MARKET OUTLOOK
SUMMER 2022

SECURITY NATIONAL BANK
PRIVATE CLIENT SERVICES

Current Forecast

	2021	2022 Est	2023 Est	2024 Est
GDP Growth (1)	5.5%	0.7%	1.4%	1.8%
Change in Consumer Prices (2)	7.1%	6.7%	3.4%	2.8%
Fed Funds Target Rate (3)	0.25%	2.75%	2.75%	2.75%
5-Year Treasury Yield (3)	1.26%	2.50%	3.00%	3.00%
10-Year Treasury Yield (3)	1.51%	3.00%	3.50%	3.50%
S&P 500 EPS	$206	$225	$234	$244

Last Month's Rates and Returns

May 31, 2022	Value	One Month Change	Year to Date	1 Year Change
Fed Funds Target (Upper)	1.00%	0.50%	+75bp	+75bp
2-Year Treasury Yield	2.54%	-15 bp	+181 bp	+240 bp
5-Year Treasury Yield	2.81%	-10 bp	+155 bp	+202 bp
10-Year Treasury Yield	2.84%	-5 bp	+133 bp	+126 bp
S&P 30Yr Fixed – U.S. Avg.	5.11%	+20 bp	+195 bp	+201 bp
S&P 500 Index*	4,132	0.18%	-12.76%	-0.30%
S&P Midcap 400*	2,515	0.75%	-10.98%	-6.52%
S&P SmallCap 600*	1,236	1.86%	-11.37%	-8.73%
S&P SuperComposite 1500*	943	0.26%	-12.62%	-0.91%
S&P 500 Growth*	2,656	-1.36%	-21.09%	-3.69%
S&P 500 Value*	1,482	1.64%	-3.46%	2.46%
World ex-US, net **	267	0.72%	-10.74%	-12.41%
Liquid Alternatives ***	179	-0.18%	-2.99%	-2.85%
BB U.S. Aggregate *	97	0.64%	-8.92%	-8.22%
Crude Oil – WTI Near Term	$115	9.53%	52.47%	72.90%
Bitcoin ****	31,667	-18.70%	-33.95%	-13.95%
Gold – Near Term	$1,843	-3.49%	0.83%	-3.14%

** = Total return **= MSCI ACWI ex US **** = Wilshire Liquid Alternative Index **** = FT Wilshire Bitcoin Blended Price*

Security National Bank's Wealth Management Department authors a monthly economic forecast that provides our Investment Committee and the Bank's Funds Management Committee with background assumptions for use in investment decisions. We are pleased to share our economic outlook with you. Please be advised that our crystal ball is just as clouded as other prognosticators and that all forecasters have poor track records.

Prepared by Damian Howard and John Gibb June 9, 2022

Throughout this report, we will use the abbreviations: FRB for the Federal Reserve Bank and FOMC for the Federal Open Market Committee. The FOMC is part of the FRB that meets eight times per year to set monetary policy.

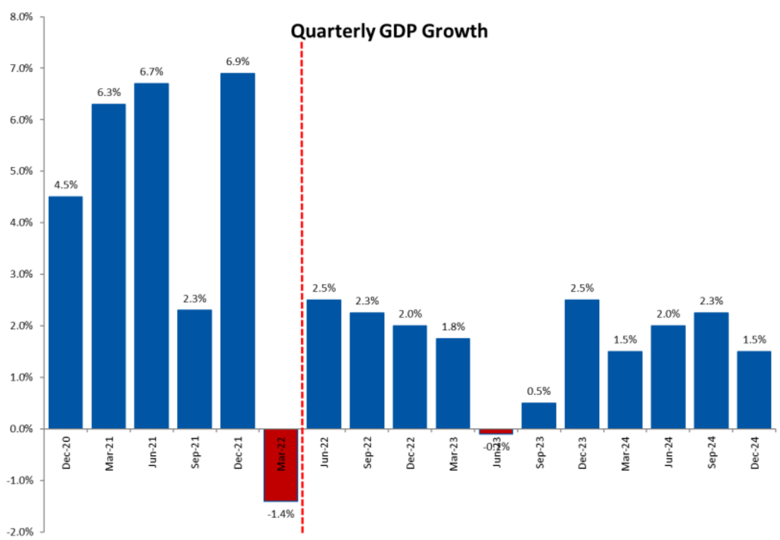
We will use the terms nominal and real. Nominal values are measured in terms of money. Things that are counted in the real world. Retail sales, personal income, and expenditures are usually reported in nominal dollars. Corporate earnings and sales are reported in nominal dollars. Real values are adjusted for inflation, nominal values less inflation. Real values enable comparisons that are not distorted by inflation. GDP numbers are usually reported as real growth

We would like to point out that our team's projections are based on what we think monetary and fiscal policymakers *will* do, not what they *should* do.

"If you can walk away from a landing, it's a good landing." – Chuck Yeager

We expect the economy to avoid a recession, but just barely. The economy should avoid two consecutive quarters of negative growth. More importantly, the labor market should remain strong. It is tough to classify it as a soft landing, more like a bumpy landing.

Fiscal policy no longer provides excessive stimulus to the economy. A shrinking deficit slows economic growth. The budget deficit is expected to fall from 12.4% (2021) of GDP to 5.0% in 2022. Projections call for the deficit to only be 4.3% of the GDP in 2023. Over the last two years, fiscal policy will remove 8.1% of economic stimulus from the economy.



Monetary policy remains accommodative, just less accommodative than it previously was. We expect monetary policy to become slightly restrictive early next year before returning to neutral during the summer of 2023.

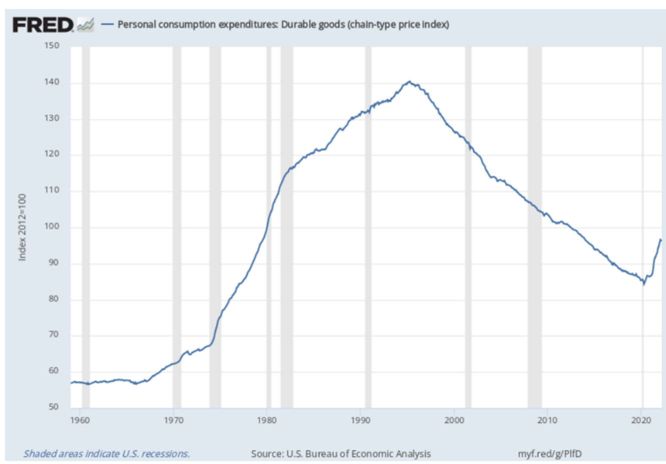
We expect growth to slow to below 1% for several quarters, but we will avoid a recession. However, we also believe one-third of U.S. households are already experiencing recession-like conditions. Their earnings will not outpace inflation, nor do they have the savings from which to draw. Businesses that cater to households with income less than $50,000 will likely experience a decline in real sales. Sales are likely to rise less than inflation, and earnings are likely to disappoint. Middle-income and upper-income households are in good shape. Most households built a large nest egg during the pandemic, and they are now drawing on it during this bout of inflation. Consumer debt remains low, and income inequality will worsen until inflation is under control.

We expect inflation will average 4.8% during 4Q2022, down from 11.2% during 1Q2022. As the economy slows further, inflation should return to its long-term (neutral) rate. We now believe neutral inflation will run higher this next decade than in previous decades due to changing trade patterns outlined below. We currently estimate the long-term Consumer Price Index (CPI) rate will be 2.8% versus 2.1% for the 25 years before the pandemic.

The Personal Consumption Expenditures (PCE) deflator rose by only 1.8% per year from 1995 through 2020. Inflation was considered tame at that level, and the CPI rose at a 2.1% rate during this period. This period has been called the Great Moderation.

Personal Consumption Expenditures		
Sector	Annual Inflation	Weighting
Durables	-2.0%	10%-15%
Non-Durables	1.6%	25%-30%
Services	2.6%	55%-60%
All	1.8%	
Source: FRB of St. Louis		

The price of durable goods fell by 38% during that period. As seen in the chart on the right. Durable goods deflation was steady and long-lived. The availability of ever-cheaper goods from abroad (China and other Asian countries) largely contributed to the benign U.S. inflation environment.



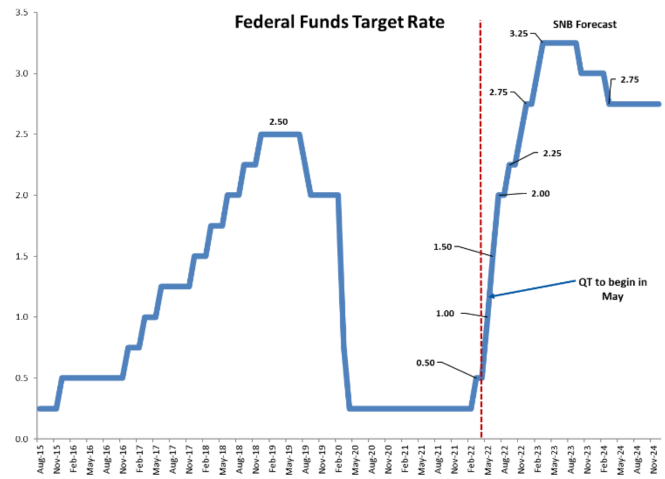
The pandemic and the Trump and Biden Administrations' trade disputes have changed the environment. We have written many times about the decoupling of the U.S. economy from China, and this process is gaining momentum. The pandemic and resultant supply chain chaos plaguing manufacturers have added renewed vigor to the multisourcing and nearshoring movement. With cheap foreign labor less available, inflation will run hotter. Instead of the 1.8% PCE inflation U.S. consumers have enjoyed since 1995, PCE inflation will likely run up to 0.7% higher, 2.5%. Since the CPI is usually 0.30% higher than the PCE, we have adjusted our terminal CPI rate to 2.8%. In response to a higher base inflation environment, we also raised our terminal (neutral) Fed Funds interest rate to 2.75%.

Inflation or Recession – Pick Your Poison

The U.S. economy can follow two paths. The first path has the FRB raising short-term interest rates rapidly, raising the FFR above 4% to bring inflation down to its 2% target quickly. Such a dramatic move would undoubtedly lead to a recession. This scenario was the basis for the April market selloff and assumed a 0.75% FFR raise in June, July, and possibly September. Chairman Powell signaled the FRB would not travel this path when he said that a 0.75% hike is “not something the Committee is actively considering.” The chance of the economy following this path is significant but less than 50%. We continue to believe the alternative approach is the most likely.

The second, more likely path has the FRB not achieving its 2% inflation goal but getting close enough over an extended period. The FFR does not exceed 3.5%, and if it occurs, a recession will be mild.

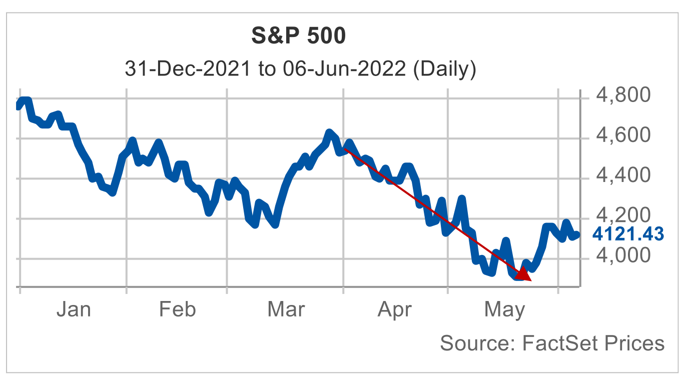
The economy is slowing, and demand for goods has slowed and fell by a real 0.1% during the first quarter. The queue of ships waiting to unload in Los Angeles is slowly coming down. While stubbornly high, inflation has likely peaked. Disinflation (positive but slowing inflation rates) will become a common phrase for the rest of the year. The FRB will likely raise the FFR by 0.50% in June and July but will probably revert to a 0.25% pace for the remaining meetings this year. We do not believe the FOMC will pause until the FFR exceeds 3%.



The FOMC will likely raise rates a couple of times in 2023. By that time, the pace of inflation will have fallen to 4.2% and will be on a steady downward trend. We have modeled two rate cuts starting mid-summer 2023 as inflation approaches its neutral rate of 2.8%, allowing the FRB to lower rates to its neutral level.

Break-Even Inflation Rates support our outlook as the 5-Year Break-Even Inflation Rate measures market inflation expectations over the next five years. Currently, market participants expect inflation to average 2.96% over the next five years. The 5-Year, 5-Year Forward Inflation Rate implies that inflation will average 2.32% from 2027 thru 2032. Our inflation chart lines up with market expectations for the next five years; however, we think long-term inflation will be closer to 2.75%.

We also believe economic growth will be slower in the next decade than in the previous decade. The workforce will likely grow in the ’20s (0.2%) at half the rate it grew in the teens (0.4%). The U.S. needs comprehensive immigration reform to expand the workforce faster. As this is unlikely, labor shortages are likely to continue to plague corporate America. In response, companies will heavily invest in equipment, software, and I.P. to boost productivity. Increased productivity may allow economic growth to average 1.8% longer-term. It also implies that the labor markets will remain healthier. Wages are likely to take a larger share of corporate revenue, leading to lower profit margins.



From the end of March until mid-May, the stock market declined 15.4% as investors feared an FRB-induced recession. For a moment, the stock market entered bear territory, down 20% from peak to trough. Markets have since recovered about 5% as the path of interest rate normalization becomes a bit clearer. We expect the markets to remain choppy until investors are convinced that inflation has peaked and the track is known.

If you have any questions or comments, please feel free to reach out to our Security National Bank Private Client Services team. We are happy to review your portfolios and help you plan your financial future.

Damian Howard, CFA
Vice President, Director of Wealth Management

Brent Boyce, CFA
Assistant Vice President, Wealth Advisor

Johnathon Gibb, CFA
Assistant Vice President, Wealth Advisor

Please see the obligatory disclosures at the bottom of each page and at the end of this report.

Since 1977, the Federal Reserve has operated under a mandate from Congress to "promote the goals of maximum employment, stable prices, and moderate long-term interest rates effectively" – what is now commonly referred to as the Fed's "dual mandate." For this reason, we always start our economic review with employment followed by inflation, and we then review other factors that drive our economic outlook.

Employment

The U.S. Bureau of Labor Statistics (BLS) reported that job openings declined by 455 positions to 11.4 million in April. With a slight improvement, 7.0% of positions remain unfilled versus 7.3% the previous month. This number was 4.5% before the pandemic. The labor shortage worsened in manufacturing but improved substantially in health care and leisure and hospitality. Overall, labor shortages improved slightly.

The quit rate in the private sector fell from 3.3% to 3.2%. This number averaged 2.6% before the pandemic. Employees generally do not quit their job unless they are confident in finding a better position. A high quit rate leads to wage pressures, as employers raise wages to retain and attract needed staff. On the flip side, the private sector layoffs and discharges fell to 0.9% from 1.0%. This rate was 1.5% before the pandemic. The lower rate implies that employers continue to horde employees, putting additional pressure on wages.

The BLS reported that the economy added 390,000 jobs in May versus the consensus estimate of 325,000 jobs added. The previous two months' payrolls were revised down by 22,000. The unemployment rate held steady at 3.6% as the labor force expanded by 330,000. Hourly earnings rose 0.31% versus the consensus estimate of a 0.40% increase.

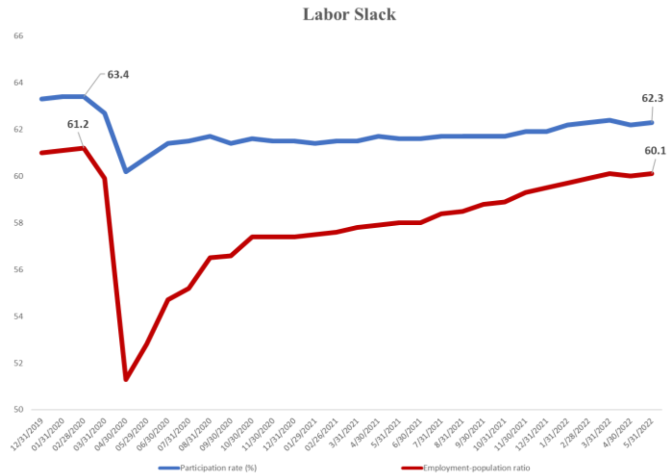
The number of unemployed persons rose by 9,000 to 6.0 million, with almost two job openings for every unemployed person. Before the pandemic, the unemployment rate was 3.5%, and unemployed persons numbered 5.7 million. The broader U-6 unemployment rate, which includes those workers who are part-time purely for economic reasons, rose to 7.1% from 7.0% the previous month.

The private sector added 333,000 jobs versus the consensus estimate of 302,000 private-sector jobs added. Job growth was widespread, with notable gains in leisure and hospitality (up 84,000), business services (up 75,000), and transportation and warehousing (up 47,000). Employment in leisure and hospitality is down by 1.3 million, or 7.9%, compared to before the pandemic.

The BLS reports statistics from two monthly surveys; a household survey measures labor force status, including unemployment, by demographic characteristics, and an establishment survey measures non-farm employment, hours, and earnings by industry. There can be some differences in the numbers. The household survey puts the employment gain at 321,000 jobs, while the establishment puts the employment gain at 390,000. Monthly numbers can be volatile and are often revised. The household survey put the cumulative job losses since February 2020 at only 440,000, 0.3% of then-existing jobs, while the establishment survey puts the cumulative losses at 822,000.

Last month's average hourly earnings (wages) grew by $0.10 per hour to $31.95, up 0.31%, but below consensus estimates of 0.40%. Average hourly earnings are up $1.59 per hour, or 5.2% y/y, according to consensus. Over the last four months, average hourly earnings have grown at a 0.31% monthly pace or 3.8% annualized. If wage growth remains at this level, the economy will slow. Compensation significantly lags inflation. Consumers will curtail purchases as more and more of their compensation is devoted to rent, food, and gas.

The participation rate rose by 0.1% to 62.3%. The participation rate was 62.7% in February 2020. The employment-to-population ratio rose by 0.1% to 60.1%. This number was 61.2% in February 2020. If the employment-to-population ratio were to return to the February 2020 level, the number of employed persons would increase to 161.4 million, an additional 2.9 million jobs would be added for an increase of 1.9%.



The average workweek held steady at 34.6 hours. Average weekly earnings increased by $3.46 or 0.31% from the previous month. Average weekly earnings are up 4.3% y/y. Average weekly earnings were $1,106 ($57,484 annualized) versus $1,060 ($55,097 annualized) last year.

After facing worker shortages, Amazon aggressively hired in 2021. Its U.S. employee count rose from 935,000 to 1.1 million, an increase of 18%. These numbers do not indirectly include people who work for Amazon, such as the drivers who deliver packages as employees of independent contractors in Amazon's Delivery Service Partners (DSP) program. The company now admits it was overstaffed, and many of the new hires were redundant to ensure adequate staffing during the pandemic. The company will now begin to right-size (layoff) its operations. Just as Amazon's hiring forced up wages for lower-skilled workers, its right-sizing effort will help dampen labor costs and increase labor availability. Amazon is likely not the last pandemic beneficiary to adjust payrolls as consumption patterns shift back to services. Walmart and Target offered a similar excuse for disappointing quarterly results. Large employers are now less inclined to hoard workers.

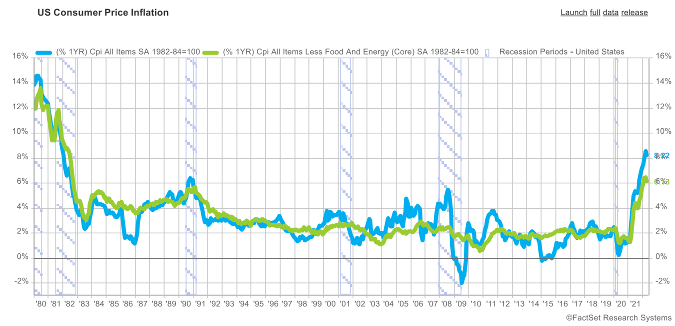
Before the pandemic, monthly job gains averaged 198,000. May's gains were twice the pre-pandemic level. The labor supply is increasing as evident in the participation rate increase. The participation rate for people aged 16 to 64 rose to 74.4% last month, matching its pre-pandemic peak. Labor demand may be moderating as evident by the drop in job openings and the anecdotal evidence offered during quarterly conference calls. Controlled wage growth with increased participation hint at a more balanced labor market. For the FRB to engineer a bumpy landing, wage growth needs to stay in the 3.5% y/y territory. Falling real wages will eventually slow real demand.

Nothing in this month's Jobs Report would prevent the FOMC from raising interest rates by 0.50% at its subsequent meetings on June 15 and July 27.

Inflation

The U.S. Bureau of Labor Statistics will issue the May Consumer Price Report on June 10. The most recent report was published May 11 and covered the April period. The first step to an improved inflation outlook is for things not to get worse. The most recent reports hint at things not getting worse. It will take until August or September to be sure inflation peaked in March, as suspected.

The Consumer Price Index (CPI) increased 0.3% in April, above the consensus expectation of 0.2% but below our 0.69% forecast. The April CPI was down considerably from the 1.2% reported in March.



Consumer prices are up 8.2% y/y, down from the 8.6% y/y inflation reported the previous month. Over the last six months, inflation has run at an 8.92% rate, down from the 10.1% annualized rate reported the previous month.

Energy prices fell 2.7% in April after rising 11.0% the previous month. Energy prices are up 30.2% y/y. Food prices increased 0.9% m/m and are up 9.4% y/y., The core CPI rose 0.6% m/m, up from 0.3% the previous month. Core prices are up 6.1% y/y, down from the 6.4% printed the previous month.

Used car prices fell 0.4% in the April CPI report and are down 4.4% over the last three months. Progress on used car prices may have stalled. The Manheim Used Vehicle Index which measures wholesale prices, rose 0.7% in the first half of May, reversing three straight months of decline. Purchases of used vehicles increased 2.2% in April.

Rent of shelter increased by 0.5% during April, marking three straight months of growth above 0.5%. Rent of shelter is up 5.2% y/y. Last year, the y/y increase in shelter costs was only 2.1% y/y. The rise in shelter inflation has added 1.1% to overall inflation.

According to RealPage, apartment rents are up 16% y/y for move-in leases. Occupancy is at an all-time high of 97.7%, indicating continued robust demand. Zillow puts rent growth at 16% y/y.

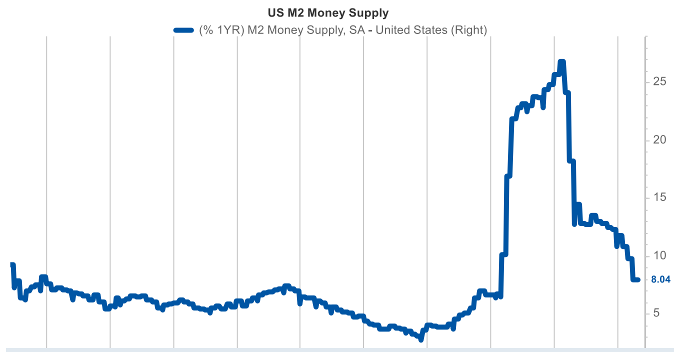
Most new multifamily construction is targeted at the top end of the market with very little dedicated to lower-income affordable housing. There remains a severe shortage of housing targeted at lower-income households, and the lack of new supply will continue to put upward rent pressure on those households least able to afford it.

In addition to soaring rent, home prices are up close to 21.2% y/y. Shelter rent is 32% of the overall CPI basket. Until rent growth cools, inflation will remain elevated.

MARKET OUTLOOK

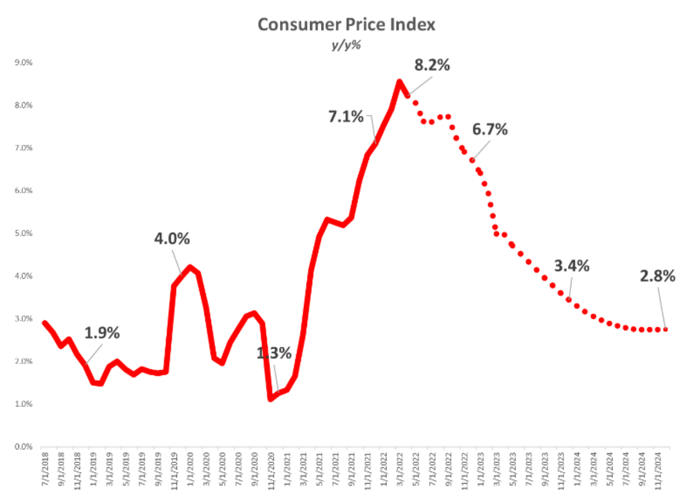
SUMMER 2022

The rapid growth of the monetary supply in 2020 and early 2021, when growth peaked at over 25%, is the cause of much of today's inflation. The money supply growth has fallen sharply and is now 8% y/y growth. Money supply growth needs to return to a stable 4% to 6% range. A more rational money supply growth will not return prices to previous levels but will slow inflation next year. The FRB's balance sheet shrinkage will further slow money supply growth. Slower money supply growth will eventually allow for stable long-term real economic growth.



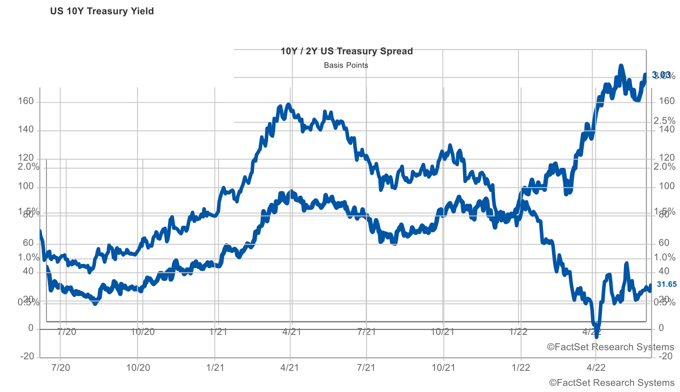
Lower inflation expectations confirm slower money supply growth. Inflation expectations as measured by the 5-Year Breakeven Inflation Rate have improved from 3.21% last month to 2.96% currently. On average, the Breakeven Inflation Rate implies what market participants expect inflation to be in the next five years. The 5-Year, 5-Year-Forward Inflation Expectations have also improved, falling from 2.45% last month to 2.32%. This rate implies the market participants believe inflation will average 2.32% from 2027 thru 2032.

The chart on the right shows the most recent inflation forecast. We forecast inflation will average 4.8% during the fourth quarter, down from 11.3% during the first quarter. By the end of 2023, inflation will return to its long-term run rate of 2.8%. We have modeled a trend line for inflation. Inflation is unlikely to follow a neat trend line as it will surge and ebb with the price of energy. We are likely facing a decade of volatile inflation waves.



The FRB prefers the Personal Consumption Expenditure (PCE) as its measure of inflation. The PCE report on May 27 confirmed the trends reported by the CPI report, and inflation may have peaked. Due primarily to differences in how health care costs are allocated between employers and consumers, the PCE tends to run 0.30% below the CPI.

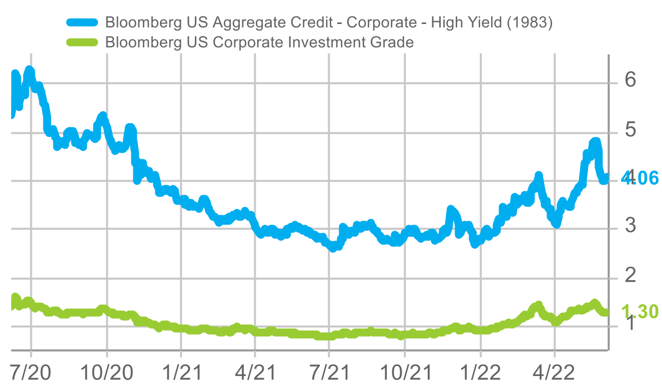
Credit Markets



The FRB raised its policy rate 0.50% in early May, as expected. Meeting minutes indicated a desire for similar rate hikes over the next two meetings as well as deflating the central bank's balance sheet by allowing Treasury and mortgage holdings to roll off as early as June. Bond yields were quite volatile as the 10-year Treasury traded in a 40-bps range before settling nine bps lower. Treasury prices increased during the month as investors viewed the asset class as a haven with the increasing prospect of a recession. Following a historically difficult first four months to start the year, elevated bond yields attracted investors and reduced fund outflows, especially in the second half of May.

Bond markets produced positive returns in May. The Aggregate Bond Index gained 0.64% with prices rising 0.45%, and an additional 0.19% of return from current income.

Spreads widened during the first three weeks of May before a subsequent rally occurred in the final six trading days of the month, leaving spreads five bps lower at the end of the month. The Bloomberg Barclays (B.B.) U.S. Corporate Investment Grade index gained 0.93%, comprised of 0.28% from income and a price gain of 0.65%. Investment Grade spreads ended May at 1.30%. The index has an interest rate sensitivity of 7.80 years (effective duration).

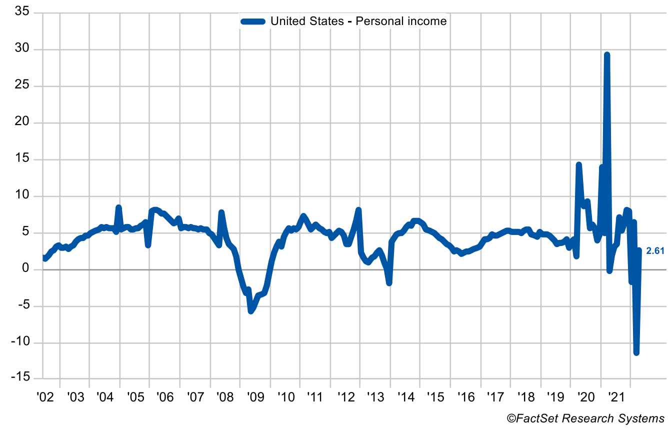


The B.B. High Yield index, comprised of corporate bonds with below investment grade ratings, also experienced positive returns during the month, primarily provided by the bond' higher coupons. The index provided 0.67% of income during the month, offsetting a price decline of -0.42% Credit spreads widened by 0.27% to 4.06%. The index has a 4.2-year effective duration.

We expect continued volatility within fixed income, and rates have risen to the point of attracting investors again. We are watching spreads indicate fixed income value, and fixed income spreads swing between extremes rather than hovering around long-term averages. For example, at 4.06%, high yield spreads are still marginally below their long-term average of roughly 5.5%. However, during periods of market stress and low liquidity, high yield spreads often widen to near 8.0% and sometimes as much as 10% or higher during or preceding recessions.

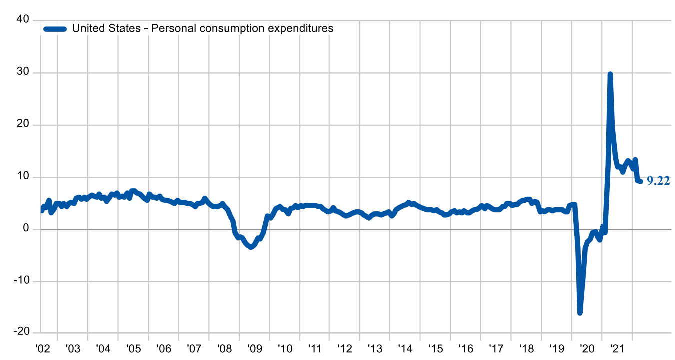
The Consumer Sector

Income and spending continue to rise. Consumers continue drawing down the massive nest egg established during the pandemic. Income and spending patterns do not show signs that a recession is imminent. The labor market is hot and a boost to consumer sentiment. On the other hand, consumers are very annoyed and concerned by high inflation. They may have sensed a peak in inflation as inflation expectations have moderated for two consecutive months.



Personal income rose 0.4% m/m in April and was up 3.0% y/y. Disposable personal income rose 0.3% m/m and was up 0.2% y/y. Government transfer payments were flat m/m and were down 17.8% y/y. Personal income excluding government transfer payments rose 0.5% m/m and 9.0% y/y. Private sector wages and salaries are up 0.6% m/m and 13.7% y/y. Business owners' income was down 0.5% m/m and is up 3.8% y/y. Investment income is up 0.8% m/m and 4.1% y/y. The Personal Consumption Expenditures Price Index (PCE Inflation) rose 0.2% in April. Real income rose 0.2% during the month. Real disposable personal income per capita was flat m/m and is down 6.2% y/y.

Personal Consumption Expenditures		
	Nominal	Real
Durable Goods	2.4%	2.3%
- Motor Vehicles and Parts	4.2%	3.9%
Non-Durables	-0.1%	0.2%
- Gas and Energy	-5.2%	-0.1%
Services	0.9%	0.5%
- Airfares	10.2%	1.7%
- Restaurants	1.8%	1.3%
- Hotels	3.2%	1.7%
Total	**0.9%**	**0.7%**
Data for April 2022 m/m		



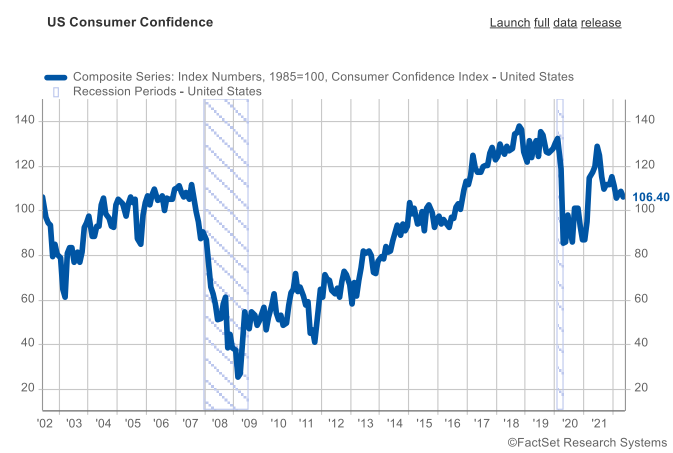
Personal consumption expenditures (PCE) were up 0.9% for the month down from 1.4% the previous month. On a real basis, after subtracting the impact of inflation, consumer expenditures were up 0.7% m/m up from 0.5% the previous month.

Purchases of durable goods rose by 2.4% m/m, led by a 4.2% increase in motor vehicles and parts. Purchases of non-durable goods fell by 0.1% m/m, led by a 5.2% decrease in gas and energy purchases. Purchases of services rose 0.9% m/m, led by travel and leisure. Airfares increased by 10.2% m/m, reflecting the significant increase in jet fuel. Purchases in restaurants and hotels increased as more people traveled and ate out.

Consumers saved 4.4% of disposable income during the month, significantly less than the 7.4% savings rate that prevailed before the pandemic. Consumers have dipped into their savings to the tune of $46 billion in April and $116 billion YTD. All the growth in personal consumption expenditures has been funded by drawing down savings. We estimate that consumers continue to have $2.4 trillion in excess savings, or enough to support 14.0% of annual purchases of goods and services. About a third of this is likely to be spent over the next year or so as consumers look to maintain their level of spending. This is enough to fund a robust 4.7% growth in personal consumption. We look for the savings rate to fall a bit further as consumers continue drawing on savings to support continued consumption. We would not be surprised to see a negative savings rate in the next couple of months.

The Consumer Confidence Index, compiled by the Conference Board, fell 2.2 points to 106.4 from a restated 108.6. Consumers' perception of their present situation and expectations worsened. The current situation component fell 3.3 points to 149.6. The forward-looking expectation component fell by 1.5 points to 77.5.

Consumers' perception of the labor market remains near record territory. The current conditions net employment sub-index (plentiful - hard to get) fell to 39.3 from 47.1 the previous month. In six months, consumers' perception of employment conditions strengthened slightly as the net sub-index (more jobs – fewer jobs) rose to -0.2 from -1.4 the previous month. For most consumers, the labor market is great and about as good as possible.



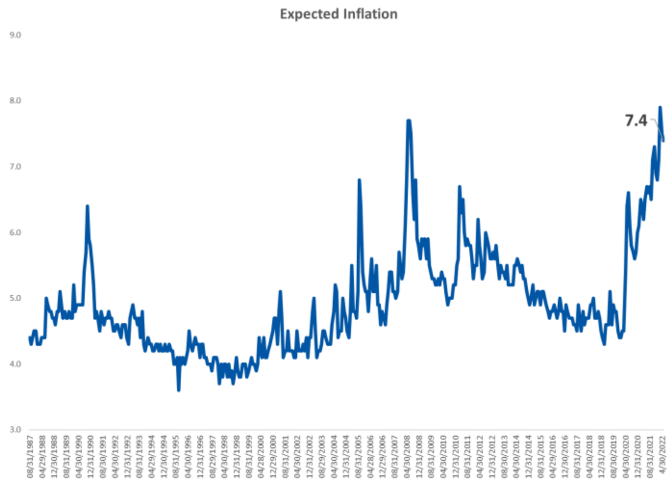
Respondents' perception of current business conditions rose as the net sub-index (good-bad) rose to 0.4 from –1.4 the previous month. In six months, consumers' outlook on business conditions worsened as the net sub-index (better - worse) fell to -7.2 from -3.1 the previous month.

Consumers' perception of their household income in six months remained strong as the net sub-index (an increase in income – a decrease in income) fell to 4.5 from 4.6 the previous month. Consumers have a better outlook on their financial condition than the economy, and we attribute it to solid wage growth and a robust labor market.

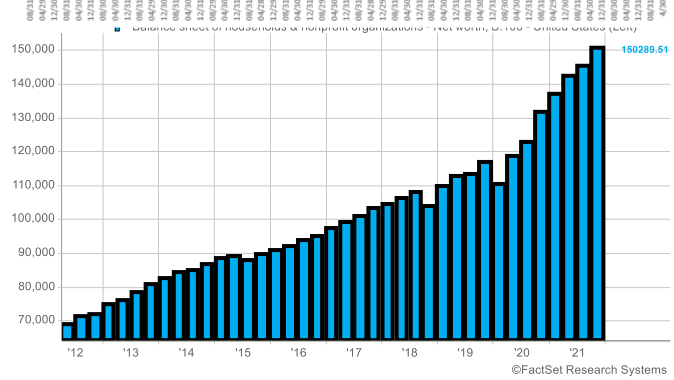
The Conference Board started asking consumers about inflation expectations in 1987. Consumers' expectations for inflation for twelve months may have peaked. Consumers forecast inflation will be 7.4%

in twelve months, and this month's reading is slightly less than last month's number. Consumers' inflation expectations may have peaked in March.

In twelve months, consumers' expectations of interest rates remained elevated as the net sub-index (higher interest rates – lower interest rates) rose to 60.4 from 57.8 the previous. Consumers are aware of rising interest rates, and the FRB's rate plan has been well telegraphed and understood by consumers. The likelihood of a rate shock is relatively low.



Inflation is taking its toll on consumers. According to multiple surveys, inflation is the leading concern for consumers. The labor market, offsetting high inflation, is strong and consumer balance sheets are in great shape. Please see the household net worth chart on the right. Household net worth ended 2021 at $150 trillion, up 14.4% y/y. Over the last decade, household net worth has climbed 124.4% or 8.42% per annum.



Please see the chart above for the household debt service and financial obligations ratio (DSR). DSR is the ratio of total required household debt payments, rent, auto lease payments, homeowners insurance, and property tax payments to total disposable personal income. Consumer finances have not been this strong in 40 years, and excess consumer leverage will not be the cause of the next recession.

The Business Sector

The Institute for Supply Management (ISM) produces a monthly report on activity in the manufacturing and the non-manufacturing (service) sectors. The reports are sentiment-driven and can be influenced by current events. Nonetheless, they do provide real-time clues to what is happening.

For both manufacturing and non-manufacturing companies, the supply chain improvement in the first quarter stalled in April, caused by renewed lockdowns in China and trouble recruiting and retaining qualified workers.

May's non-manufacturing index fell 1.2 points to 55.9, matching the consensus expected 55.8. Activity in the services sector has grown for twenty-four months in a row. Growth narrowed a bit as only 14 service industries reported growth versus 17 last month. Three industries reported a decrease in activity versus one last month. The service sector is expanding but at a slightly slower pace.

Non-Manufacturing Sector	Direction	Rate of Change
Business Activity / Production	Growing	Slower
New Orders	Growing	Faster
Backlog of Orders	Growing	Slower
Employment	Growing	From Contracting
Supplier Deliveries	Slowing	Slower
Customer Inventories		
Non-Manufacturing Sector	**Growing**	**Slower**
Industries Expanding	14	
Industries Contracting	3	

The business activities/production component fell 4.6 points to 54.5. Thirteen industries reported an increase in business activity for the month, while three industries reported a decrease in activity.

The new orders component rebounded, increasing 3.0 points to 57.6. Fifteen industries reported an increase in orders, and two industries reported a decrease in orders. Corporate order books are expanding at a slower pace. The backlog of orders component fell by 7.4 points to 52.0. Eight industries reported an increase in backlogs, and six reported a decrease in order backlogs in May. Comments from the respondents indicate that capacity constraints and supply chain issues are limited the ability to expand order backlogs.

The employment index rose by 0.7 points to 50.2, indicating that employment expanded last month. Nine industries reported an increase in employment, while six industries reported a reduction in employment. Comments from the respondents show the improvement in employment appears to be from filling vacant positions, not from new positions, and labor availability is improving.

The supplier deliveries component is an inverse indicator. A higher number indicates increasing lead times and difficulty obtaining supplies. A reading above 50% indicates slower deliveries, while a reading below 50% indicates faster deliveries. The supplier deliveries component fell by 3.8 points to 61.3. Fifteen industries reported slower deliveries, and one industry reported faster deliveries. The supply chain remains a problem, but more minor.

Prices paid for materials and services worsened at a slower pace. The price component fell by 2.5 points to 82.1. While down, the previous reading was the highest ever recorded. All eighteen industries reported higher costs. Inflation remains a stubborn issue, and respondents reported a litany of commodities up in price and short supply. As a frame of reference, a reading above 50 indicates expansion; a reading below 50 indicates contraction. Readings approximating 50 denote the same level of activity.

The manufacturing index rose 0.7 points to 56.1, handily beating the consensus estimate of 54.5. The above-50 figure indicates the manufacturing sector has expanded for twenty-four straight months. New orders and production rose modestly from the two forward-looking measures, indicating building strength. Supply deliveries improved slightly, and inflation decelerated. Supply chain issues and input costs remain the biggest concern for manufacturers. The manufacturing index corresponds to a 2.6% GDP growth rate.

Manufacturing Sector	Direction	Rate of Change
Production	Growing	Faster
New Orders	Growing	Faster
Backlog of Orders	Growing	Faster
Employment	Contracting	Growing
Supplier Deliveries	Slowing	Slower
Customer Inventories	Too Low	Faster
Manufacturing Sector	**Growing**	**Faster**
Industries Expanding	15	
Industries Contracting	1	

The production component rose 0.6 points to 54.2. The new orders component rose 1.6 points to 55.1. The order backlog subindex increased by 2.7 points to 58.7.

The employment component fell 1.3 points to 49.6, indicating contracting manufacturing employment. Eight industries reported employment growth, and seven industries reported a decrease in employment. More respondents noted greater hiring ease during the month and high turnover.

Supplier deliveries to manufacturers worsened slower as the sub-index fell 1.5 points to 65.7. Freight and transportation networks improved during the month, and labor constraints are preventing supply chains from improving faster. Fifteen of eighteen manufacturing industries reported slower deliveries, and no industry reported faster supplier deliveries. The imports sub-index fell by 2.7 points to 48.7 as port closures in China limit the ability to ship goods from China-based suppliers.

The Prices Paid sub-index fell 2.4 points to 82.2, indicating raw material prices have increased for 24 consecutive months and at a slower pace. The report did show some green shoots of moderating inflation. 5.6% of respondents reported lower prices versus 0.9% in March. Seventeen industries reported increased prices for raw materials, and no industry reported lower prices for raw materials.

The manufacturing sector continued to expand in May and at a faster pace. COVID-related shutdowns in Shanghai are coming to an end, and this should improve the availability of China-sourced supplies. Other supply chain issues are slowly improving. Overall, manufacturers continue to work through intricate supply chains, rising material costs, and labor shortages. The growing backlog indicates that manufacturing has enough momentum to avoid a recession. The manufacturing PMI supports our 2.50% 2Q2022 GDP growth estimate.

MARKET OUTLOOK
SUMMER 2022

Outside of China and Russia, the global economy remains strong. The global economy is weathering high commodity prices, China's self-imposed shutdown, and war in Europe. The global economy is shifting from manufacturing to services, much like the U.S. economy. The cooling manufacturing sector will help on the inflation front. At 51.5, the index is consistent with a 2.4% global real GDP growth rate.

The service sector continues to recover, especially consumer-facing services (54.9). The rise in global rates has slowed financial services (49.5). The service sector is likely to continue to grow faster than the manufacturing sector as the economy normalizes. Globally, employment remains solid at 53.4 points, tied for an all-time high. This level is consistent with a 3.5% growth in global payrolls. Inflation moderated with the output prices component falling 2.2 points.

J.P. Morgan global PMI summary

		Jan	Feb	Mar	Apr	May
Output	Total	51.1	53.5	52.7	51.2	**51.5**
	Manufacturing	51.3	52.1	50.9	48.6	**49.7**
	Services	51.0	54.0	53.4	52.2	**52.2**
New orders	Total	52.7	54.1	53.8	51.8	**52.5**
	Manufacturing	52.2	53.7	51.4	50.5	**50.9**
	Services	52.8	54.3	54.7	52.3	**53.1**
Future output	Total	66.9	68.9	64.5	63.5	**64.5**
	Manufacturing	65.3	66.5	62.5	61.8	**60.7**
	Services	67.4	69.8	65.3	64.1	**65.8**
Employment	Total	51.5	52.6	53.4	53.3	**53.4**
	Manufacturing	51.0	51.6	52.0	51.5	**51.7**

J.P. Morgan global output PMI summary

	Jan	Feb	Mar	Apr	May
All-industry	**51.1**	**53.5**	**52.7**	**51.2**	**51.5**
Manufacturing	**51.3**	**52.1**	**50.9**	**48.6**	**49.7**
Consumer goods	50.0	52.4	52.7	49.6	50.6
Investment goods	52.7	51.2	50.0	48.1	48.6
Intermediate goods	51.6	52.5	50.2	48.2	49.6
Services	**51.0**	**54.0**	**53.4**	**52.2**	**52.2**
Consumer	46.6	52.9	51.8	54.0	54.9
Business	52.1	54.8	53.8	51.7	52.1
Financial	52.4	52.0	53.8	51.9	49.5

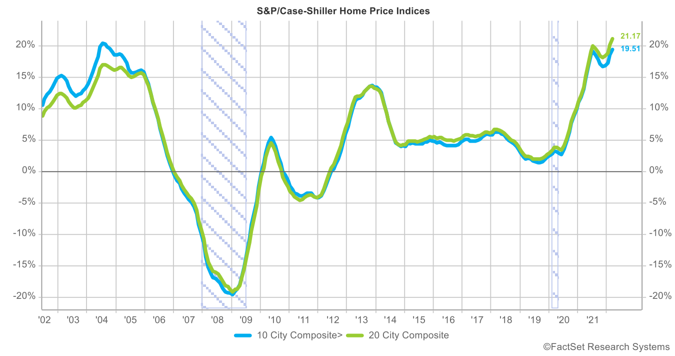
Source. J.P. Morgan, S&P Global

Central banks can now do very little about lingering supply chain issues. Central banks flooded the world with cheap money and now face global inflationary pressures. There are hints that inflationary pressure may have peaked. Strong economic growth and inflation support the global move toward a neutral policy stance which translates to higher global interest rates. We believe the global economy is strong enough to power through higher rates without a global recession. Eventually, one will come, but not today.

The Housing Sector

New home sales slid again in April. New single-family home sales dropped 16.6% to a 591,000 annual rate, well below consensus, and sales are now down 26.9% from a year ago. Sales were down in all major regions during the month. The main issues in the housing market are lack of supply and affordability. Throughout the pandemic, rapidly rising prices have been an issue for new home buyers, but the recent run-up in mortgage rates has further reduced affordability. Assuming a 20% down payment, the rise in mortgage rates and home prices this year amounts to a $425 increase in monthly payments on a new 30-year mortgage for the median new home.

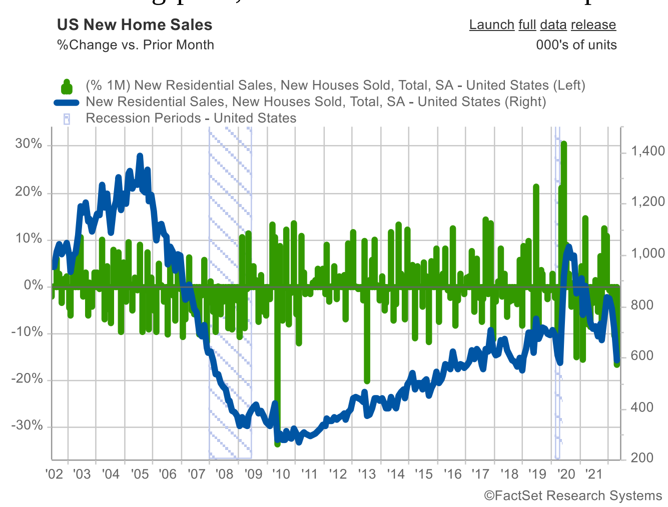
Builders continue to ramp up activity. The total number of single-family homes under construction is currently highest since 2006. Months' supply (how long it would take to sell current inventory at today's sales pace) has increased to 9.0, from a record low reading of 3.3 in mid-2020. As we've noted before, that statistic is a bit misleading because almost all the inventory gain is from homes where construction has either not yet started or is still underway. Focusing only on completed homes for sale, the month's supply of inventory remains about 0.8, near the lowest level since 1999. If builders had more labor and supplies, they could complete and sell more new homes. The additional new supply would also slow the pace of new home price appreciation. We still expect the housing market to be able to sustain growth despite the headwinds of rising mortgage rates in 2022, with sales of new homes expected to be relatively flat or only down slightly versus 2021.



New housing starts declined for the second month in a row as builders also sought to navigate rising mortgage rates and ongoing supply chain issues. Much of the new construction efforts have shifted to apartment buildings as rental rates rise rapidly. Rents are increasing due to the end of the national eviction moratorium, and people are moving back to the more expensive cities now that the works of the COVID restrictions have ended. Both Zillow and Apartmentlist.com estimate that rental costs for new tenants are up 16.4% for the year ended April 2022, easily exceeding the typical 3%-4% price hikes. Homebuilders started construction on 100,900 single-family homes last month (not SAAR).

The Case-Shiller 20-City Home Price Index rose 2.4% in March, and the index is up 21% versus a year ago. About seven in 10 homes sold for more than the asking price, and the median new home price is \$450,600, a 3.6% jump over March 2022.

Existing home sales declined in April, the third decline in a row, to a 5.61 million annual rate. Sales are down 5.9% versus a year ago. The median sales price last month was \$391,200. That median price is up 14.8% y/y, but volume slipped 2.4% for the month. The supply of existing homes for sale increased to 2.2 months, up from 2.2 months the prior month.



We welcome your comments and suggestions. Please feel free to contact any one of the investment team. Please see the obligatory disclosures listed below.

DISCLOSURES

This material is intended for informational purposes only and does not constitute an invitation or solicitation to invest in any particular investment product. Information contained herein has been obtained from sources believed to be reliable but may change without notice. We do not guarantee its accuracy or completeness. Security National Bank accepts no liability for the results of any action taken based on this information.

Financial commentary discussed in this report may not be applicable or suitable for all investors, and investors must make their independent legal, tax, accounting, and financial evaluations of their risks and merits. Past performance is not indicative of future results.

Investments offered by Security National Bank:
Are Not a Deposit
Are Not FDIC-insured
Are Not Guaranteed by the Bank
Are Not Insured by Any Federal Government Agency
May Go Down in Value