy falls into recession or not will be key to watch.



Source: Bloomberg, Strategas, Factset and Monticello Associates

Earnings Decl. During Economic Cycles & Recessions—Quarterly

Recessions	Earnings Decline
3Q-29 to 1Q-33	-74.5%
3Q-37 to 2Q-38	-49.2%
1Q-45 to 4Q-45	-29.4%
4Q-48 to 4Q-49	-3.3%
2Q-53 to 2Q-54	-17.6%
3Q-57 to 2Q-58	-22.0%
2Q-60 to 1Q-61	-11.7%
4Q-69 to 4Q-70	-12.9%
4Q-73 to 1Q-75	-14.8%
1Q-80 to 3Q-80	-4.6%
3Q-81 to 4Q-82	-19.1%
3Q-90 to 1Q-91	-36.7%
1Q-01 to 4Q-01	-54.0%
4Q-07 to 2Q-09	-91.9%
1Q-20 to 2Q-20	-32.5%
Average	**-31.6%**

We spoke by phone with one of our relative value managers at our recent Investment Committee meeting. This manager runs a focused portfolio of 30-35 stocks of durable, high-quality businesses with substantial return potential. Their research employs a rigorous valuation approach with a focus on price to long-term intrinsic value. This manager has struggled this year, although the firm's long run record is very strong.

As they put it, the team really liked their portfolio in January 2022, and like it even more after the sell-off. While they may not know when this selling cycle will pass, they believe they can confidently analyze which companies will survive and come out well positioned for success over the next five years. This manager has used the sell-off to add to some existing holdings and to add a couple new stocks from their wish list. For instance, the team foresees real supply constraints in the energy area over the next five years and has recently added an integrated oil company to the portfolio. They are also quite positive on the future of travel and hospitality; they own several companies in each area. They view the recent setbacks for some of these companies as temporary.

Of note, it was reported that team members are adding to their personal stakes in the strategy due to the current compelling valuations of many of the companies they own. We always like to see managers "eat their own cooking." We continue have a great deal of confidence in the ability of the team to produce solid long run results.

Market Environment and Outlook

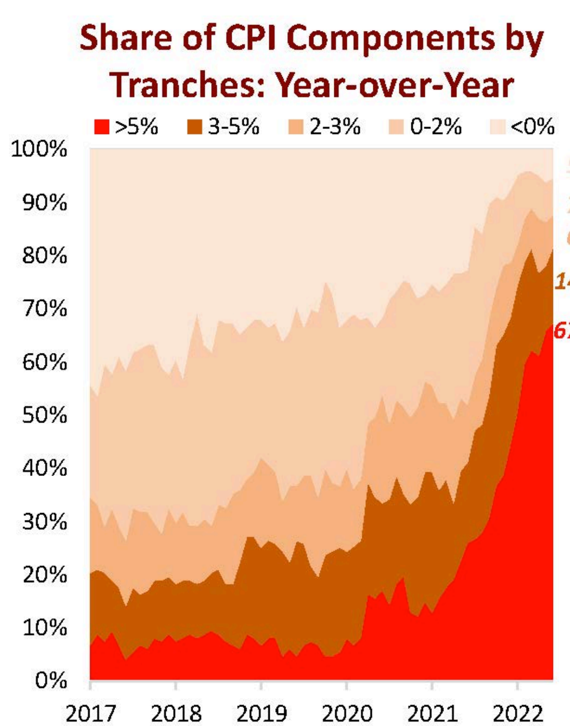
The Federal Reserve is supposed to have a handle on the economy and the outlook for things like inflation and employment. Clearly, this cycle has caused problems for its army of economists. Just look at how the Fed's assessment of key economic data has shifted since March.

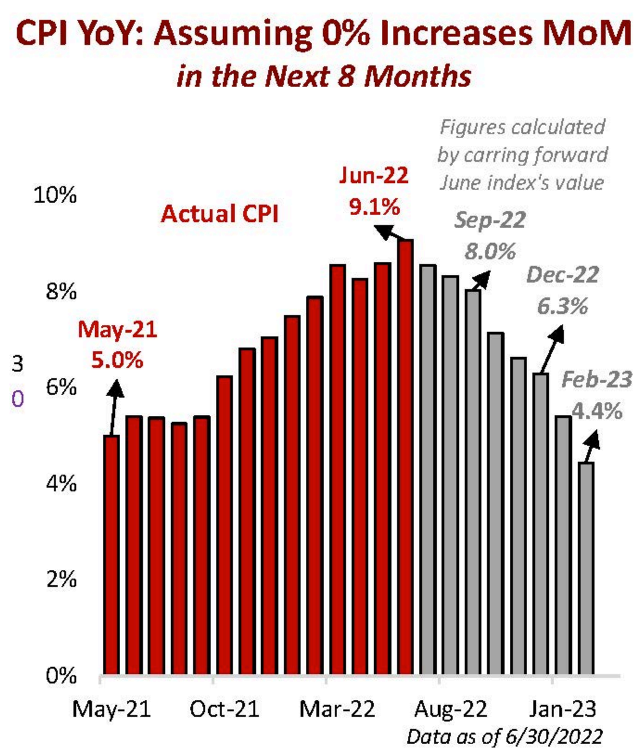
FOMC: Summary of Economic Projections

Fed Projections (Median)	2022	2023	2024	Longer Run	Comments
Change in Real GDP					Downward revision in economic growth forecast (real GDP) for 2022 - 2024
- Fed Projections: Jun-22	1.7%	1.7%	1.9%	1.8%	
- Fed Projections: Mar-22	2.8%	2.2%	2.0%	1.8%	
Change in Forecast	-1.1%	-0.5%	-0.1%	0.0%	
Unemployment Rate					Upward revision to unemployment projections for 2022 - 2024
- Fed Projections: Jun-22	3.7%	3.9%	4.1%	4.0%	
- Fed Projections: Mar-22	3.5%	3.5%	3.6%	4.0%	
Change in Forecast	0.2%	0.4%	0.5%	0.0%	
PCE Inflation					Revisions to inflation (as measured by PCE); estimates revised materially higher for 2022, while projections were revised lower for 2023 and 2024
- Fed Projections: Jun-22	5.2%	2.6%	2.2%	2.0%	
- Fed Projections: Mar-22	4.3%	2.7%	2.3%	2.0%	
Change in Forecast	0.9%	-0.1%	-0.1%	0.0%	
Fed Funds Rate					Material upward revision to forecast Fed Funds Rate; expecting higher rates from 2022 - 2024
- Fed Projections: Jun-22	3.4%	3.8%	3.4%	2.5%	
- Fed Projections: Mar-22	1.9%	2.8%	2.8%	2.4%	
Change in Forecast	1.5%	1.0%	0.6%	0.1%	

Source: Federal Reserve and Monticello Associates

Inflation is a key variable; look at the two charts below. The chart on the left shows that 67% of the components of the Consumer Price Index (CPI) are rising more than 5% year-over-year. The chart on the right shows that even if the next eight(!) month-over-month CPI reports show zero percent increases, the annual inflation rate will still be 4.4% in February of 2023. The Fed clearly has work to do to get the inflation genie back in the bottle!





Source: Bloomberg and Monticello Associates

To help us get a better handle on the future, we got on the phone with the founder and CEO of a well-respected investment consulting firm to get his take on the economic and financial market environment. In reviewing the last several years, he highlighted the dramatic mistakes made by policy makers who, during 2020 and 2021, focused almost entirely on employment with little to no regard for the longer-term implications on inflation. While the initial response appeared appropriate in the economic shutdown of 2020, those policies simply went on for too long as the economy reopened in 2021. Now, the Fed is dedicated to beating inflation, but is so far behind, it will take time and raises the probability of a recession.

Where does that leave us today? Interestingly, anything representing the outlook for economic growth has sold off more recently. The market is moving past the inflation story and beginning to focus on economic growth concerns. Commodities and cyclical stocks have sold off recently, and growth stocks have begun to see relative strength. However, should a recession occur, he believes the strength of the financial system, consumers, and employment will lessen the blow. In terms of portfolio positioning, the advice is to remain calm and stay the course. He expects those who hold on to growth stocks will find success in the coming years as the environment returns to conditions more akin to pre-Covid conditions rather than 2021-2022. We agree. Dynamic companies with higher growth rates will lead the recovery and patience with managers such as those that have struggled as of late will be rewarded.

Conclusion

Patience, and extraordinary patience in difficult times, has historically been successful for Piedmont's strategies. We are constantly evaluating our positioning, but with an eye toward the next five years, rather than the next quarter. We are confident in our process and discipline and remain optimistic regarding the future of investment results.

We value each one of our clients and appreciate the patience shown by investors during this time. We look forward to continuing to serve you and are happy to answer any questions you may have regarding our positioning and outlook.

Michael K. Shields | Daniel F. Smith | John M. Simms, Jr.