WILMINGTON TRUST

MEMBER OF THE M&T FAMILY

February | 2022

Capital Perspectives

Monthly investment analysis and insights from Wilmington Trust Investment Advisors

ON THE RECORD

The X Factor:
A strong but unpredictable influence

In this issue:

Tony Roth
Chief Investment Officer

Investing is challenging because, like many disciplines, it requires predictions and analysis of myriad variables. However, today's environment is unusual in that the path forward for the economy and financial markets is likely to be dictated by a single factor: the trajectory of inflation. Of course, other data points, such as labor market statistics, manufacturing data, and consumer activity, require attention. That said, with the economy essentially at full employment, the purpose of these indicators is principally to gain clues about future inflation and, in turn, monetary policy.

What makes today's environment challenging is handicapping a wide range of potential inflationary scenarios that could result in a similarly wide range of financial market outcomes. As evidence, the Bloomberg inflation forecast survey of 51 Wall Street economists—as measured by Consumer Price Index year over year (CPI y/y)—for the fourth quarter of 2022 ranges from 1.7% to 5.4%. On one end of the spectrum, inflation could decline precipitously, providing the Federal Reserve considerable breathing room in tightening policy and extending the economic cycle well beyond 2023. At the other extreme, the Fed might need to tighten policy so aggressively that it induces a recession by late this year. In this letter, we detail our expected forecast—for inflation to decline to around 3% on the CPI y/y by the end of 2022 (Figure 1)—as well as identify where we could be wrong to the upside and, yes, even to the downside. (The January CPI data will be released the day after this issue is published; while the numbers could move in either direction, they will likely not change our assessment of the trajectory for the year.)

Continued

Figure 1

Inflation forecasted to recede in 2022

Consumer Price Index (% change year over year)

Data as of December 2021.

Sources: Macrobond, Bureau of Labor Statistics, WTIA.

The categories of retail sales that fell the most in December are those that have had the biggest price jumps. We expect this dynamic to further play into a moderating of demand in 2022 as prices are unlikely to decrease even if the rate of inflation declines.

Our base case

What we consider most likely to occur hinges on expectations of slowing demand and easing of supply constraints, as well as an appreciation for the impacts of productivity and base effects (the latter referring to the simple mathematics of higher inflation readings from 2021 rolling out of the calculation and bringing down the y/y rate).

- **Demand**—Consumer spending, particularly for goods, has been an important driver of higher inflation. Going forward, we expect it to slow as the fiscal stimulus that inflated savings rates— including the most recent Child Tax Credit sent out each month in the second half of 2021—moves into the rearview mirror and savings levels normalize. If COVID-19 continues to wane allowing consumers to more comfortably spend on services, further pressure will be released from goods spending. We have already seen some slowing of consumer activity, with inflation-adjusted spending on goods contracting in the fourth quarter of 2021. The much-awaited rotation from goods into services is happening but with less fire power given the dwindling of consumer savings and rolling waves of viral variants.

  As the old adage goes, high prices can be the best cure for high prices. We are witnessing price increases at the gas pump, food store, auto dealership, and elsewhere dent consumer sentiment and appetite. The categories of retail sales that fell the most in December are those that have had the biggest price jumps. We expect this dynamic to further play into a moderating of demand in 2022 as prices are unlikely to decrease even if the rate of inflation declines.

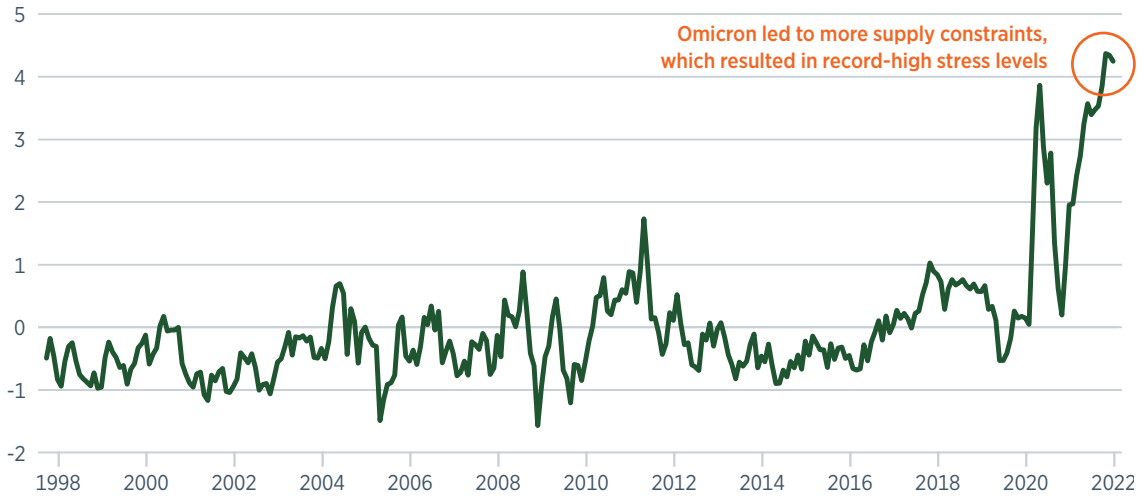
- **Supply chains**—The 2021 surge in consumer goods purchases, coupled with COVID-related worker shortages and port shutdowns, resulted in massive disruptions to global supply chains and subsequent spikes in input and transportation costs. (See our 2022 Capital Markets Forecast for more on this

Continued

Figure 2

Supply-chain problems driving inflation higher

Federal Reserve Bank of NY Global Supply Chain Pressure Index



Data as of December 2021.

Sources: Macrobond, Federal Reserve Bank of New York.

Technology is a disinflationary sector of the economy. Not only do technology prices tend to decrease over time as computing efficiency increases, but the integration of technology into virtually every business makes firms markedly more productive.

topic.) Data indicate some potential signs of relief for supply chains, but the picture is mixed at best. The ISM Manufacturing PMI has shown improvements in inventory levels, supplier delivery times, and input prices. Global measures show similar easing overseas. At the same time, hundreds of ships are still sitting idle off the West Coast, and an aggregated measure of global supply-chain pressure from the New York Federal Reserve shows an Omicron-induced spike back to all-time high levels of stress (Figure 2).

Nonetheless, looking forward supply-chain pressure should ease considerably by mid-2022 as goods purchases slow and virus-related disruptions recede, taking shipping costs and broader inflation with it. Supply-chain pressures, as well as wage pressures, will also ease if some or all of the 1.8 million people currently citing the virus as a reason for not looking for work return to the labor force.

- **Productivity**—We have talked for years about the importance of productivity, and it is central to the inflation conversation. Technology is a disinflationary sector of the economy. Not only do technology prices tend to decrease over time as computing efficiency increases, but the integration of technology into virtually every business makes firms markedly more productive. Technology is a key reason why the U.S. economy has grown to 3% above pre-pandemic levels with 1.7 million fewer workers.

The upside risks

In our view, the risks to our base case are skewed to the upside. Supply-chain disruptions, commodity prices, wages, and housing prices could all lead to inflation remaining higher for longer than we anticipate.

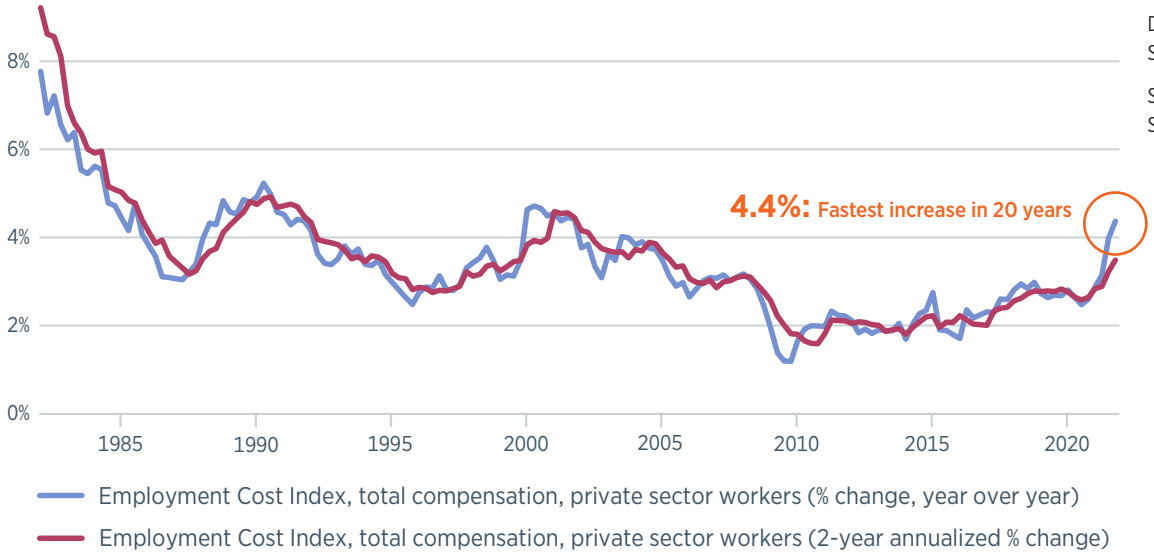
- **Supply-chain disruptions**—China is the big wild card when it comes to the risk of supply-chain disruptions persisting. According to global freight booking platform Freightos, door-to-door shipping time from China to the U.S. has doubled since

Continued

Figure 3

Workers get a raise

(Emloyment Cost Index, Total Compensation, Private Sector Workers)



Data as of September 30, 2021.

Sources: Bureau of Labor Statistics, Macrobond.

Should labor participation fail to increase and companies continue to raise wages to attract workers, we could see ourselves in the dreaded "wage price spiral," where higher wages beget higher prices.

September 2019. The country's zero-tolerance COVID policy has resulted in ports and cities shutting down for just a handful of cases. The rest of the world is grappling with the reality that the end game is living with the virus, not trying to stamp it out entirely. As less harmful but more transmissible variants materialize, a continuation of China's strict containment policies risks continued disruption for so many of the companies that rely on the country for inputs and manufacturing capabilities.

- **Commodity prices**—The Bloomberg Commodity Index increased 32% in the past year (as of January 31, 2022), and the price of Brent Crude oil is up 62% over that period. Recovering demand, tight supply, Russia–Ukraine tensions, and production outages have all lifted oil prices, as well as the broader energy complex including natural gas. U.S. oil producers appear committed to capital discipline; in other words, they are unlikely to significantly increase production as prices rise. OPEC+ has been increasing production levels toward pre-pandemic levels but the group's spare capacity is expected to fall through 2022, meaning they are unlikely to open the spigots to help relieve price pressures.

- **Wages**—The labor market remains historically tight. Average hourly earnings in January increased 5.7% versus a year ago, according to the Bureau of Labor Statistics. Another measure of private sector wage growth, the Employment Cost Index, is watched closely by the Fed and increased 4.4% y/y at the latest reading—the fastest increase in 20 years (Figure 3). Should labor participation fail to increase and companies continue to raise wages to attract workers, we could see ourselves in the dreaded "wage price spiral," where higher wages beget higher prices.

Continued

A recent Harris Poll found that nearly

30%

of people surveyed

DO NOT MISS

shopping at stores, going out to movies, or exercising at a gym.

- **Housing**—Shelter (rent) is by far the largest inflation category, making up approximately one-third of the CPI inflation index. Inventory of new and existing homes is low, and demand is driving up prices of homes and rent alike. Private-market price indicators such as Case Shiller, Home Prices, and Zillow suggest this could keep pushing higher through the course of 2022, which would exert upward pressure on overall inflation.

The downside risks

An undershoot of our 3.0% CPI target for year-end 2022 is the lowest probability of our three scenarios, but it is still possible. The main driver here would be a more dramatic slowdown from the consumer. Disappointing consumer spending in the fourth quarter of 2021 sets up a very weak handoff to the first quarter of 2022. The Atlanta Fed's GDP Now tracker (though early) is currently projecting a flat economy in the first quarter. That will likely pick up, but we—along with numerous other Wall Street economists surveyed by Bloomberg—are estimating sub-2% growth for the first quarter.

A weaker return to services and in-person activities is also a risk. A recent Harris Poll found that nearly 30% of people surveyed do not miss shopping at stores, going out to movies, or exercising at a gym. These types of more permanent behavioral shifts could result in a disappointing recovery of the services sector and slower inflation.

Lastly, we have discussed the importance of inventory rebuilding as a support for growth in 2022, as the inventories-to-sales ratio is still near all-time lows. However, with so many firms desperate to stock shelves, we could see a rebuild that results in extra stock and price declines down the road. Inventory for retailers and technology companies also tends to have a relatively short shelf life, so if items finally received are from a prior season or obsolete technology, large price markdowns could be coming in 2022.

Positioning for any outcome

With consideration for all of these inflationary scenarios, our baseline expectation is for the Fed to begin raising its policy rate in March, with a total of four 25 basis point (0.25%) increases in 2022. However, since inflation risks are skewed to the upside, so are the risks around policy tightening, and a federal funds rate of 1.5%–1.75% by the end of 2022 is possible. If inflation begins falling as sharply as we expect, this outcome will be avoided.

We believe the economy is healthy enough to weather these rate hikes. Equities have historically gained in the first year of a rate-hike cycle, though with higher volatility. Equities also provide a nice inflation hedge in moderate or falling inflationary environments (also discussed in our Capital Markets Forecast). Today, companies with sufficient scale are generally maintaining the ability to pass through cost pressures and protect margins. This pricing power is likely to continue if inflation starts to moderate.

Continued

Figure 4

Current tactical asset allocation

	Tactical tilts	− NEUTRAL +	Positioning
Equities	U.S. Large Cap		Overweight
	U.S. Small Cap		
	International Developed		
	Emerging Markets		
Fixed Income	Investment Grade		Underweight
	Tax-Exempt High Yield		
	Taxable High Yield*		
Real Assets	Inflation-linked Bonds		Underweight
	Global REITs		
	Other/Commodities		
Alternatives	Equity Long/Short Hedge		Underweight
Cash			Neutral

*Taxable high-yield bonds are not included in the strategic asset allocation benchmark for tax-sensitive portfolios primarily invested in municipal bonds. In this case, the Investment Committee saw an opportunity to invest in short-term, taxable leveraged loans (high yield) for both taxable and nontaxable portfolios.

TAA, or Tactical Asset Allocation, represents our current (9–12 month investment horizon) recommendation for each model strategy. The TAA is reevaluated monthly.

In the midst of January's heightened volatility, we deployed excess cash into U.S. large-cap equities, U.S. small-cap equities, and leveraged loans. We hold overweights to equities across major asset classes, with a slight preference for international equities where the economic runway is longer, stimulus more favorable, and valuations more attractive relative to the U.S.

Diversification is key. The financial markets are likely to perform very differently in each inflation scenario we have outlined, and we advocate for holding a healthy allocation to defensive assets like fixed income, cash, and real assets should inflation surprise to the upside. We do expect the 10-year Treasury yield to move higher from today's 1.9% to between 2.0% and 2.25% by year end. This is likely to prove a somewhat challenging environment for investment-grade fixed income, but an adequate allocation is necessary should the Fed be forced to end the economic cycle earlier than anticipated. We stand prepared to adjust portfolios as we gain more clarity on the path forward for inflation and the overall economy.

Best,

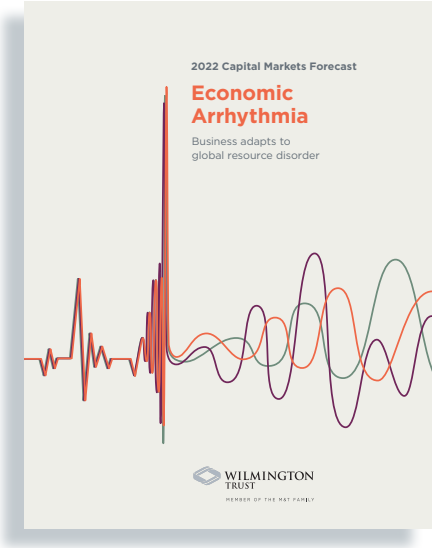
Tony

IN FOCUS

How Much Do You Know About Our 2022 Outlook?

Take our quiz to find out

Have you read our 2022 Capital Markets Forecast, Economic Arrhythmia? Knowledge is empowering, so it's important to bone up on what we believe the coming year has in store from an investment and economic perspective. Test yourself to see how much you know about our outlook by taking this brief quiz and—whether you get a perfect score or need a little extra help—be sure to touch base with your advisor to see how your wealth plan and portfolio may be affected by these insights. Ready for our investment team to put you to the test?



1. As last year ended, inflation (measured by the Consumer Price Index) was rising at a rate of roughly 7%. Our base case for 2020 is:

A. Higher than 7.0%

B. About 7%

C. Lower than 7.0%

D. None of the above

2. The tightest labor market in history is now seeing strong job growth yet it's slowing, largely constrained by the labor force's participation rate (the percentage of the working-age population seeking work). Which forces did we identify in our CMF as primarily responsible for holding it back?

A. Cloud-computing, 3D printing, AI, 5G, and autonomous robotics

B. Retirement, skills mismatch, lifestyle reassessment, lingering virus impacts

C. Low wages, remote working arrangements, and difficulty in finding available jobs

3. Which asset classes are generally the best hedges in a high-and-falling inflationary environment?

A. Stocks, bonds

B. Commodities, gold, real estate investment trusts

C. A and B

4. The low interest rate environment has helped facilitate technological investment and other strategic corporate decisions such as:

A. Rethinking and reinforcing supply chains

B. Issuing and refinancing of debt

C. Merging and acquiring other companies

D. All of the above

5. Valuations for equities may portend more muted average returns over the next three and five years. This raises the profile of which asset class?

A. Hedge funds

B. Cash

C. High-yield bonds

D. None of the above

Continued

ANSWER KEY

1. C

Inflation is at a three-decade high, but it has been pushed there by the unique nature of the pandemic, the government response, supply shortages, and labor force disruption. We expect it to decelerate in 2022 to about 3.0% for the CPI over the next 12 months. That would roughly correspond to 2.5% inflation for personal consumption expenditures, above the Fed's target of 2%. Note that this doesn't mean a decline in prices, but rather a *slowing of price increases*. As of this writing, runaway inflation is not our base case and markets seem to believe, as we do, that the Federal Reserve has the tools it needs to curtail inflationary pressures. Of course, a variety of very fluid inputs could tip our outlook: lingering supply-chain issues could combine with wage pressures to hold inflation much higher than in past cycles, while an unanticipated economic slowdown, fiscal drag, and weak job growth could temper its pace. *Watch Chief Economist Luke Tilley explain more on inflation.*

A large number of workers have called it quits and retired (due to a combination of pumped-up retirement plan balances and COVID-19 fatigue).

2. B

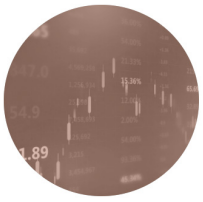
Jobs are indeed coming back—with roughly half million added each month toward the end of last year—but we still have 2.4 million fewer workers than we did before COVID-19. The labor force participation rate is being tamped down by a few factors. First, a large number of workers have called it quits and retired (due to a combination of pumped-up retirement plan balances and virus fatigue). While much of the decline is likely permanent, some retirees may be enticed into returning to the workforce—as a result of market weakness, higher wages, or a realization that retirement funds will prove insufficient.

Skills mismatch references the fact that many aren't trained to fulfill roles that require specialized technological expertise, and speaks to a lack of effective labor. Lifestyle reassessment has caused some to bow out or shift industries, as the result of the pandemic that made them question their professional choices. And finally, many are still too concerned about the virus—particularly the latest Omicron variant—to show up for close interactions required in many fields, such as restaurants and other service industries. *Chief Investment Officer Tony Roth and Luke talk about a critical indicator: the labor participation rate.*

3. A

In building a portfolio to help insulate against inflation risk, we consider both the magnitude and direction of inflation: low and rising, low and falling, high and rising, or high and falling. As mentioned earlier, our base case is we will transition from a high-and-rising inflationary environment to a high-and-falling regime. In such scenarios, receding price pressures have historically delivered above-average returns for both stocks and bonds. (Bonds typically perform well because declining inflation coincides with a decline in nominal interest rates, helping support price returns for bonds.) Stocks are generally regarded as one of the most stable, long-term inflation hedges, given the ability of companies to pad revenues by

Continued



CYCLES

LABOR

SUPPLY CHAIN

INVESTMENT PLAYBOOK

passing along price increases to consumers. Equities, in fact, have generally delivered strong returns in all scenarios except where inflation is high and continuing to rise. In that regime, typical inflation hedges like commodities and gold have performed best. We would also expect other inflation hedges like real estate investment trusts, energy stocks, dividend payers, and covered-call strategies to outperform the broader U.S. equity index but still provide muted returns. Treasury inflation-protected securities (TIPS) would likely outperform bonds but underperform gold and commodities. We to take all these potential inflation outcomes into account in an effort to strike an optimal asset class balance in our diversification mix. *More on inflation hedges from Head of Investment Strategy Meghan Shue.*

4. D

The transformational impact of labor shortage-induced disruptions at every supply-chain node—from production to transportation and distribution—is leading companies to make significant changes to their business models by shifting focus to building more resilient supply chains through dual sourcing of materials, increasing inventory of critical products, and nearshoring or expanding their supplier base. Technology and big data have also improved supply-chain efficiency. For example, improved demand forecasts from AI have ushered in the era of dynamic pricing (sellers' ability to price a particular item differently with changes in demand) and "just-in-time" inventory, allowing companies to extract much more from their profit curves while reducing the costs associated with stale or unwanted inventory.

The low-rate environment continues to facilitate the corporate finance decisions to make such tech investment possible. U.S. companies issued a record amount of debt in 2020 at attractive rates, helping to fortify balance sheets in preparation for the unknown. And fortify they did, now sitting on more than $5 trillion in cash, some of which we expect to be deployed into tech-related capital expenditures. In 2021, many companies also refinanced their debt, extending maturities and locking in

Continued

even lower rates for existing debt. Current terms are favorable for companies considering refinancing. The low-rate environment, cost of keeping up with technology needs, and looming threat of higher taxes have also spurred a wave of consolidations. We expect rates to move higher in 2022 but remain around 2%, a level that could continue to encourage strategic combinations. *Meghan highlights the rapid return on investment of capital expended at this trying time.*

5. D

In a low-return environment, income becomes a larger and more critical driver of total return. We would caution against some of the more common ways of obtaining higher yield, namely extending bond duration, or lowering credit quality. We expect interest rates to rise, so short-term returns could be painful for investors extending their duration; those investors with longer time horizons could do fine from clipping a higher coupon and rolling down the yield curve. Similarly, credit spreads (yield over a similar-duration Treasury) are very compressed, and lower-quality corporate bonds are quite expensive for their risk as a result. Instead, we see opportunities in *dividend equities,* particularly in some sectors where valuations are still attractive. *International equities* also typically offer a higher dividend than their U.S. counterparts, and economies outside of the U.S. have more ground to make up versus pre-COVID levels.

Covered-call strategies can also be beneficial, as investors can pick up additional income from the premium they sell on a call option in return for a capped upside to their equity holdings. This strategy can work particularly well in choppy or down markets. Private markets also may offer a compelling opportunity in a low-return environment for publicly traded stocks. Private equity, debt, and real estate offer qualified investors—those who meet minimum income and asset requirements set forth by the Securities and Exchange Commission—access to less efficient markets and potentially higher returns, including during times of economic contraction and outright loss for listed equities. Private markets are obviously not suitable for every investor, and the key consideration is assuming a longer investment horizon to contend with lockup periods and illiquidity. For a high-level overview of and introduction to our 2022 forecast, watch *Tony in action.*

ASSET CLASS OVERVIEW

Municipal Fixed Income

Dan Scholl
Head of Municipal Fixed Income

	AS OF JANUARY 31, 2022		
	Month	3 months	Trailing 12-month return
S&P Municipal Bond Index	-2.39%	-1.53%	-1.22%
S&P Municipal High Yield Index	-2.60%	-1.02%	2.14%
S&P Municipal Bond New York Index	-2.59%	-1.64%	-1.22%
S&P Municipal Bond California Index	-2.65%	-1.83%	-1.80%

Sources: FactSet, Bloomberg. Investing involves risks and you may incur a profit or a loss. Past performance cannot guarantee future results. Indices are not available for direct investment.

What we are seeing now

Calendar year 2021 saw the strongest inflows into tax-exempt municipal assets in the history of the market. It reached well over $100 billion at a time when the supply of tax-exempt bonds remained constant—causing yields to remain compressed and credit spreads (as measured by the yield of AAA-rated bonds vs. BBB) to reach historic lows. This yield differential dropped to as low as 50 basis points, or bps (.50%), and reached a high during the pandemic of 250bps (2.5%), according to the Bloomberg Municipal Total Return Index. The result was the positive performance of both investment-grade and high-yield municipals relative to taxable alternatives, which produced negative returns during 2021. High-yield municipal indices outperformed investment-grade indices with a multiple of 5x vs. 1x.

What's changing

Heading into 2022, municipals are experiencing a period of outflows as investors are concerned about the rapid rise in U.S. Treasury yields, inflation, and the Federal Reserve's indication that balance sheet tightening and a rate hike cycle is likely to being in March. Since the pandemic, there has been a disconnect in the correlation of municipals and Treasuries as record demand has depressed municipal yields. With the rate hike cycle set to begin, municipal yields are catching up with the rise in Treasury yields. Through the end of January, municipal bond funds experienced over $3 billion in outflows and the short end of the municipal yield rose 65bps (.65%), causing the investment-grade and high-yield municipal indices to return an estimated -2.5% (as measured by the ICE-BAML municipal indices).

Often, outflow cycles create market opportunities, and while it is very early in the current cycle, the most recent outflow cycle during the pandemic tipped over $48 billion and caused double-digit negative performance, but created a market environment for positive returns at the end of 2020 and during 2021. The length and depth of this current cycle will rely on investor reaction to Fed policy actions.

State and local governments are in the best financial shape in history by most fiscal measures. State revenues continue to hit record levels (measured by total dollars) and cash balances as a percent of expenditures are also at their highest. One of the reasons for strong fiscal health of municipalities is the more than $1.5 trillion federal aid infused into state and local governments, health care systems, airports, and other issuers to counteract the economic impacts of COVID-19. Many municipalities have not spent their allocations and instead have increased their rainy-day funds in case the country experiences another variant that would put further strain on existing resources. Over 17 states proposed tax reductions in their January State of the State Addresses.

What we expect

The Build Better Back (BBB) Plan continues to languish in the Senate. The plan proposed by the Biden administration and passed by the House contains a 5% to 8% surcharge on top earners making between $10 million and $25 million in adjusted gross income. A surcharge or increase in personal taxes is beneficial for demand as it raises the after-tax yield for municipal investors. The increase in the top personal tax rate from 37% to 39.6% originally proposed by President Biden was rejected by Congress and it looks like it will face an uphill battle to become part of the BBB plan or any future legislation.

Investment Positioning

Portfolio targets effective February 1, 2022, for high-net-worth clients with Hedge Funds

Growth & Income

	Strategic Asset Allocation (long term)	Tactical Asset Allocation (short term)
Equities		
U.S. Large Cap	31.5%	Overweight
U.S. Small Cap	5.5%	Overweight
International Developed	16.0%	Overweight
Emerging Markets	5.5%	Overweight
Fixed Income		
U.S. Investment Grade–Tax-Exempt	28.5%	Underweight
High-Yield–Tax-Exempt	2.0%	Neutral
High-Yield-Taxable	0.0%	Overweight
Real Assets		
U.S. Inflation-Linked Bonds	1.0%	Underweight
Global REITs	1.5%	Neutral
Other	1.5%	Neutral
Nontraditional Hedge	5.0%	Underweight
Cash & Equivalents	2.0%	Neutral
Total	100.0%	

Note: Totals may differ slightly from the allocation building blocks due to rounding.

TAA, or Tactical Asset Allocation, represents our *current recommendation* for each model strategy.

SAA, or Strategic Asset Allocation, represents our *current benchmark* allocation for each model strategy.

This material is for informational purposes only and is not intended as an offer or solicitation for the sale of any financial product or service or a recommendation or determination that any investment strategy is suitable for a specific investor. Opinions, estimates, and projections constitute the judgment of Wilmington Trust and are subject to change without notice. Allocations presume a long-term investment horizon. Wilmington Trust's 2022 Capital Markets Forecast is available on www.wilmingtontrust.com/cmf-2022 or upon request from your Investment Advisor. There is no assurance that any investment strategy will be successful. Investing involves risks and you may incur a profit or a loss.

For an overview of our asset allocation strategies, please see the disclosures.

Source: WTIA.

Investment Positioning

Portfolio targets effective February 1, 2022, for high-net-worth clients with Private Markets*

Growth & Income

	Strategic Asset Allocation (long term)	Tactical Asset Allocation (short term)
Equities		
U.S. Large Cap	24.3%	Overweight
U.S. Small Cap	4.3%	Overweight
International Developed	11.6%	Overweight
Emerging Markets	4.1%	Overweight
Fixed Income		
U.S. Investment Grade–Tax-Exempt	24.7%	Underweight
High-Yield–Tax-Exempt	2.0%	Neutral
High-Yield–Taxable	0.0%	Neutral
Real Assets		
U.S. Inflation-Linked Bonds	0.9%	Underweight
Global REITs	1.3%	Neutral
Other	1.3%	Neutral
Nontraditional Hedge	6.0%	Underweight
Private Markets	17.5%	Neutral
Cash & Equivalents	2.0%	Overweight
Total	100.0%	

Note: Totals may differ slightly from the allocation building blocks due to rounding.

TAA, or Tactical Asset Allocation, represents our *current recommendation* for each model strategy.

SAA, or Strategic Asset Allocation, represents our *current benchmark* allocation for each model strategy.

* Private markets are only available to investors that meet Securities and Exchange Commission standards and are qualified and accredited.

This material is for informational purposes only and is not intended as an offer or solicitation for the sale of any financial product or service or a recommendation or determination that any investment strategy is suitable for a specific investor. Opinions, estimates, and projections constitute the judgment of Wilmington Trust and are subject to change without notice. Allocations presume a long-term investment horizon. Wilmington Trust's 2022 Capital Markets Forecast is available on www.wilmingtontrust.com/cmf-2022 or upon request from your Investment Advisor. There is no assurance that any investment strategy will be successful. Investing involves risks and you may incur a profit or a loss.

For an overview of our asset allocation strategies, please see the disclosures.

Source: WTIA.

Disclosures

Wilmington Trust is a registered service mark used in connection with various fiduciary and non-fiduciary services offered by certain subsidiaries of M&T Bank Corporation including, but not limited to, Manufacturers & Traders Trust Company (M&T Bank), Wilmington Trust Company (WTC) operating in Delaware only, Wilmington Trust, N.A. (WTNA), Wilmington Trust Investment Advisors, Inc. (WTIA), Wilmington Funds Management Corporation (WFMC), and Wilmington Trust Investment Management, LLC (WTIM). Such services include trustee, custodial, agency, investment management, and other services. International corporate and institutional services are offered through M&T Bank Corporation's international subsidiaries. Loans, credit cards, retail and business deposits, and other business and personal banking services and products are offered by M&T Bank, member FDIC.

Wilmington Trust Investment Advisors, Inc., a subsidiary of M&T Bank, is an SEC-registered investment adviser providing investment management services to Wilmington Trust and M&T affiliates and clients. Registration with the SEC does not imply any level of skill or training. Additional Information about WTIA is also available on the SEC's website at https://adviserinfo.sec.gov/.

Financial Advisors are investment advisor representatives of, and offer securities and advisory services through LPL Financial LLC (LPL), a registered investment advisor and broker-dealer (member FINRA/SIPC). Insurance products are offered through LPL or its licensed affiliates. Wilmington Advisors @ M&T is a brand name used by LPL representatives to offer securities, advisory, and insurance services and is not a separate legal entity. Registered representatives of LPL using the Wilmington Advisors @ M&T name are employees of M&T Bank. LPL and its affiliates are entities separate from, and not affiliates of, M&T Bank. Securities and insurance offered through LPL or its affiliates are:

Not Insured by FDIC or Any Other Government Agency	**Not Bank Guaranteed**
Not Bank Deposits or Obligations	**Subject to Investment Risks, Including Possible Loss of Principal Amount Invested**

These materials are based on public information. Facts and views presented in this report have not been reviewed by, and may not reflect information known to, professionals in other business areas of Wilmington Trust or M&T Bank who may provide or seek to provide financial services to entities referred to in this report. As a result, M&T Bank and Wilmington Trust do not disclose certain client relationships with, or compensation received from, such entities in their reports.

The information in Capital Perspectives has been obtained from sources believed to be reliable, but its accuracy and completeness are not guaranteed. The opinions, estimates, and projections constitute the judgment of Wilmington Trust and are subject to change without notice. This commentary is for information purposes only and is not intended as an offer or solicitation for the sale of any financial product or service or as a recommendation or determination that any investment strategy is suitable for a specific investor. Investors should seek financial advice regarding the suitability of any investment strategy based on the investor's objectives, financial situation, and particular needs. The investments or investment strategies discussed herein may not be suitable for every investor. Diversification does not ensure a profit or guarantee against a loss. There is no assurance that any investment strategy will succeed.

Any investment products discussed in this commentary are not insured by the FDIC or any other governmental agency, are not deposits of or other obligations of or guaranteed by M&T Bank, Wilmington Trust, or any other bank or entity, and are subject to risks, including a possible loss of the principal amount invested.

Some investment products may be available only to certain "qualified investors"—that is, investors who meet certain income and/or investable assets thresholds.

Alternative assets, such as strategies that invest in hedge funds, can present greater risk and are not suitable for all investors.

Any positioning information provided does not include all positions that were taken in client accounts and may not be representative of current positioning. It should not be assumed that the positions described are or will be profitable or that positions taken in the future will be profitable or will equal the performance of those described.

Indices are not available for direct investment. Investment in a security or strategy designed to replicate the performance of an index will incur expenses, such as management fees and transaction costs that will reduce returns.

An overview of our asset allocation strategies:

Wilmington Trust offers seven asset allocation models for taxable (high-net-worth) and tax-exempt (institutional) investors across five strategies reflecting a range of investment objectives and risk tolerances: Aggressive, Growth, Growth & Income, Income & Growth, and Conservative. The seven models are High-Net-Worth (HNW), HNW with Liquid Alternatives, HNW with Private Markets, HNW Tax Advantaged, Institutional, Institutional with Hedge LP, and Institutional with Private Markets. As the names imply, the strategies vary with the type and degree of exposure to hedge strategies and private market exposure, as well as with the focus on taxable or tax-exempt income.

Model Strategies may include exposure to the following asset classes: U.S. large-capitalization stocks, U.S. small-cap stocks, developed international stocks, emerging market stocks, U.S. and international real asset securities (including inflation-linked bonds and commodity-related and real estate-related securities), U.S. and international investment-grade bonds (corporate for Institutional or Tax Advantaged, municipal for other HNW), U.S. and international speculative grade (high-yield) corporate bonds and floating-rate notes, emerging markets debt, and cash equivalents. Model Strategies employing nontraditional hedge and private market investments will, naturally, carry those exposures as well. **Each asset class carries a distinct set of risks, which should be reviewed and understood prior to investing.**

Continued

Disclosures Continued

Allocations:
Each strategy is constructed with target weights for each asset class. Wilmington Trust periodically adjusts the target allocations and may shift away from the target allocations within certain ranges. Such tactical adjustments to allocations typically are considered on a monthly basis in response to market conditions. The asset classes and their current proxies are: large–cap U.S. stocks: Russell 1000® Index; small–cap U.S. stocks: Russell 2000® Index; developed international stocks: MSCI EAFE® (Net) Index; emerging market stocks: MSCI Emerging Markets Index; U.S. inflation-linked bonds: Bloomberg/Barclays US Government ILB Index; international inflation-linked bonds: Bloomberg/Barclays World exUS ILB (Hedged) Index; commodity-related securities: Bloomberg Commodity Index; U.S. REITs: S&P US REIT Index; international REITs: Dow Jones Global exUS Select RESI Index; private markets: S&P Listed Private Equity Index; hedge funds: HFRI Fund of Funds Composite Index; U.S. taxable, investment-grade bonds: Bloomberg/Barclays U.S. Aggregate Index; U.S. high-yield corporate bonds: Bloomberg/Barclays U.S. Corporate High Yield Index; U.S. municipal, investment-grade bonds: S&P Municipal Bond Index; U.S. municipal high-yield bonds: Bloomberg/Barclays 60% High Yield Municipal Bond Index / 40% Municipal Bond Index; international taxable, investment-grade bonds: Bloomberg/Barclays Global Aggregate exUS; emerging bond markets: Bloomberg/Barclays EM USD Aggregate; and cash equivalents: 30-day U.S. Treasury bill rate.

All investments carry some degree of risk. Return volatility, as measured by standard deviation, of asset classes is often used as a proxy for illustrating risk. Volatility serves as a collective, quantitative estimate of risks present to varying degrees in the respective asset classes (e.g., liquidity, credit, and default risks). Certain types of risk may be underrepresented by this measure. **Investors should develop a thorough understanding of the risks of any investment prior to committing funds.**

Quality ratings are used to evaluate the likelihood of default by a bond issuer. Independent rating agencies, such as Moody's Investors Service and Standard & Poors, analyze the financial strength of each bond's issuer. Ratings range from Aaa or AAA (highest quality) to C or D (lowest quality). Bonds rated Baa3 or BBB and better are considered **Investment Grade.** Bonds rated Ba1 or BB and below are **Speculative Grade** (also **High Yield**.)

Paragon
Paragon® is a portfolio analysis, risk assessment, and goal optimization tool. The Paragon report uses hypothetical examples in conjunction with forecasts for inflation, economic growth, and asset class returns, volatility, and correlation and provides you with general financial planning information and to serve as one tool in helping you develop a strategy for pursuing your financial goals. It is not intended to provide specific legal, investment, accounting, tax or other professional advice. For specific advice on these aspects of your investments, you should consult your professional advisors.

Gold
The gold industry can be significantly affected by international monetary and political developments as well as supply and demand for gold and operational costs associated with mining.

ESG
A strategy that integrates environmental, social, and governance (ESG) factors into the investment process may avoid or sell investments that do not meet criteria set forth by the investment manager. Such investments may perform better than investments selected utilizing ESG factors.

Definitions:
Alpha is a measure of performance on a risk-adjusted basis. The excess return of the fund relative to the return of the benchmark index is a fund's alpha.

Basis points refers to a common unit of measure for interest rates and other percentages in finance. One basis point is equal to 1/100th of 1%, or 0.01%, or 0.0001, and is used to denote the percentage change in a financial instrument.

The Bloomberg Agriculture Subindex Total Return (BCOMAGTR), formerly known as Dow Jones-UBS Agriculture Subindex Total Return (DJUBAGTR), is a commodity group subindex of the Bloomberg CITR composed of futures contracts on coffee, corn, cotton, soybeans, soybean oil, soybean meal, sugar and wheat and reflects the return on fully collateralized futures positions and is quoted in USD.

The Bloomberg Commodity Total Return index (BCOMTR) is composed of futures contracts and reflects the returns on a fully collateralized investment in the BCOM and combines the returns of BCOM with the returns on cash collateral invested in 13 week (3 Month) U.S. Treasury Bills.

The Bloomberg Dollar Spot Index tracks the performance of a basket of 10 leading global currencies versus the U.S. Dollar. It has a dynamically updated composition and represents a diverse set of currencies that are important from trade and liquidity perspectives.

The Bloomberg Energy Subindex Total Return (BCOMENTR), formerly known as Dow Jones-UBS Energy Subindex Total Return (DJUBENTR), is a commodity group subindex of the Bloomberg CITR composed of futures contracts on crude oil, heating oil, unleaded gasoline and natural gas and reflects the return on fully collateralized futures positions and is quoted in USD

The Bloomberg Industrial Metals Subindex Total Return Index (BCOMTNT), formerly known as Dow Jones-UBS Industrial Metals Subindex Total Return (DJUBINTR), is a commodity group subindex of the Bloomberg CITR composed of longer-dated futures contracts on aluminum, copper, nickel and zinc and reflects the return on fully collateralized futures positions and is quoted in USD.

The Bloomberg Precious Metals Subindex Total Return (BCOMPRTR), formerly known as Dow Jones-UBS Precious Metals Subindex Total Return (DJUBPRTR), is a commodity group subindex of the Bloomberg CITR composed of futures contracts on gold and silver. It reflects the return on fully collateralized futures positions and is quoted in USD.

The Bloomberg US Credit Index measures the investment grade, US dollar-denominated, fixed-rate, taxable corporate and government related bond markets. It is composed of the US Corporate Index and a non-corporate component that includes foreign agencies, sovereigns, supranationals and local authorities.

The Bloomberg US Treasury US TIPS TR USD index measures the performance of rules-based, market value-weighted inflation-protected securities issued by the U.S. Treasury. It is a subset of the Bloomberg US Treasury Inflation-Linked Bond Index (Series-L), which measures the performance of the US Treasury Inflation Protected Securities (TIPS) market. Federal Reserve holdings of US TIPS are not index eligible and are excluded from the face amount outstanding of each bond in the index.

Duration risk is the risk associated with the sensitivity of a bond's price to a one percent change in interest rates. The higher a bond's duration, the greater its sensitivity to interest rates changes.

Continued

Disclosures Continued

Equity risk premium is the extra return that's available to equity investors above the return they could get by investing in a riskless investment like T-Bills or T-Bonds or cash.

Event-driven hedge fund strategies attempt to take advantage of temporary stock mispricing before or after a corporate event takes place. An event-driven strategy exploits the tendency of a company's stock price to suffer during a period of change.

Global intangible low-taxed income (GILTI) is a category of income that is earned abroad by U.S.-controlled foreign corporations (CFCs) and is subject to special treatment under the U.S. tax code.

HFR® (HedgeFundResearch) Indices are the established global leader in the indexation, analysis and research of the hedge fund industry. They are broadly constructed indices designed to capture the breadth of hedge fund performance trends across all strategies and regions.

The ISM manufacturing index, also known as the purchasing managers' index (PMI), is a monthly indicator of U.S. economic activity based on a survey of purchasing managers at more than 300 manufacturing firms and is considered to be a key indicator of the state of the U.S. economy.

LIBOR is the average interbank interest rate at which a selection of banks on the London money market are prepared to lend to one another.

Macro hedge fund strategies generally focus on financial instruments that are broad in scope and move based on systemic or market risk (not security specific). In general, portfolio managers who trade within the context of macro strategies focus on currency strategies, interest rates strategies, and stock index strategies.

MSCI AC Asia ex Japan Index captures large- and mid-cap representation across two of three developed markets countries (excluding Japan) and nine emerging markets countries in Asia. The index covers approximately 85% of the free float-adjusted market capitalization in each country.

MSCI All Country World Index (ACWI) is a stock index designed to track broad global equity-market performance. Maintained by Morgan Stanley Capital International (MSCI), the index comprises the stocks of about 3,000 companies from 23 developed countries and 26 emerging markets.

MSCI China Index captures large- and mid-cap representation across China A shares, H shares, B shares, Red chips, P chips and foreign listings (e.g. ADRs). The index covers about 85% of this China equity universe. Currently, the index includes large-cap A and mid-cap A shares represented at 20% of their free float adjusted market capitalization.

MSCI EAFE Growth Index captures large- and mid-cap securities exhibiting overall growth style characteristics across developed markets countries around the world, excluding the U.S. and Canada.

MSCI EAFE Index is an equity index which captures large and mid-cap representation across 21 Developed Markets countries around the world, excluding the US and Canada. With 902 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

MSCI EAFE Value Index captures large- and mid-cap securities exhibiting overall value style characteristics across developed markets countries around the world, excluding the U.S. and Canada.

MSCI Emerging Markets Index captures large- and mid-cap representation across 26 emerging markets countries. The index covers approximately 85% of the free float-adjusted market capitalization in each country.

MSCI Europe Index captures large- and mid-cap representation across 15 developed markets (DM) countries in Europe. The index covers approximately 85% of the free float-adjusted market capitalization across the European DM equity universe.

MSCI Japan Index is designed to measure the performance of the large- and mid-cap segments of the Japanese market. The index covers approximately 85% of the free float-adjusted market capitalization in Japan.

MSCI United Kingdom Index is designed to measure the performance of the large- and mid-cap segments of the UK market. The index covers approximately 85% of the free float-adjusted market capitalization in the UK.

Relative value hedge fund strategies cover a variety of low-volatility trading strategies with the consistent theme of attempting to reduce market risk, i.e., the manager seeks to generate a profit regardless of which direction the markets are moving. All relative value strategies minimize market risk by taking offsetting long and short positions in related stocks, bonds, and other types of securities.

S&P 500 index measures the stock performance of 500 large companies listed on stock exchanges in the U.S. and is one of the most commonly followed equity indices.

The S&P Developed Property index defines and measures the investable universe of publicly traded property companies domiciled in developed markets. The companies in the index are engaged in real estate related activities, such as property ownership, management, development, rental and investment.

Stagflation is persistent high inflation combined with high unemployment and stagnant demand in a country's economy.

Limitations on use:
This publication is intended to provide general information only and is not intended to provide specific investment, legal, tax, or accounting advice for any individual. Although information contained herein was prepared from sources believed to be reliable, Before acting on any information included in this publication you should consult with your professional advisor or attorney.

Third-party trademarks and brands are the property of their respective owners.

CFA® Institute marks are trademarks owned by the Chartered Financial Analyst® Institute.

Reference to the company names mentioned in this presentation is merely for explaining the market view and should not be construed as investment advice or investment recommendations of those companies.