



We'll get you there.

CLA Economic and Industry Outlook

Dig Deeper for Bottom-Line Growth

June 2022

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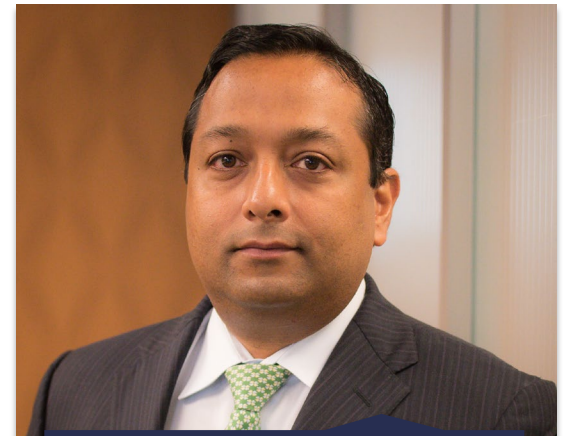
Today's Presenters



Melissa Nunez,
Senior Wealth Advisor



Cory Rutledge, Managing
Principal of Industry



Chris Dhanraj, Managing
Principal of Investments



Comprehensive Insights

Top-down macro analysis

Economic data
Interest rates
Earnings
Valuations
Investment cash flows

Industry data
Interviews with industry and service line leaders

Bottom-up industry and service insights





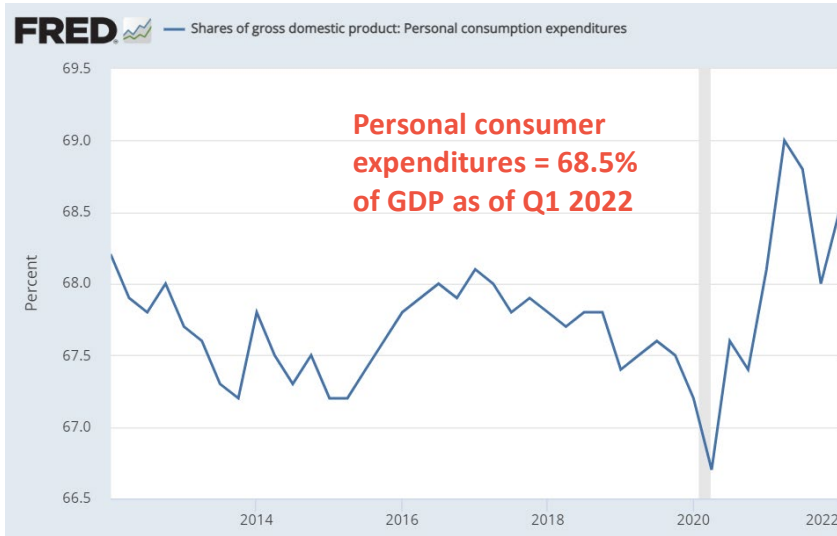
CLA Economic & Market Outlook

Updated June 2022

We'll get you there.

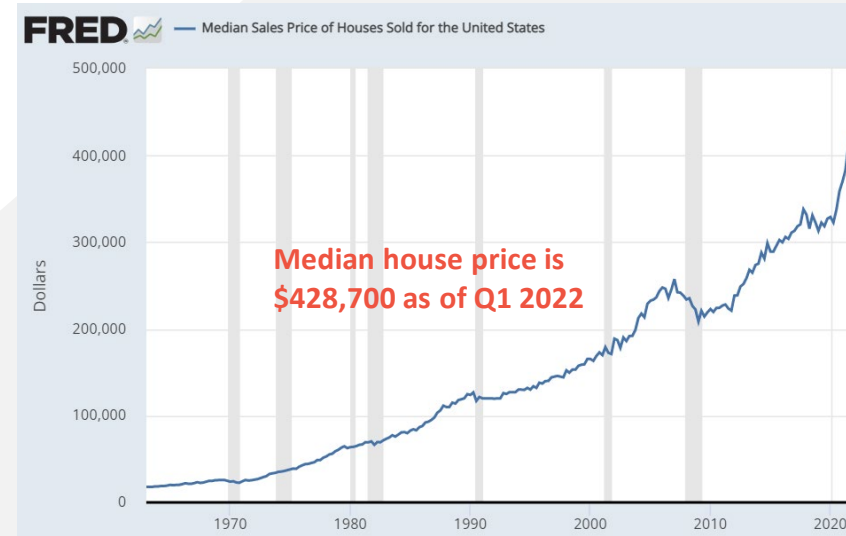
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Economic Data Shows the Reopening is Real



Source: St. Louis Fed

Consumer spending is healthy

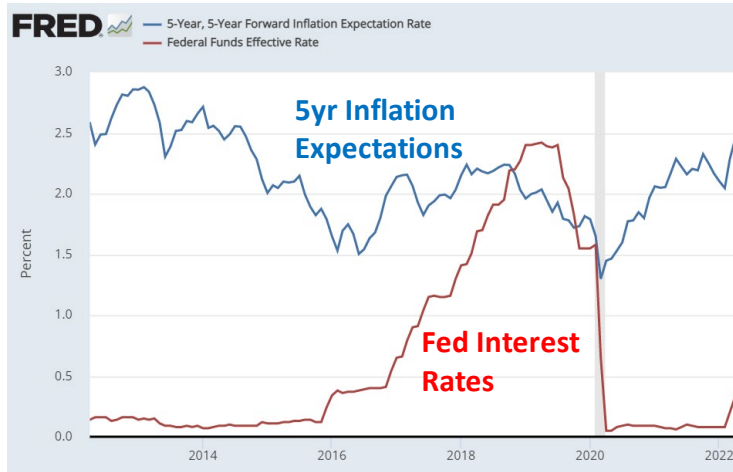


Source: St. Louis Fed

Housing prices hit new highs



Economic Data Shows the Reopening is Real



Source: St. Louis Fed

Higher inflation → Higher rates



Source: St. Louis Fed

Unemployment at pre-COVID levels

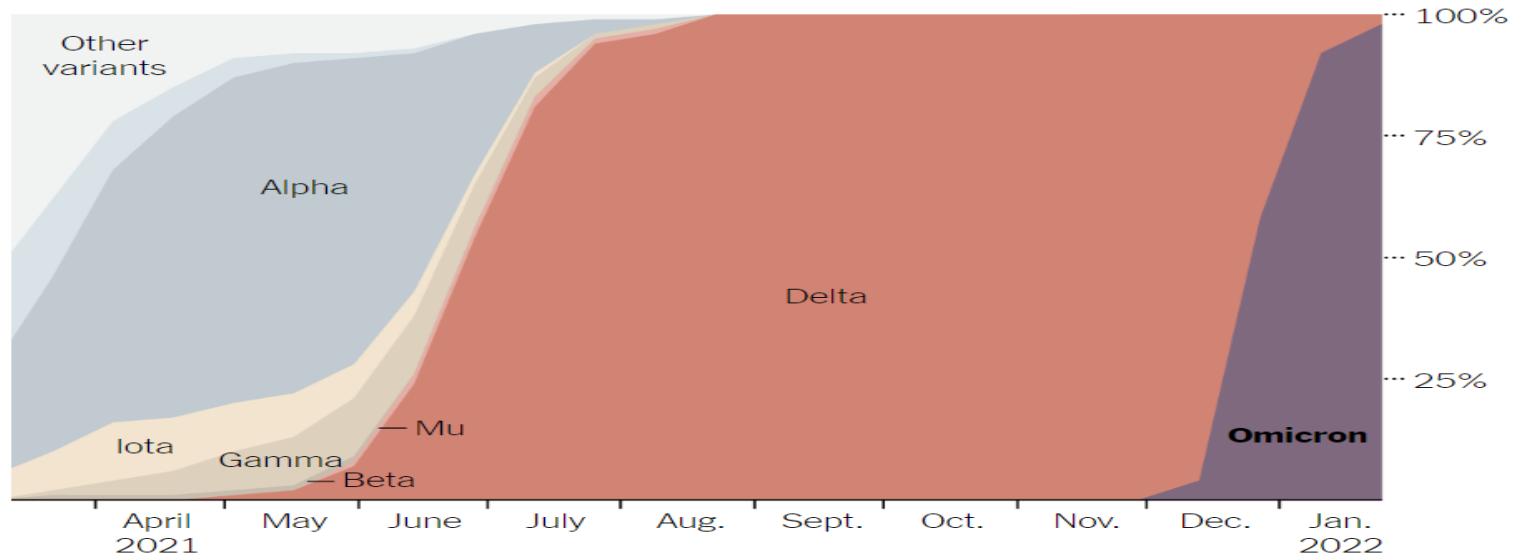




COVID continues to be a challenge

Waves of Variants in the United States

Omicron has pushed aside Delta as the dominant variant in the United States. (For other countries, see [CoVariants](#).)



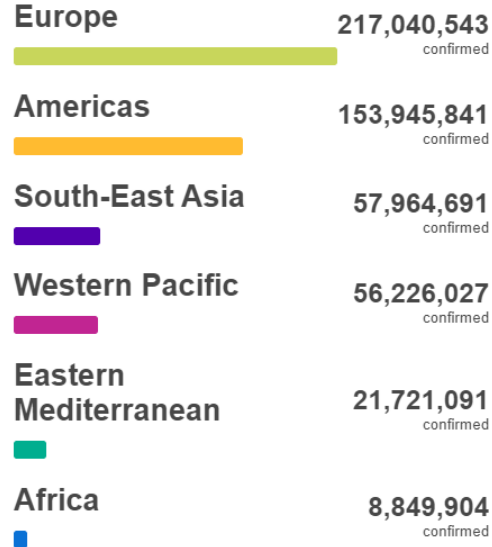
Expect New COVID-19 Variants in the United States

Source: [Tracking Omicron and Other Coronavirus Variants - The New York Times \(nytimes.com\)](#)





COVID Continues to Be a Challenge

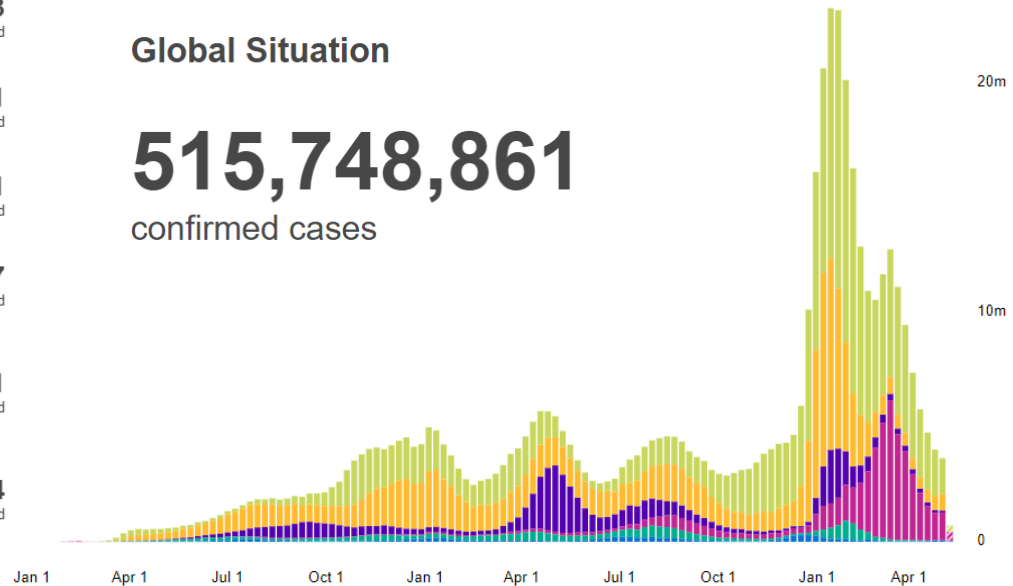


Source: World Health Organization

▨ Data may be incomplete for the current day or week.

Global Situation

515,748,861
confirmed cases

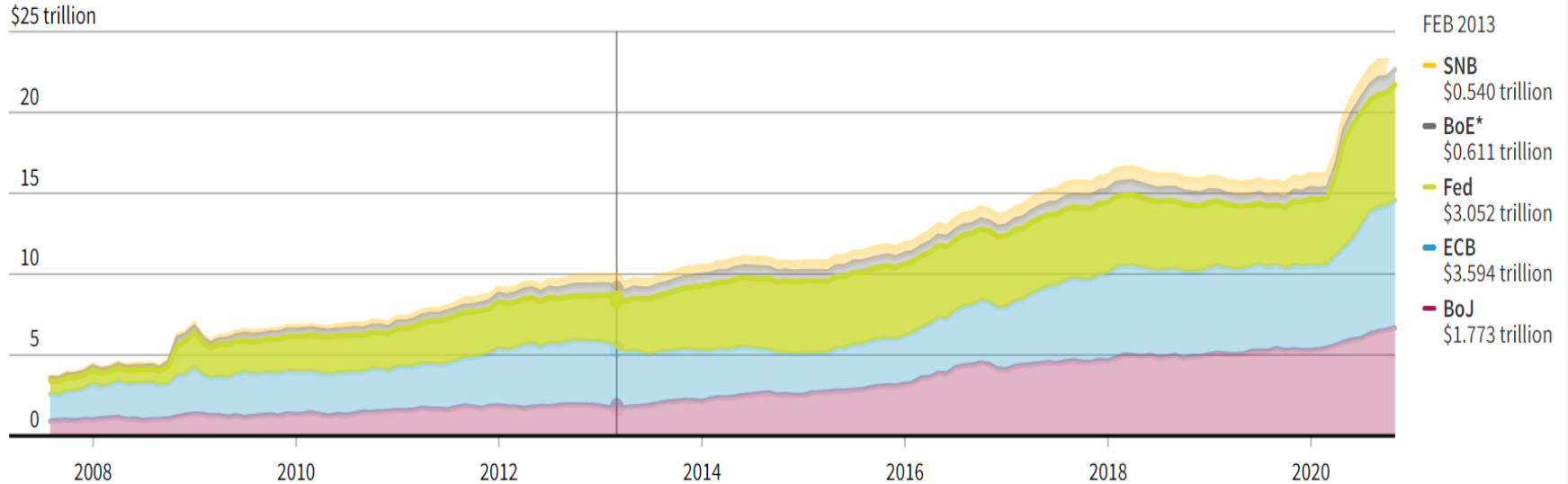


Number of COVID-19 Cases Globally

[Source: WHO Coronavirus \(COVID-19\) Dashboard](#) | [WHO Coronavirus \(COVID-19\) Dashboard With Vaccination Data](#)



Global Central Bank Stimulus is a Tailwind



Central bank balance sheets

Assets for the European Central Bank, Bank of Japan, Federal Reserve, Swiss National Bank, and Bank of England

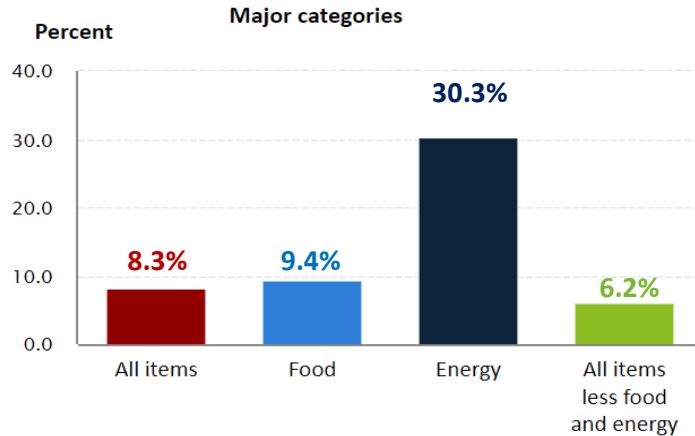
[Source: Thomson Reuters](#)



Inflation is Likely to Remain Front and Center

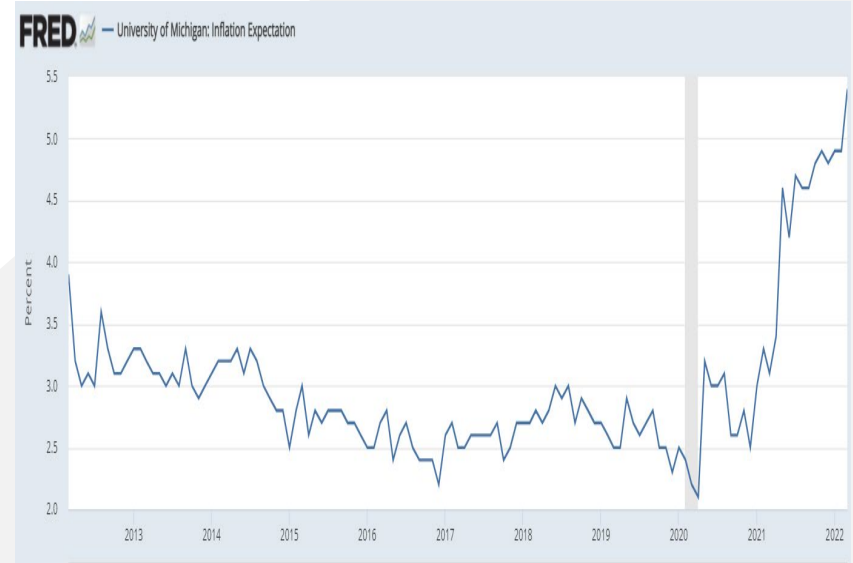


12-month percentage change, Consumer Price Index, selected categories, April 2022, not seasonally adjusted



Source: U.S. Bureau of Labor Statistics.

Higher prices driven by energy ...



Source: St. Louis Fed

... Driving future inflation expectations

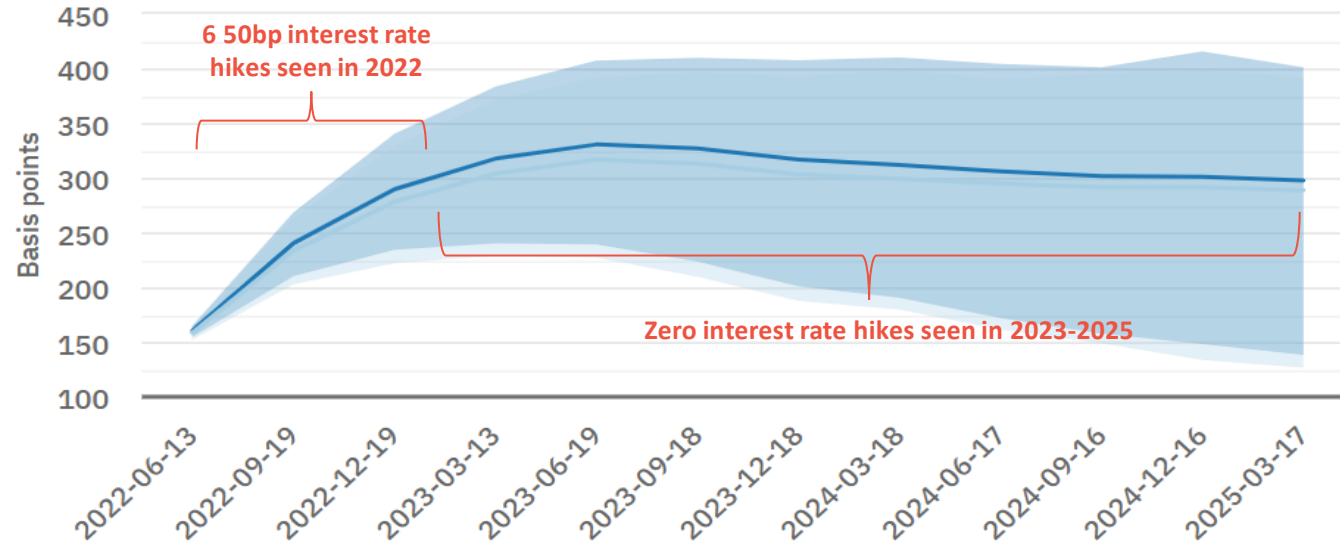


Expect Higher Interest Rates in 2022 and Beyond ...



The Expected Future Path of the Three-Month Average Fed Funds Rate

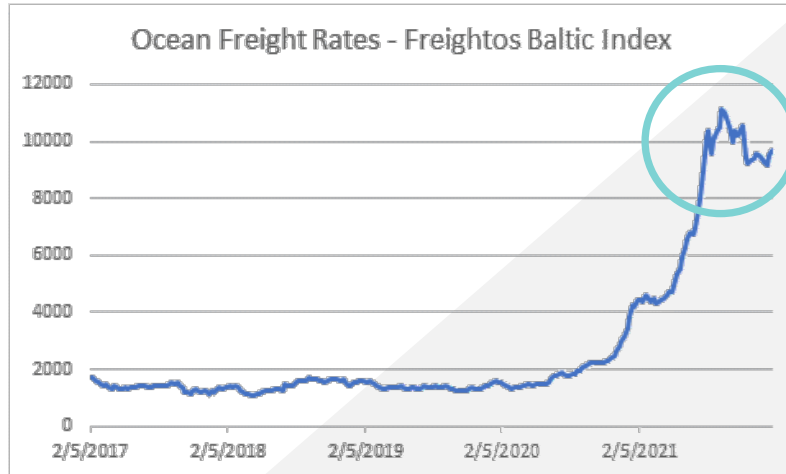
Current target range: 75 - 100 basis points



Source: Market Probability Tracker - Federal Reserve Bank of Atlanta (atlantafed.org)



Supply Chain Stress is Starting to Ease



Source: Bloomberg

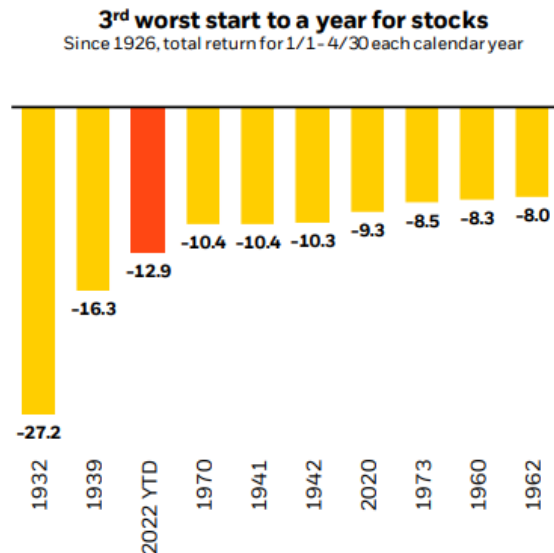
Global shipping rates still elevated but off highs



Market Volatility is Extreme

3rd worst start to a year for stocks

2022 is on pace to be one of the worst years ever for stocks



Returns following the 10 worst starts to a year

Since 1926, returns the next 8 and 12 months

Year	First 4 months	Next 8 months	Next 12 months
1932	-27.2	26.2	54.6
1939	-16.3	19.0	17.7
2022 YTD	-12.9	?	?
1970	-10.4	16.0	32.1
1941	-10.4	-1.4	-11.5
1942	-10.3	34.1	61.2
2020	-9.3	30.5	46.0
1973	-8.5	-6.7	-12.6
1960	-8.3	9.5	24.2
1962	-8.0	-0.8	10.8
Avg	-12.2	14.1	24.7

Source: Morningstar as of 4/30/22. U.S. stocks are represented by the S&P 500 Index from 3/4/57 to 4/30/22 and the IA SBI US Lg Stock Tr USD Index from 1/1/26 to 3/4/57, unmanaged indexes that are generally considered representative of the U.S. stock market during each given time period. **Past performance does not guarantee or indicate future results.** Index performance is for illustrative purposes only. You cannot invest directly in the index.

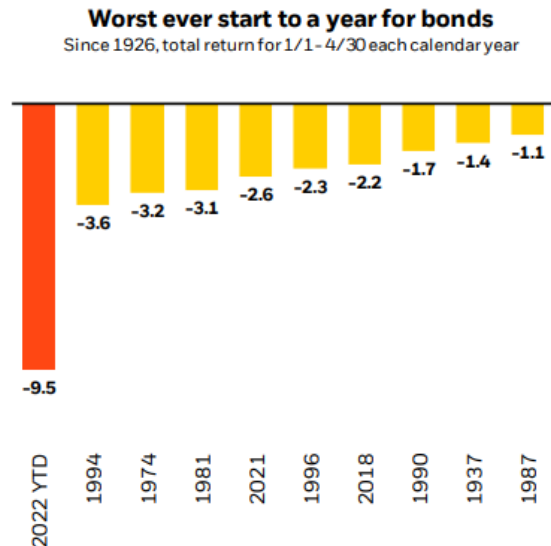




Market Volatility is Extreme

Worst ever start to a year for bonds

2022 is on pace to be the worst year ever for bonds



Returns following the 10 worst starts to a year

Since 1926, returns for the next 8 and 12 months

Year	First 4 months	Next 8 months	Next 12 months
2022	-9.5	?	?
1994	-3.6	0.8	7.3
1974	-3.2	9.2	8.6
1981	-3.1	9.7	17.1
2021	-2.6	1.1	-8.5
1996	-2.3	6.1	7.1
2018	-2.2	2.3	5.3
1990	-1.7	10.9	15.2
1937	-1.4	3.0	6.7
1987	-1.1	3.9	7.3
Avg	-3.1	5.2	7.3

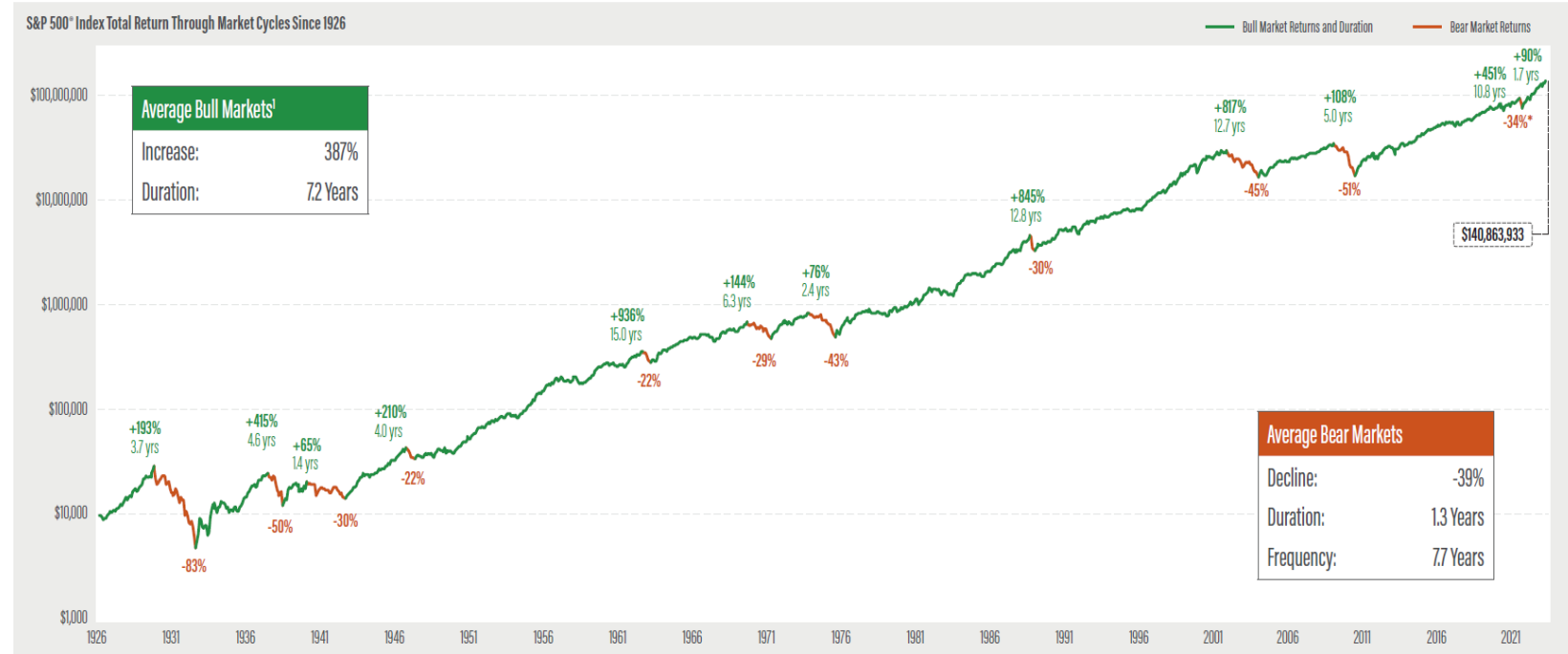
Source: Morningstar as of 4/30/22. U.S. bonds represented by the IAA SBBI US Gov IT Index from 1/1/26 to 1/3/89 and the Bloomberg US. Agg Bond TR Index from 1/3/89 to 4/30/22. **Past performance does not guarantee or indicate future results.** Index performance is for illustrative purposes only. You cannot invest directly in the index.





Bull & Bear Cycles – An Historical Perspective

The Law of Market Cycles



Source: FactSet, S&P Dow Jones Indices as of December 31, 2021. The index is unmanaged, is not available for investment and does not incur expenses. Daily performance is not available from 1926.
Past performance is no guarantee of future results.
¹ Average does not include current bull market.

* This chart uses monthly returns although this most recent bear market uses daily performance for consistency with the rest of the brochure.



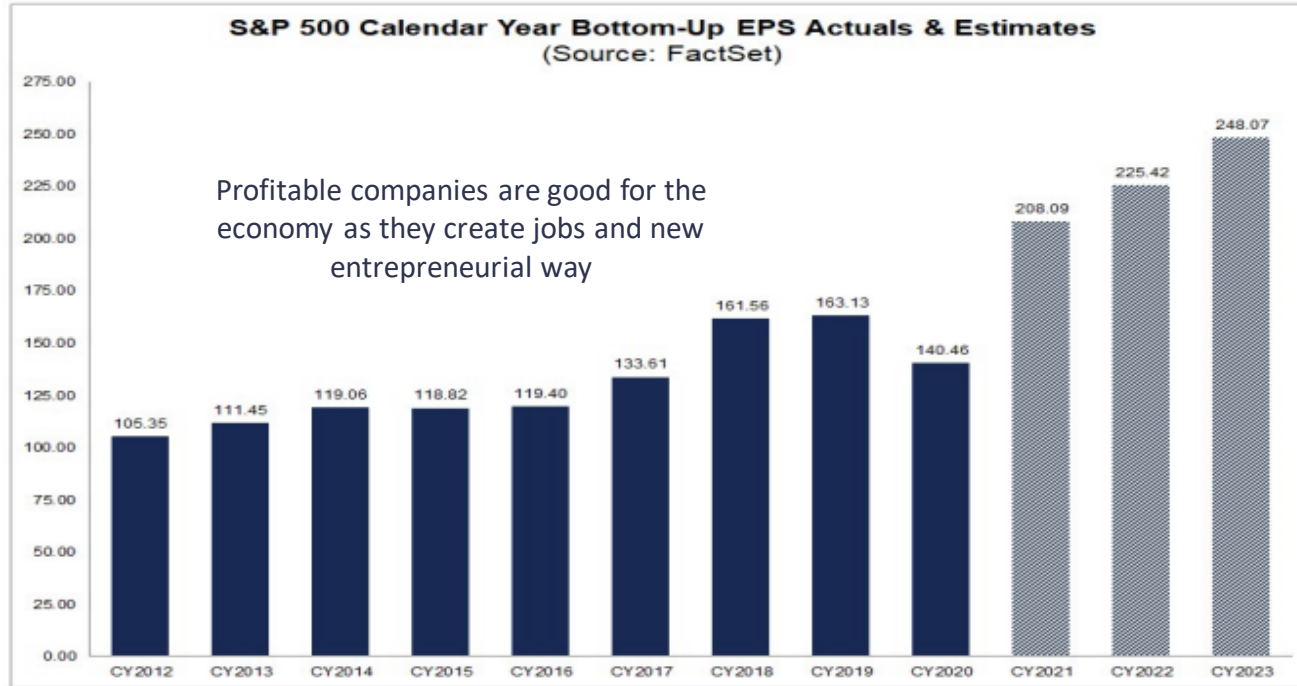


Outlook for Public and Private Companies

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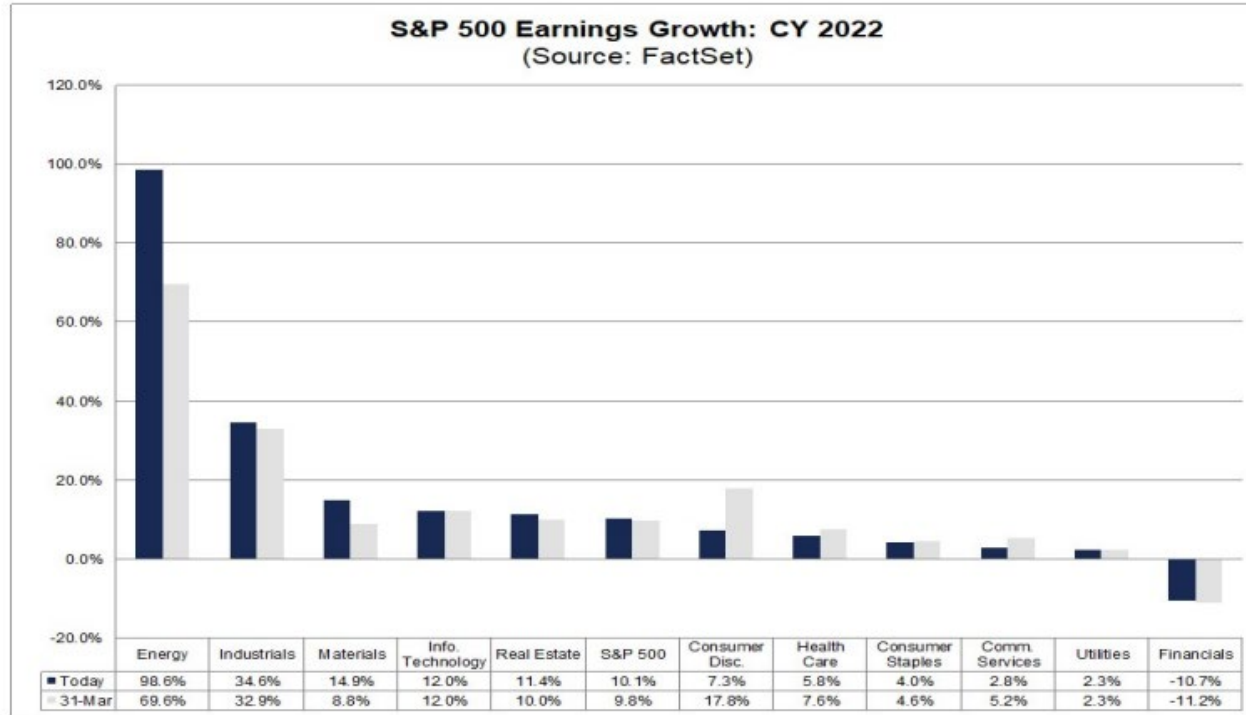
2022 May Surpass the Record Profitability in '21



Source: [Earnings Insight Template 2016.docx \(factset.com\)](#)



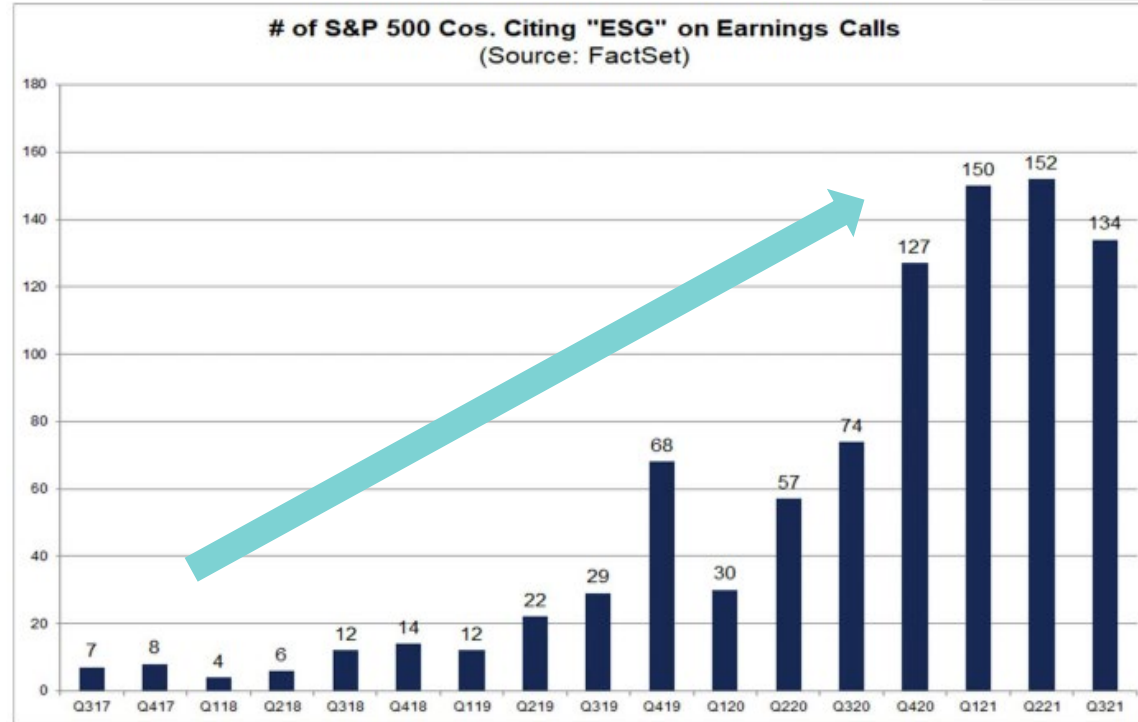
Industry Differentiation Will Become More Stark



Source: [FactSet Earnings Insight May 2 2022](#)



Companies Are Preparing Their Response to ESG



Source: [Earnings Insight Template 2016.docx \(factset.com\)](#)

*ESG is "Environmental Social and Governance"

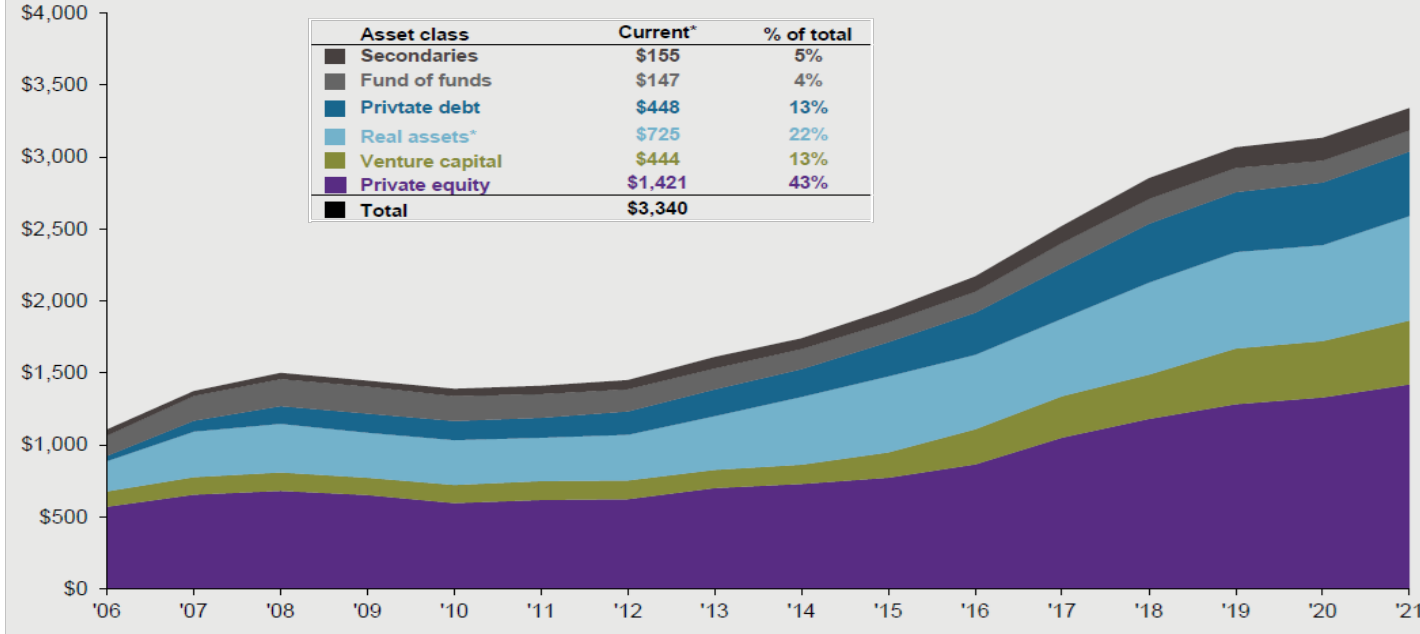




Private Companies — Leading Indicators

Dry powder by asset class

Cumulative dry powder, USD billions



Source: Pitchbook, J.P. Morgan Asset Management. *Dry powder data is as of March 31, 2021. Percentages may not sum to 100 due to rounding.

*Real assets dry powder includes real estate & infrastructure.

Data is based on availability as of November 30, 2021.

Investors are eager to put cash to work





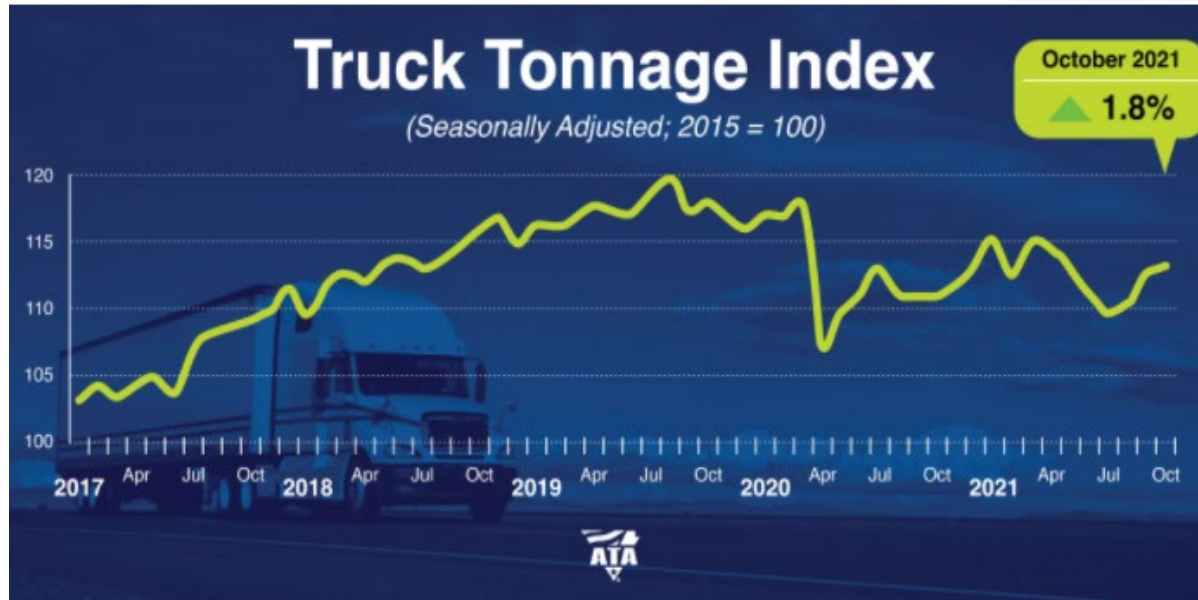
Companies Staying Private Longer



Source: BlackRock



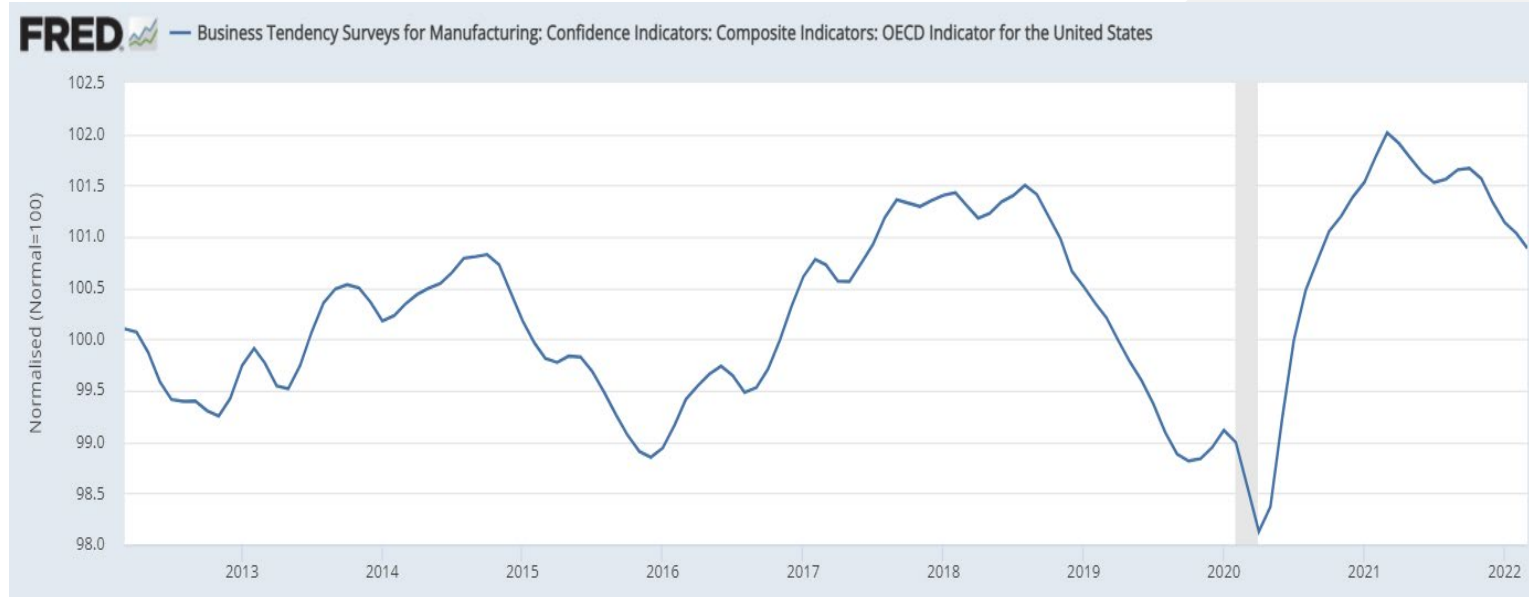
Pick-Up Seen in For-Hire Trucking Tonnage



[Source: American Trucking Association](#)



Manufacturers Remain Confident But Cautious



Source: St. Louis Fed



Private Company Outlook

Challenges

Supply chain concerns to continue for another 12-18 months

- › **Transportation and logistics**

Higher interest rates and taxes will be headwinds to select industries — however, companies doing active risk mitigation

- › **Manufacturing and distribution, agribusiness**

Labor remains difficult to source though mitigated in the long-term by investments in automation and higher worker pay

- › **Construction**

Opportunities

Record profitability is expected to continue given pricing power in unregulated industries

- › **Health care, construction**

Companies are looking to technology (AI / machine learning / logistics) to improve bottom-line efficiency

- › **Higher ed, agribusiness**

We expect more M&A activity driven by private equity roll-ups and vertical integration

- › **Financial institutions, telecom**

ESG awareness ramping up

- › **Retail, construction, agribusiness**

At CLA, we have a depth of **industry experience** informing our economic views





Select Industry Insights

Susan Sabo
Managing Principal of Financial Institutions

"The rate of consolidation will continue to be high across banks below \$1bln in assets and credit unions with less than a \$100M assets."

Allyson Baumeister
Managing Principal of Manufacturing and Distribution

"Many business owners feel good about the first six months of 2022 year — but there is more uncertainty around pent up demand and inventory as we get into the latter half."

Brandon Knight
Managing Principal of Transportation and Logistics

"Given equipment and driver shortages, clients are expecting billing rate increases. Additionally, companies are using technology to improve efficiency and focus on more regional and profitable routes."

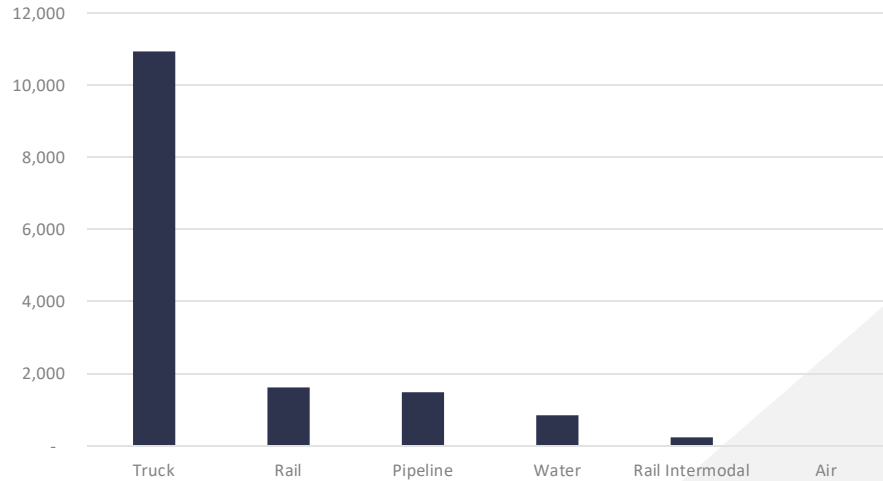
Robbie Walker
Managing Principal of Agribusiness

"Many of our clients who sell into grocery stores or distribution centers saw record profitability during COVID, and some used this as an opportunity to sell or expand their operations."



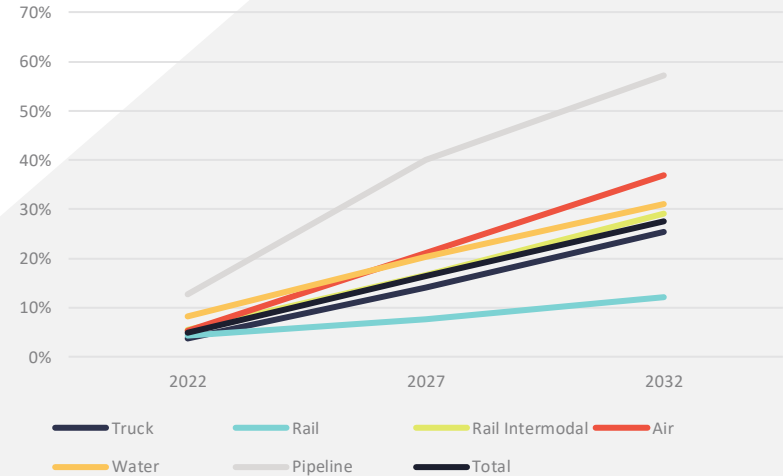
Transportation and Logistics Spotlight

2021 Volume (Millions of Tons) — by Mode



Current state

Volume Growth — Millions of Tons (Base Year 2021)

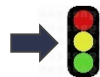


Future state

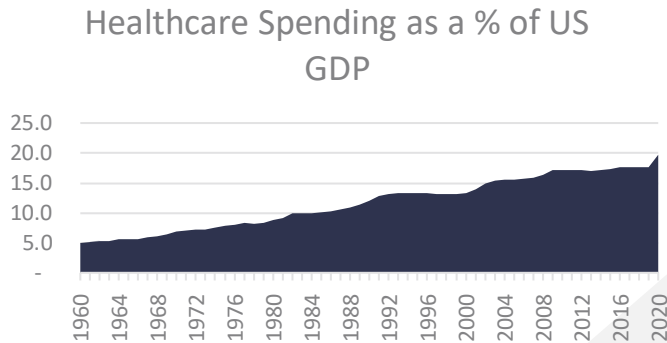
Source: American Trucking Association

Prepared by: Brandon Knight, managing principal, transportation and logistics

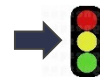
Healthcare Spotlight



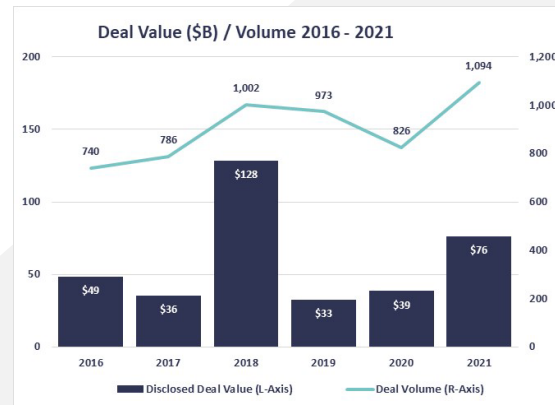
Current State



- CLA's Healthcare Industry sees 3 key trends:
 - Continued labor shortage impacting growth strategies
 - Concerns about Medicare's solvency to pay for rising costs
 - The "Silver Tsunami"—an aging US population, many with multiple chronic conditions, means that managing future health care spend is a multi-billion dollar opportunity
- Healthcare companies are focused on driving innovation and improving operational efficiency



Future State



- Private equity has identified healthcare as a long-term secular trend which is reflected in both the number and total deal volume of deals completed in the past 5 years
- We see higher deal volume despite valuations increasing from 8 to 14x EBITDA—driven by roll-ups and innovations
- From a policy standpoint**, increased FTC antitrust scrutiny of M&A transactions and labor shortages will likely remain headwinds

Sources: CMS.gov and Levin Associates Prepared by: Cory Rutledge, MPI Healthcare



Four Market Themes for 2022 and Beyond



**Prepare your
portfolio for higher
interest rates and
taxes**



**Dig deeper for
bottom-line growth**



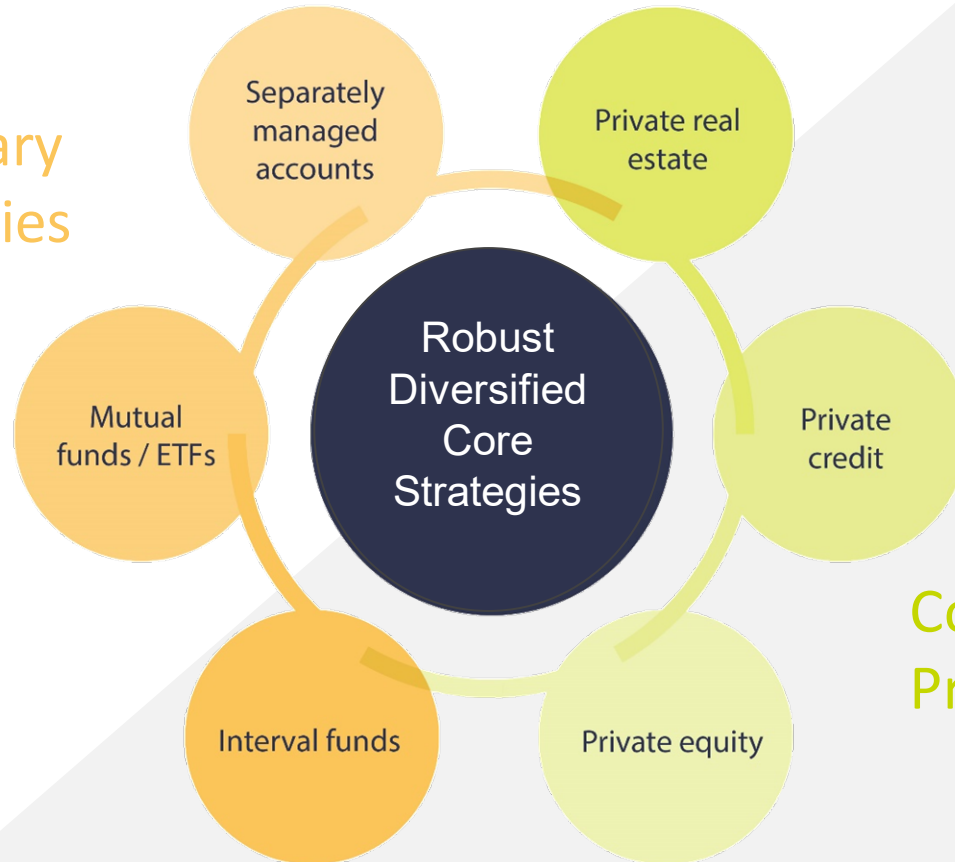
**Seek diversification
in alternatives**



**Invest sustainably
with ESG**

How We Construct Portfolios at CLA

Complementary
Public Strategies



Complementary
Private Strategies

Contact CLA to discuss how we can serve you and help you achieve your goals



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