ROCKEFELLER
CAPITAL MANAGEMENT

MERLIN
WEALTH MANAGEMENT

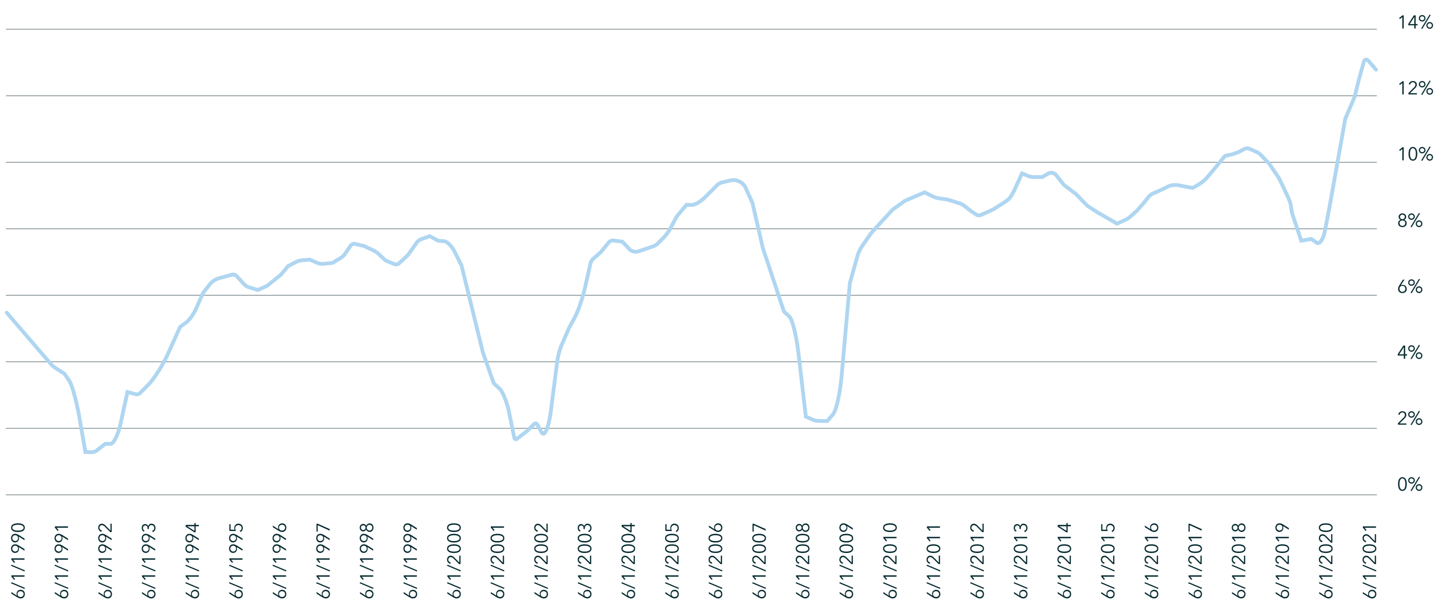
Market Corner: Margin Madness

As Inflation worries are perhaps approaching peak and recession worries are now on the rise, we thought it would be timely to look at overall trends in corporate profits and the implications for the markets from here.

We believe profits are what drove the upside in 2021 equity market performance, given earnings that were both growing nicely and beating expectations across the balance of the year. For 2022 we believe profits are now more likely to be a drag than tailwind for equity markets with pressure to come on three fronts. First, margins hit an all-time high in 4Q21 and appear to have peaked, pressured by a 40 year high in inflation. Second, the strength in the U.S. dollar relative to most currencies globally has accelerated and should crimp international sales of U.S. based corporations. Finally, flagging demand into central bank tightening will likely eventually result in lower overall sales levels.

Looking at the 12-month trailing profit margins in more detail, in 2021 one can see a nice progression coming out of the COVID-19 induced recession as fiscal stimulus kicked in, sales volume recovered and demand outpaced supply for many products and services. However, by 1Q22 we started to see some compression as inflation continued to rise and some companies appear to have hit an inability to pass on higher costs effectively. As we head into second quarter earnings, we believe this margin compression may accelerate as some consumer segments have already shown, leading to declining earnings expectations for the market.

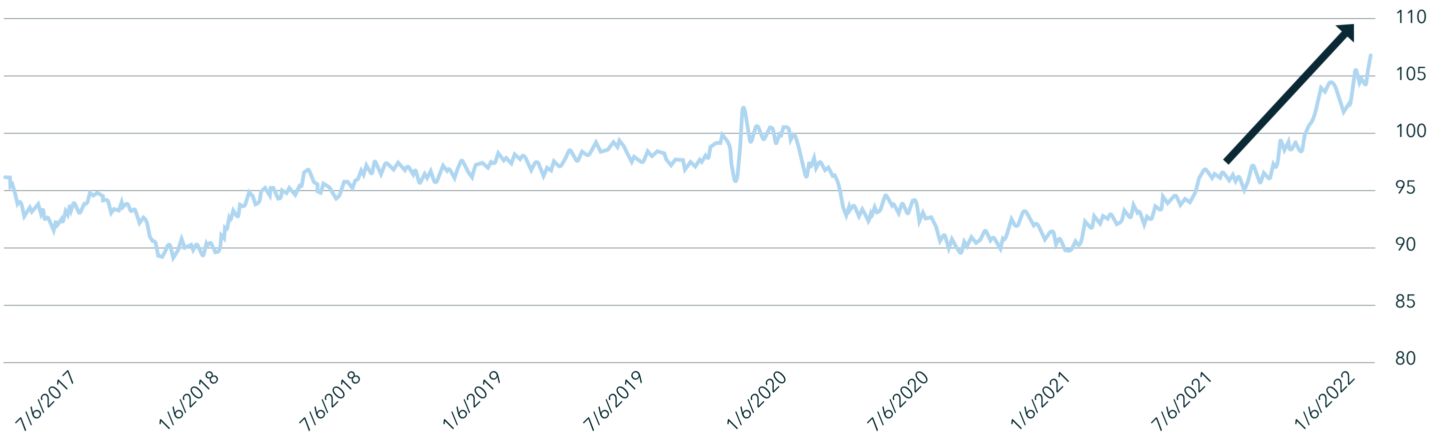
Figure 1: S&P 500 Profit Margins Hit an All Time High & Likely Peaked in 4Q21



Source: Bloomberg, Standard & Poor's

Compounding the peak profit margin issue, the acceleration of U.S. dollar strength this year is likely starting to crimp the competitiveness of U.S. made products overseas. While U.S. residents may like this for improving 'buying power' globally, U.S. corporations with overseas sales are seeing their products and services become relatively less attractive. Even if unit volumes hold up due to excess demand, one typically gets less revenue once the foreign currency is adjusted to a U.S. dollar equivalent.

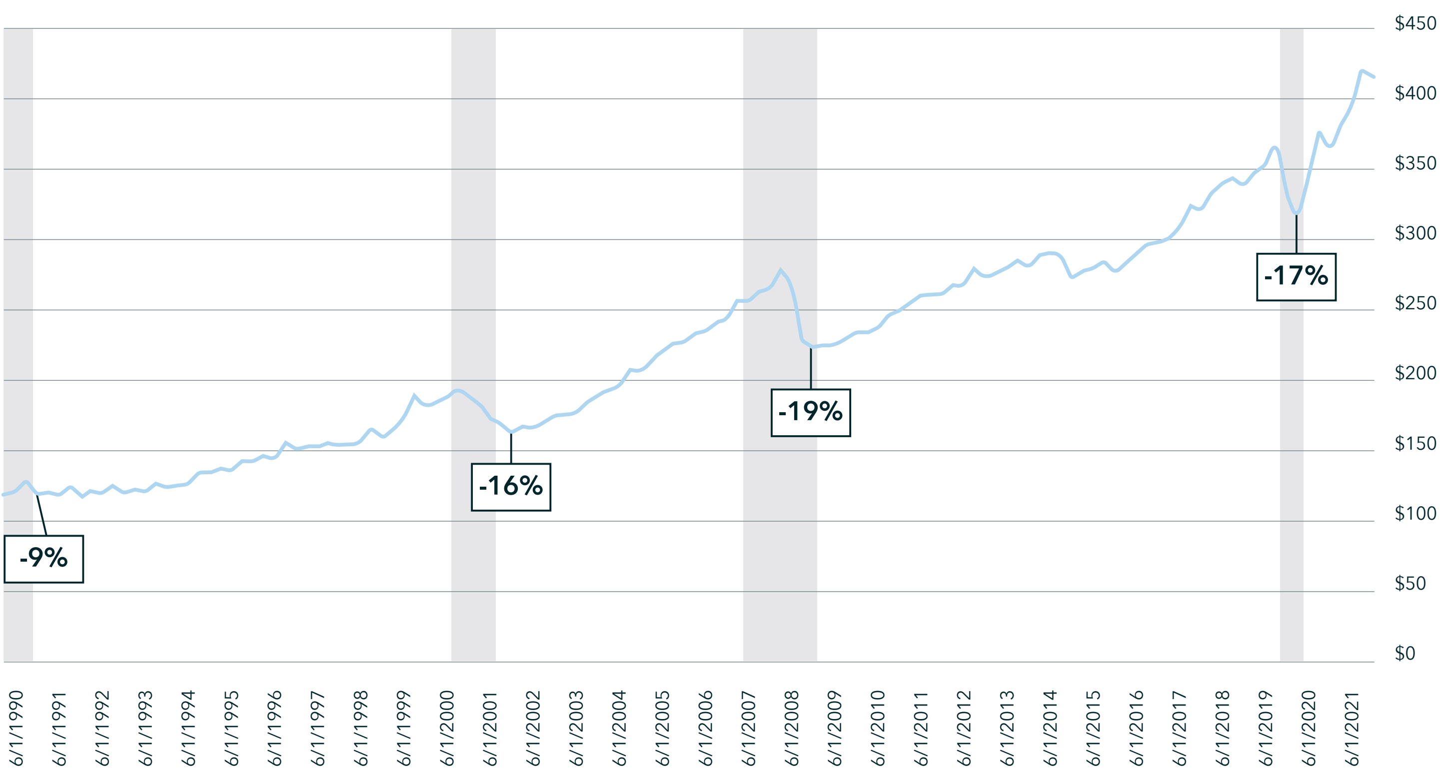
Figure 2: Dollar Strength has Accelerated, Which Should Slow Global Demand for U.S. Products



Source: Bloomberg, Intercontinental Exchange

Of course, rising costs and dollar strength are not the only risks to earnings given the purposeful moves by the Fed to tighten financial conditions. Essentially, persistent inflation at unacceptably high levels has forced the Fed to step in and slow demand. Slower demand will of course eventually slow sales and in fact this is clearly what happens in recessions with revenues declining noticeably.

Figure 3: S&P 500 Revenues Have Declined 15% on Average in Recessions Since 1990



Source: Bloomberg, Standard & Poor's , NBER

Declining sales are yet another factor to compound the margin compression we are already seeing as corporations typically experience 'negative operating leverage' in conjunction with lower sales as fixed costs are spread across a smaller revenue base. Net, net a given decline in sales likely results in an even more pronounced decline in earnings as margins compress. Supporting this, the decline in earnings in recessions since 1990 is roughly 2x the decline in revenues at approximately -33%.

We would note that a recession is not a certainty at this point. However, given the need for the Federal Reserve to focus on inflation and continue to tighten until it is tamed, we believe that the odds of a recession are significant and increasing. As Chairman Powell noted post the Fed's June rate increase, engineering a soft landing for the economy will be "very challenging." We are positioned somewhat defensively in this context by carrying higher levels of cash than normal and by implementing index puts in our strategies where appropriate.

YTD Equity Strategies Performance Though 06/31/2022

The first two quarters of 2022 mark the worst first half for the S&P 500 since the Nixon administration in 1970[2], a period also noted for inflation. Two of our portfolios fared even worse, reflecting both a lack of exposure to energy companies (the only sector up YTD in the S&P 500 with YTD performance there +31.8%) and our focus on higher growth companies which have been punished by the market of late as higher interest rates are perceived to be more detrimental higher growth companies.

While we understand the logic there, we would note that our primary focus is on companies with strong business models, clean balance sheets and good cash flows, which when implemented in our stock selection process does lead to significant exposure to technology companies, especially more proven ones that are already profitable.

Our aversion to high leverage, which is part of what pushes us away from many Energy companies, is clearly visible in the average debt statistics for each of our portfolios which when compared to the relevant benchmarks tend to show as in line to significantly better across most measures. While "clean balance sheets" haven't been particularly helpful YTD from a performance perspective, we do see that as likely shifting in the second half of this year as worries over the possibility of recession likely continue to mount and reduce the attractiveness of more cyclical and more levered names.

Figure 4: MWM Equity Strategies Typically Carry Less Leverage Than Their Relevant Benchmarks

	Net Debt / EBITDA	Net Debt / EBIT	EBITDA / Interest Expense	Current Ratio	Quick Ratio
CORE	0.16x	0.45x	59.17x	1.74x	1.29x
SPX	1.12x	1.96x	39.90x	1.48x	1.10x
Relative	14.3%	22.8%	148.3%	117.3%	117.9%
	Net Debt / EBITDA	**Net Debt / EBIT**	**EBITDA / Interest Expense**	**Current Ratio**	**Quick Ratio**
INC	1.02x	1.52x	26.68x	1.23x	0.79x
R1V	1.84x	3.48x	25.04x	1.29x	0.89x
Relative	55.6%	43.8%	114.5%	95.4%	88.6%
	Net Debt / EBITDA	**Net Debt / EBIT**	**EBITDA / Interest Expense**	**Current Ratio**	**Quick Ratio**
ERA	(0.89x)	(1.58x)	39.21x	2.66x	2.23x
R1G	0.46x	0.93x	47.19x	1.79x	1.40x
Relative	-190.7%	-170.9%	83.1%	149.2%	159.1%

Source: Bloomberg, Standard and Poor's and Russell Indices, Data is most recent reported as of 07/11/22

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1 FactSet Earnings Insight 06/24/2022 Bottom-Up Target Price for S&P 500 Drops Below 5,000 for First Time Since August 2021 (factset.com)

2 Axios article 07/01/2022 The stock market had its worst first half since 1970 (axios.com)

Disclosures:

1. The information provided herein is for the Merlin Wealth Management – Dynamic Core Composite for the periods presented and is supplemental to the information contained in the GIPS® Compliant Presentation for such composite. Strategy characteristics are provided for the Strategy's representative account. The performance and characteristics of individual accounts within a particular strategy will vary.

2. Returns were calculated using daily, true-time weighted total returns in U.S. dollars that include unrealized and realized capital change and income earned from underlying holdings. Composite returns are calculated based in daily, asset-weighted individual portfolio returns using beginning-of-period values and net external asset movements. Trade date accounting is used for valuing positions. Dividends are recognized in accounts on an ex-date basis. Performance results reflect the effect of cash and cash equivalents. Periods greater than one year are annualized.

3. Returns are presented pure gross and net of fees. Pure gross of fee returns are calculated gross of all wrap fees. Net of fee returns are calculated using actual account fees. All accounts included in the composites are charged wrap fees. The wrap fees are all inclusive and cover advisory, asset management, custody, bill pay, cash management and trading services & expenses which cannot be dis-aggregated. The standard fixed management fee for accounts with assets under management of up to $25 million is 1.00% per annum; 0.85% from $25 million to $50 million; 0.70% from $50 million to $100 million; 0.50% thereafter. Please note this fee schedule includes non-asset management fees inclusive of cash management, client advisory, and estate planning; fees may be negotiated.

4. For comparison purposes, the Composite is measured against the S&P 500 Index. The S&P 500 Index measures the performance of the large cap segment of the U.S. equities market, covering approximately 80% of the U.S. equities market. The Index includes 500 leading companies in leading industries of the U.S. economy. The index is unmanaged and do not reflect commissions or fees that would be incurred by an investor pursuing the index. It is not possible to invest directly in the index.

5. The information presented herein as of the time periods or dates shown, are subject to change at any time and may have changed since the date specified. Characteristics are a weighted median. Company references and portfolio characteristics are provided for illustrative purposes only and should not be construed as investment advice or a recommendation to purchase, sell or hold any security. A complete list of holdings and additional performance attribution information is available upon request.

6. All investing involves risk. Principal loss is possible. The Strategy is susceptible to adverse economic, political, tax, or regulatory changes which may magnify other risks. Some of the risks involved with equities include the possibility that the value of the stocks may fluctuate in response to events specific to the companies or markets, as well as economic, political or social events in the U.S. or abroad. Capitalization Size Risk (Small/Mid): Small- and mid-cap stocks are often more volatile than large cap stocks. Smaller companies generally face higher risks due to their limited product lines, markets and financial resources.

7. Beta is a measure of the volatility of a security or a portfolio in comparison to the market as a whole. Sharpe ratio is a risk-adjusted measure calculated as the ratio of excess return to standard deviation. Weighted average market capitalization is an average of the market capitalization of stocks held by a portfolio or comprising an index, adjusted by each stock's corresponding weight in the portfolio or index. Turnover is the number of companies bought plus the number of companies sold divided by 2 and then divided by the average number of companies in the portfolio.

8. Composites may include accounts no longer in existence. An account is generally included from the beginning of the first full month following the date at which the account is invested and is excluded for the month in which the account is terminated or otherwise divested in the asset class.

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GIPS Composite Reports:

Composite: Dynamic Core **Reporting Currency: USD**

Composite Inception Date: February 1, 2020 **Creation Date: October 30, 2020**

Year End	Total Firm Assets (USD Millions)	Composite Assets (USD Millions)	Number of Accounts	Composite Pure Gross Return*	Composite Net Return	S&P 500 Total Return	3-Year ex-post Std. Deviation Composite	3-Year ex-post Std. Deviation S&P 500	Composite Dispersion
2021**	1,360	554	837	12.6%	12.1%	15.3%			0.93%
2020***	1,242	492	818	25.1%	24.0%	18.5%			1.02%

* Pure Gross Returns are Supplemental Information

**Time Period is from 01/01/2021 - 06/30/2021

***Time Period is from 02/01/2020 - 12/31/2020

Merlin Wealth Management claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Merlin Wealth Management has been independently verified for the period February 1, 2020 through December 31, 2020. The verification reports are available upon request.

A firm that claims compliance with the GIPS® standards must establish policies and procedures for complying with all the applicable requirements of the GIPS® standards. Verification provides the assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance have been implemented on a firm-wide basis. Verification does not provide assurance on the accuracy of any specific performance report.

Merlin Wealth Management (MWM) is a private wealth practice with a proprietary investment unit embedded within. MWM is part of Rockefeller Capital Management (RCM). MWM has its own investment team which conducts research and due diligence and makes investment decisions for the MWM investment strategies. RCM has no influence over MWM's investment process, research, or decisions. Merlin Wealth Management was acquired by Rockefeller Capital management in January of 2020. In conjunction with that acquisition, all of the portfolio management team and virtually all of the accounts in the three equity strategies and two fixed income strategies were transferred to Rockefeller Capital Management and continued to be managed under the same strategies, using the same process and by the same team that was primarily responsible for the performance at the prior firm. The prior firm was not GIPS compliant. We are not claiming GIPS compliance on performance prior to February 2020

Dynamic Core utilizes a fundamental approach in order to identify high quality companies that we believe will grow consistently and outperform over time. Our investment process focuses on filtering for great businesses at good valuations and understanding the long-term prospects of each. A full list of composite descriptions is available upon request. The benchmark for Dynamic Core is the S&P 500 Total Return Index.

Merlin Wealth Management's policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request. The minimum portfolio size for inclusion in the composite is $25 Thousand.

Returns are presented pure gross and net of fees. Pure gross of fee returns are calculated gross of all wrap fees. Net of fee returns are calculated using actual account fees. Internal Dispersion is calculated using the standard deviation of the returns of the accounts present for the full year (or partial year when a full year is not shown) where all accounts are equally weighted. This metric uses pure gross returns.

All accounts included in the composites are charged wrap fees. The wrap fees are all inclusive and cover advisory, asset management, custody, bill pay, cash management and trading services & expenses which cannot be dis-aggregated. The standard fixed management fee for accounts with assets under management of up to $25 million is 1.00% per annum; 0.85% from $25 million to $50 million; 0.70% from $50 million to $100 million; 0.50% thereafter. Please note this fee schedule includes non-asset management fees inclusive of cash management, client advisory, and estate planning; fees may be negotiated.

Composite: Sustainable Income **Reporting Currency: USD**

Composite Inception Date: February 1, 2020 **Creation Date: October 30, 2020**

Year End	Total Firm Assets (USD Millions)	Composite Assets (USD Millions)	Number of Accounts	Composite Pure Gross Return*	Composite Net Return	Russell 1,000 Value Total Return	3-Year ex-post Std. Deviation Composite	3-Year ex-post Std. Deviation RLV	Composite Dispersion
2021**	1,360	322	653	11.5%	11.1%	17.1%			0.76%
2020***	1,242	282	641	4.7%	3.8%	5.0%			0.61%

* Pure Gross Returns are Supplemental Information

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Sustainable Income focuses on high quality, established companies with above average and growing dividend yields. The combination of stable growth and dividend payments provides total return with less risk. Our investment philosophy involves identifying companies with a high dividend yield and earnings yield, thus creating an expectation of both growth and income. The benchmark for Sustainable Income is the Russell 1,000 Value Total Return Index.

Merlin Wealth Management's policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request. The minimum portfolio size for inclusion in the composite is $25,000.

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Composite: New ERA **Reporting Currency: USD**

Composite Inception Date: February 1, 2020 **Creation Date: October 30, 2020**

Year End	Total Firm Assets (USD Millions)	Composite Assets (USD Millions)	Number of Accounts	Composite Pure Gross Return*	Composite Net Return	S&P 500 Total Return	3-Year ex-post Std. Deviation Composite	3-Year ex-post Std. Deviation S&P 500	Composite Dispersion
2021**	1,360	168	452	13.1%	12.6%	13.0%			2.12%
2020***	1,242	146	418	50.4%	49.2%	18.5%			2.45%

* Pure Gross Returns are Supplemental Information

**Time Period is from 01/01/2021 - 06/30/2021

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The goal of New Era is to identify emerging growth companies in the accelerating phase of their life cycle as well as contrarian companies that we believe will be turn around opportunities. Younger or smaller companies often experience significant profit growth. Contrarian companies may experience renewed growth through company specific events. The benchmark for New Era is the Russell 1000 Growth Total Return Index.

Merlin Wealth Management's policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request. The minimum portfolio size for inclusion in the composite is $25,000.

Returns are presented pure gross and net of fees. Pure gross of fee returns are calculated gross of all wrap fees. Net of fee returns are calculated using actual account fees. Internal Dispersion is calculated using the standard deviation of the returns of the accounts present for the full year (or partial year when a full year is not shown) where all accounts are equally weighted. This metric uses pure gross returns.

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As of March 31, 2021, the benchmark was retroactively changed for the prior 3 months as well as all subsequent periods from the S&P 500 to the Russell 1000 Growth. The change was made due to the shift in the strategy towards a growth focus over time which eventually created a higher level of correlation with the new benchmark at which point it was determined the Russell 1000 Growth was more appropriate. Periods prior to January 2021 are benchmarked to the S&P 500.