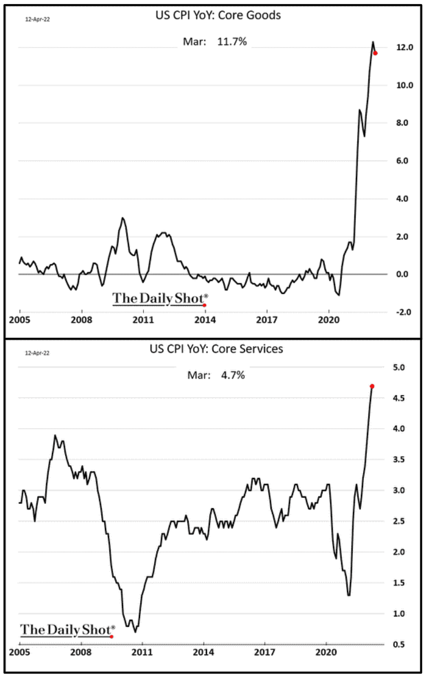
Summary

- S&P 500 returned -5.55% in the 1st Quarter of 2022. Value outperformed Growth by 8.29%.
- Inflation bleeding into the services sector will cause the Fed to act more aggressively.
- The resurgence of Covid in China and strict lockdowns will further disrupt supply chains across the globe.
- The pandemic and the War in Ukraine are accelerating the pre- pandemic trend of leading companies to regionalize and shorten their supply chains.

Inflation

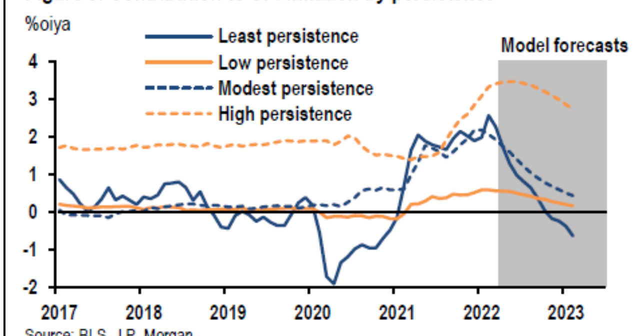
The war in Ukraine, a pandemic, and continued increase in public debt across the globe has led to levels of inflation that the US hasn't seen in 40 years. Initially, temporary supply chain driven categories like automobiles and goods were inflation drivers but have bled into more structural categories such as rent and services. This is seen as the US Core Goods CPI is starting to retreat from its highs and the US Core Services CPI is continuing to surge to new highs.



The transition of price hikes from goods to services is part of the self-fulfilling prophecy of inflation which may lead to persistent inflation. A high persistence inflation model forecast has inflation staying above 3% through the end of 2023. The University of Michigan Survey of Consumers has short-term inflation expectations at 5.6% and longer-term inflation (5-10 years) at 3%, which is in-line with the model forecast that is seen below by JP Morgan.

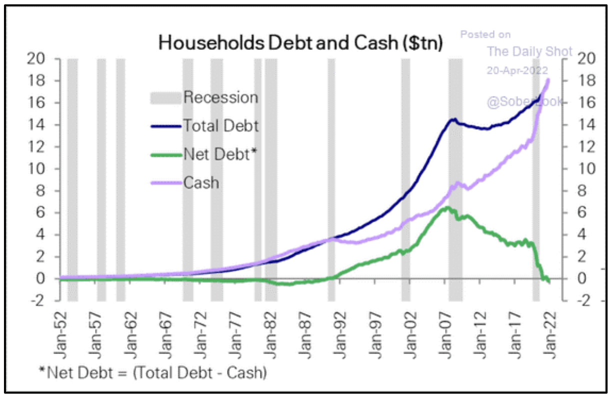
This shift towards longer-term inflation drivers could require the Federal Reserve to act aggressively to control inflation in these high persistence categories that may take longer to normalize. A 50-basis point hike in June is already being priced into the market and the probability of another 50-basis point hike the following quarter is likely. The Federal Reserve has a goal of a soft landing, defined as a cyclical slowdown that avoids a recession. This is difficult and has only been accomplished 3 times prior (1965, 1984, and 1994); however, strong household balance sheets, built up by elevated savings rates over the past 2 years, should help provide the cushion required for a soft landing. The total amount of cash held by households surpasses the total amount of debt held by households (See Graph). There is still plenty of "dry powder" in hands of the average American which could help discretionary

Figure 3: Contribution to CPI inflation by persistence



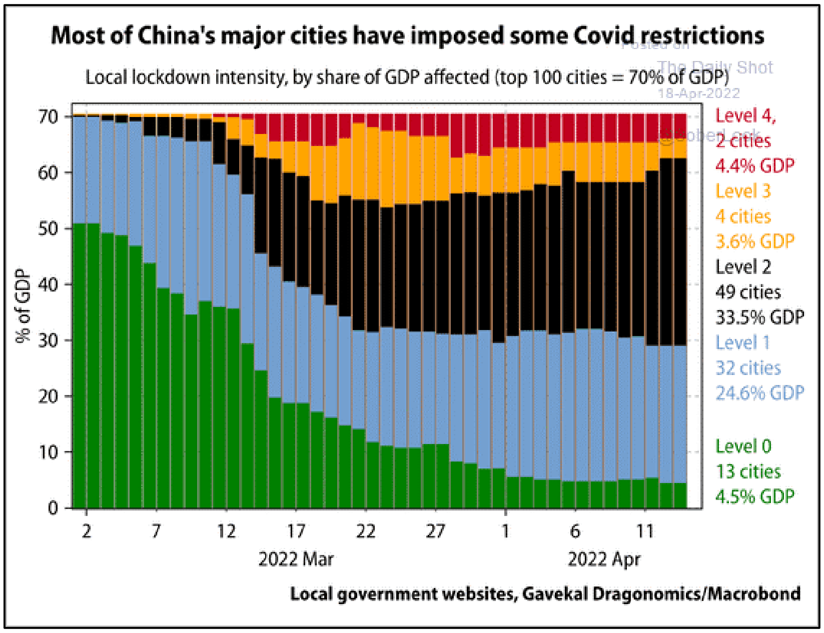
Source: BLS, J.P. Morgan

consumption even during a cyclical slowdown. If the rare “soft landing” is not achieved, the typical gap between the first rate hike and the following recession was 23 months while the shortest gap was 11 months. Whether the economy experiences a cyclical slowdown or a full-blown recession, portfolios should prioritize quality companies with strong balance sheets, good management teams, and strong pricing power. These companies have proven their abilities to weather economic cycles, as inflation hedges, and can act as “safe havens” for investors’ equity allocations.



Resurgence of COVID in China, leading to continued supply chain disruption and accelerating Slobalization

Throughout the pandemic, the Chinese Communist Party (CCP) has maintained a zero COVID policy leading to drastic lockdowns that have resulted in further breakdowns of supply chains. The latest surge in cases, primarily composed of the Omicron BA.2 variant, occurred during late March and early April. The virus outbreaks have quickly spread throughout the country and led to most cities implementing lockdown measures (see Graph). As a result, over 40% of China’s total GDP is now under some form of major lockdown, with the most notable impacted city being Shanghai. Shanghai is the financial, manufacturing, and shipping hub for China with extensive ties to both domestic and international supply chains that allow for the lockdowns to create ripple effects across the globe.

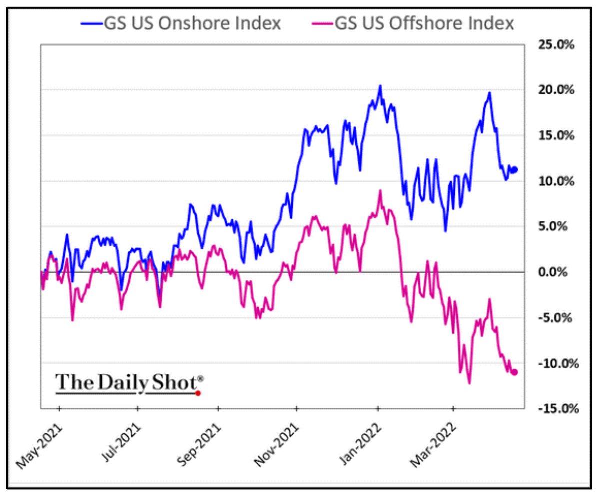


This zero-COVID policy has led to China’s unemployment to rise to 5.8%, the highest level since May of 2020. Additionally, Chinese retail sales have fallen 3.5% in March compared with the previous year. The economic consequences will impact the country’s GDP growth numbers and will make it significantly more difficult to achieve the real GDP growth target the CCP recently laid out. We expect that, given the CCP’s focus on public opinion and economic credibility, they are unlikely to revise down their stated growth target; therefore, it is likely that the CCP implements accommodative monetary and fiscal policy to achieve their stated growth target. The government has already cut mortgage lending rates (for first time in 2 years), reduced the reserve requirement ratio for banks by 25 basis points, and announced that they will help 600 companies restart operations in Shanghai.

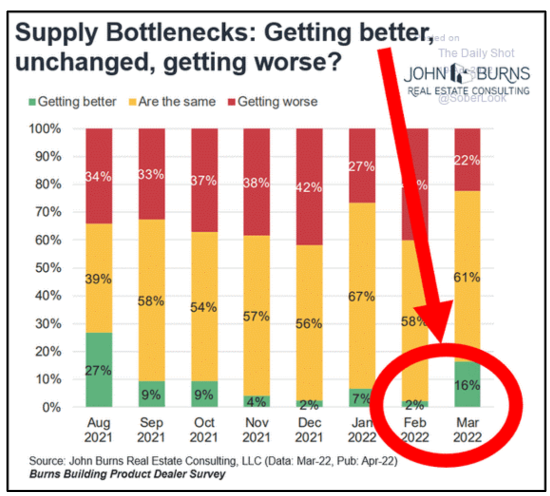
The easing of policy in China will help to offset the impact caused by the zero-COVID policy. It is key to note, however, that the support of domestic consumption (both business and consumer) will not fix the global supply chain ripples. The active management of supply chains by large multinational companies will be crucial in lessening the impacts of component shortages, supply chain congestion, and missed revenues from out-of-stocks or paused manufacturing. An example of this proactive approach was described in Proctor & Gamble's (PG) most recent earnings. PG has 2 plants in the Shanghai area as well as a contract manufacturer with a significant presence in the region. Upon the initiation of lockdowns in Shanghai, PG activated their business continuity plan to offset as much of the lost production as possible. Because of this, PG was able to reduce the negative supply impact of an extended factory closure and was able to operationally outperform other companies with large supply chain exposure to the region.

Rethinking Supply Chains

The pandemic and the recent War in Ukraine have forced many companies to rethink their supply chains, moving towards a regionalized focus as opposed to the global approach that has dominated the world economy for decades. The regionalization trend was already underway with many countries blaming unfettered free trade, and the resulting winner-takes-all economics, for the rise in income inequality, lost jobs, and stagnating wages. Evidence of the push against globalization can be seen by the rise in Nationalism that has spurred political movements in many countries and the resulting protectionist trade policies. The Russian invasion of Ukraine and the pandemic have acted as gasoline on that fire. The graph to the side shows the Goldman Sachs Onshore Index which is composed of US companies whose supply chains are mostly focused on the US while the GS Offshore Index is just the opposite. Over the past year, the companies whose supply chains are sourced in the US have performed better. This divergence started well before the invasion of Ukraine, which suggests that investors were already seeking to shift investments into companies with supply chains closer to home and to reduce the geopolitical risk of their portfolios.



One other reason for this acceleration of regionalization could be the increased regulation in China. The Chinese government has increased its role in actively regulating its economy with the stated intention of reducing income inequality but has frightened foreign investors as well. The increased regulations from China and Western protectionist policies have led to rising wages in Asia, higher energy prices, and increased environmental and social standards which all contribute to more expensive supply chains and hence why business leaders are choosing to regionalize. Benefits from the localization



and shortening of supply chains is starting to be seen by business leaders and consumers, as evidenced by the graph to the right.

Disclosures

This letter may contain "forward-looking statements" which are based on Brookmont's beliefs, as well as on a number of assumptions concerning future events, based on information currently available to Brookmont. Current and prospective clients are cautioned not to put undue reliance on such forward-looking statements, which are not a guarantee of future performance, and are subject to a number of uncertainties and other factors, many of which are outside Brookmont's control, and which could cause actual results to differ materially from such statements. All expressions of opinions are subject to change without notice.

Brookmont Capital Management is a registered investment advisor that invests in domestic and global securities.

Brookmont Capital is defined as an independent investment management firm that is not affiliated with any parent organizations.

A complete description of Brookmont's performance calculation methodology, including a complete list of each security that contributed to the performance of this Brookmont portfolio is available upon request.

Certain economic and market information contained herein has been obtained from published sources prepared by other parties, which in certain cases has not been updated through the date of the distribution of this letter. While such sources are believed to be reliable for the purposes used herein, Brookmont does not assume any responsibility for the accuracy or completeness of such information.

These individual securities do not represent all of the securities purchased, sold, or recommended for this Brookmont portfolio and the reader should not assume that investments in the securities identified and discussed were or will be profitable.

The Brookmont Dividend Growth Strategy returns are based on an asset-weighted composite of discretionary accounts that include 100% of the recommended holdings. Individual accounts will have varying returns, including those invested in the Strategy. The reasons for this include, 1) the period of time in which the accounts are active, 2) the timing of contributions and withdrawals, 3) the account size, and 4) holding other securities that are not included in the Strategy. Dividends and capital gains are not reinvested. The Strategy does not utilize leverage or derivatives. Returns are based in U.S. dollars. The inception of the Strategy is January 1, 2008.

The Brookmont Dividend Growth Strategy Composite contains fully discretionary accounts with similar value equity investment strategies and objectives. For comparison purposes, the Dividend Growth Strategy Composite is measured against the Russell 1000 Value Index. The Russell 1000 Value Index measures the performance of the large-cap segment of the U.S. equity universe. It includes those Russell 1000 companies with lower price-to-book ratios and lower expected growth values. The Russell 1000 Value Index is constructed to provide a comprehensive and unbaised barometer for the large-cap value segment. There is no representation that this index is an appropriate benchmark for such comparison. You cannot invest directly in an index, which also does not take into account trading commissions and costs. The Volatility of this index may be materially different from the performance of the strategy.

The firm maintains a complete list and description of composites, which is available upon request. Results are based on fully discretionary accounts under management, included those accounts no longer with the firm. Composite policy requires the temporary removal of any portfolio incurring a client initiated significant cash inflow or outflow of at least 15% of portfolio assets. The temporary removal of such account occurs at the beginning of the month in which the significant cash flow occurs and the account re-enters the composite at the beginning of the month which follows the cash flow by at least 30 days. Additional information regarding the treatment of significant cash flows is available upon request.

Brookmont's returns do include reinvestment of dividends and are shown gross-of-fees. All transaction costs are included. The Russell 1000 Value cumulative return includes reinvestment of dividends and capital gains. During a rising market, not reinvesting dividend could have a negative effect on cumulative returns. There is no representation that this index is an appropriate benchmark for such comparison. You cannot invest directly in an index, which also does not take into account trading commissions and costs. The Volatility of this index may be materially different from the performance of the Strategy.

Gross returns will be reduced by investment advisory fees and other expenses that may be incurred in the management of the account. Net-of-fees performance was calculated using actual management fees. Additional information regarding the policies for calculating and reporting returns is available upon request.

Your account returns might vary from the composites returns if you own securities that are not included in the Strategy or if your portfolio dollar-cost averaged into the Strategy during the reporting period.

Brookmont Capital Management claims compliance with the Global Investment Performance Standards (GIPS®). To receive a complete list and description of Brookmont's composites and a presentation that adheres to GIPS standards, please contact Suzie Begando at 214-953-0190 or write Brookmont Capital Management, 5950 Berkshire Lane, Suite 1420, Dallas, TX 75225.

The Brookmont Dividend Growth Strategy is available through several institutional platforms and registered investment advisors that are not affiliated with Brookmont Capital Management. Required minimum investments and advisory fees differ from one firm to another.

Brookmont Capital does not provide comprehensive portfolio management services for investors who have not signed and Investment Management Agreement with our firm.

Past performance is not indicative of future results