

Summary

- S&P 500 returned 3.31% in the 4th quarter of 2021, Value underperformed Growth by 1.01%
- In the 4th Quarter of 2021, the 10-year US Treasury Rate decreased by 4.1% %
- The Omicron Variant has become the dominant variant with increased transmissibility but less severe symptoms causing governments to cease entreating damaging economic policies
- Supply Chains continue to normalize despite acute isolated inflation pressures
- Global interest rate tightrope is exacerbated by highly leveraged balance sheet which creates risk asset volatility with each step
- Labor force participation continues to lag while younger workers experience wage inflation

While we collectively have Covid fatigue, it is still at the core of what is driving global markets. Recall that Covid has precipitated the uncertainty in supply chains, labor force, ballooning global balance sheets, interest rate balancing acts, and bubbles in speculative asset classes.

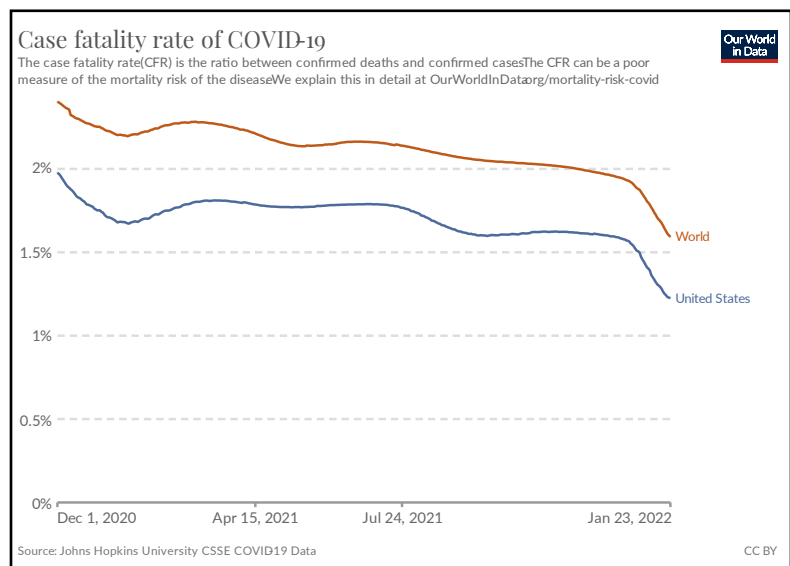
Omicron, Pandemic to Endemic

The global COVID situation has changed dramatically over the last 2 months of 2021 following the emergence of the Omicron variant. This change is caused by genetic mutations of the virus relative to the Delta variant that result in higher transmissibility, shorter incubation

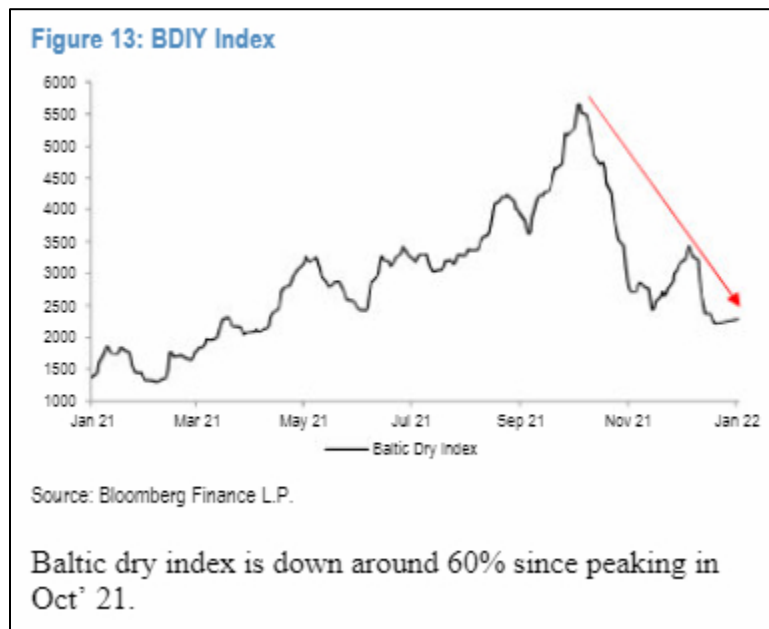
periods, and decreased severity.

This increased transmissibility is paired with decreased severity, particularly for vaccinated individuals. This is shown below with the case fatality rate of COVID in the world and the US. It is key to note that this doesn't necessarily represent the virus' true mortality rate as it is only calculated via confirmed cases. Given the widespread COVID test shortages, it is likely that the mortality rate is even lower.

Case counts in the US seem to have already peaked, and therefore, we expect the negative COVID impacts to decrease rapidly. We may even see the emergence of a silver lining as cases fall, with a significant portion of the population now possessing natural immunity and increased confidence in the ability to return to normal activities safely. This may be where we as a global society begin to pivot away from pandemic-oriented responses to more Endemic oriented responses, which should mean fewer negative financial and labor force implications.



Supply Chains continue to normalize despite acute isolated inflation pressures

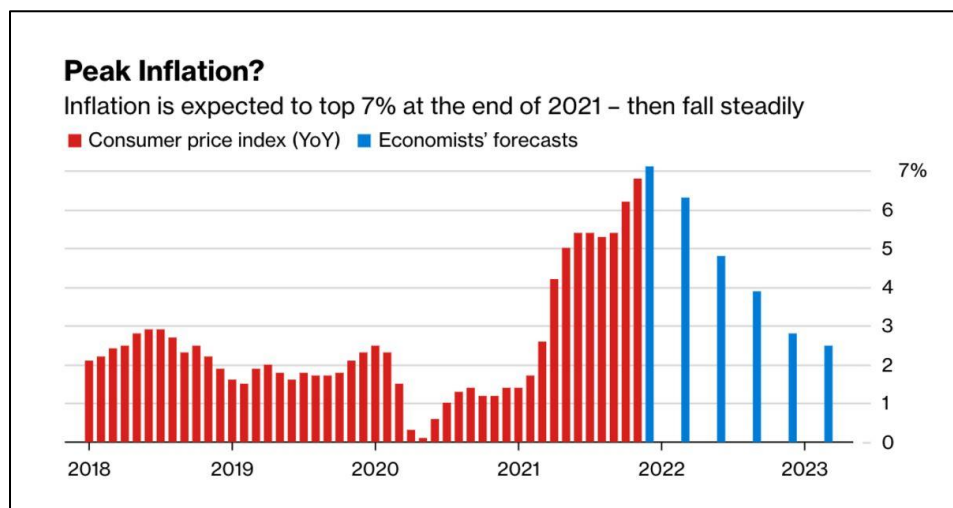


Supply chains are still a long way from complete normalization; however, we have seen significant incremental progress over the past few months. This is evidenced by improving supplier delivery times and a significant decline in the Baltic dry index, which is a good global shipping bell weather and indicates that global logistics health is improving dramatically. As shown by the decline in the Baltic dry index, supply chain decongestion will decrease logistics spending. This drives incremental operating margin expansion, further boosting companies' earnings potential.

We expect this continued shift toward normalization to help drive macroeconomic and equity market growth in two ways. Improving delivery times will allow for inventories to recover from their extremely depressed current levels. This began slightly sooner than expected, in 4Q21, pulling forward some of 2022's real GDP growth from inventory restocking into 4Q21. That said, the trend should continue, albeit at a less extreme pace, for at least another quarter, continuing to contribute positively to real GDP growth. Therefore, the key positive going forward is that recovering inventory levels will help prevent manufacturing disruptions and/or lost sales from out-of-stocks.

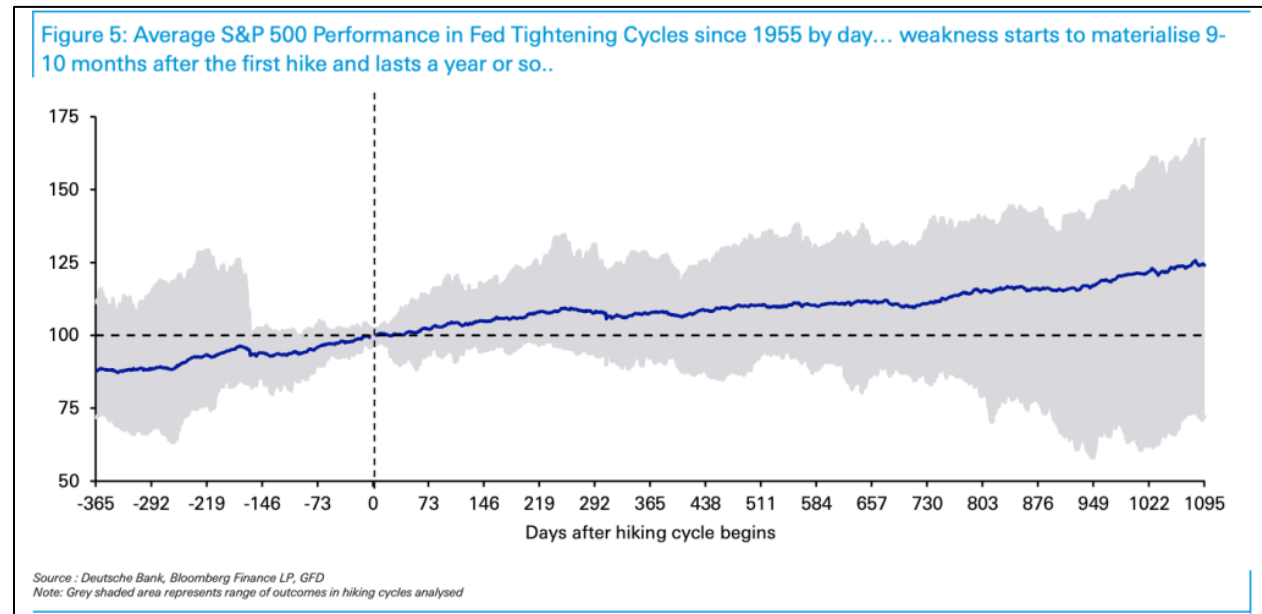
Global interest rate tightrope is exacerbated by highly leveraged balance sheet which creates risk asset volatility with each step

The Fed is expected to raise rates 4 times this year and end its monthly asset purchases by March. This would mean a 25-bps hike in March, June, September, and December. After the last meeting of FOMC, Wall Street has placed a greater

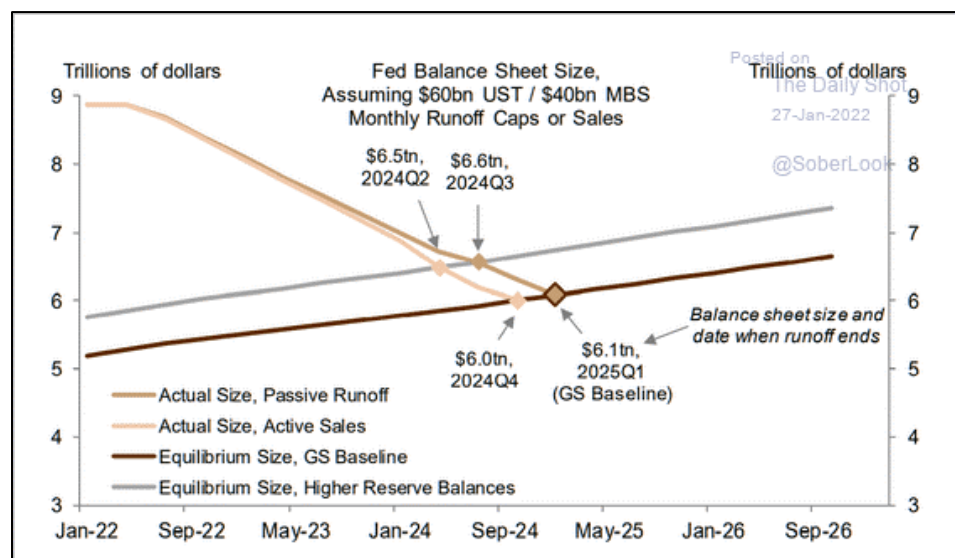


than 90% chance on the first rate hike happening in March. Both the Fed Funds rate and the 10-year US Treasury Rate can rise without disrupting the bull market, but only if the Federal Reserve can raise rates in a clear and moderate fashion.

The bond market is pricing in a targeted federal funds rate of 0.75% - 1.00% by the end of 2022 which is still well below the historical average of 4.5% but the Federal Funds rate and the 10 Year US Treasury Yield have been on a downward trend since the 1980s. Historically speaking, the average rate hike cycle since 1955 has lasted just under 2 years, and during the first year, the S&P 500 has averaged 7.7% growth (365 days after the first hike), but weakness starts to appear after the peak on day 253.



Another aspect of the central bank's policy that has been uncertain until the latest meeting was how the Federal Reserve was going to reduce its balance sheet. The question that had investors on a tight rope to begin the year was whether the balance sheet would be reduced by passively allowing securities to mature off its balance sheet or actively selling the assets into the open market. Investors feared that the Fed would feel the need to actively sell the assets into the open market, which would send bond yields higher in the short term and create even more volatility in the equity market due to the recent high correlation between equities and interest rates. The Federal Reserve's comments yesterday clarified their intentions to let the

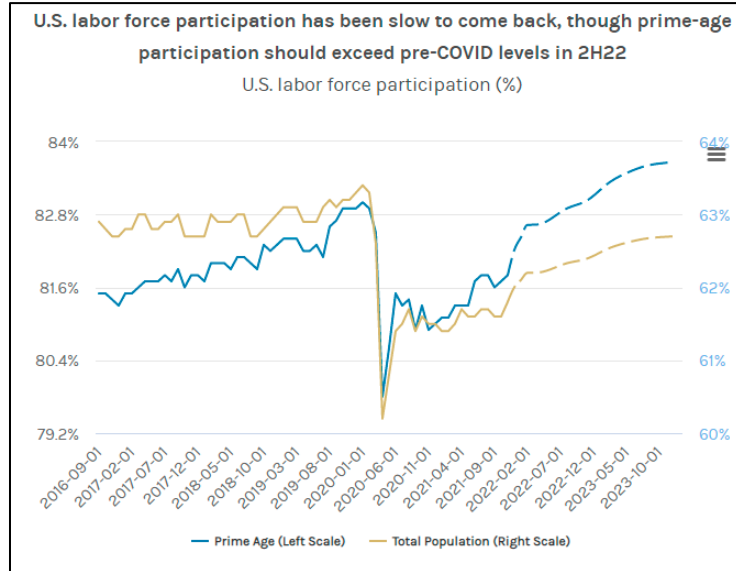


securities passively run off the balance sheet through their maturity, which leads to the runoff ending a quarter further than what they feared.

Labor force participation continues to lag while younger workers experience wage inflation

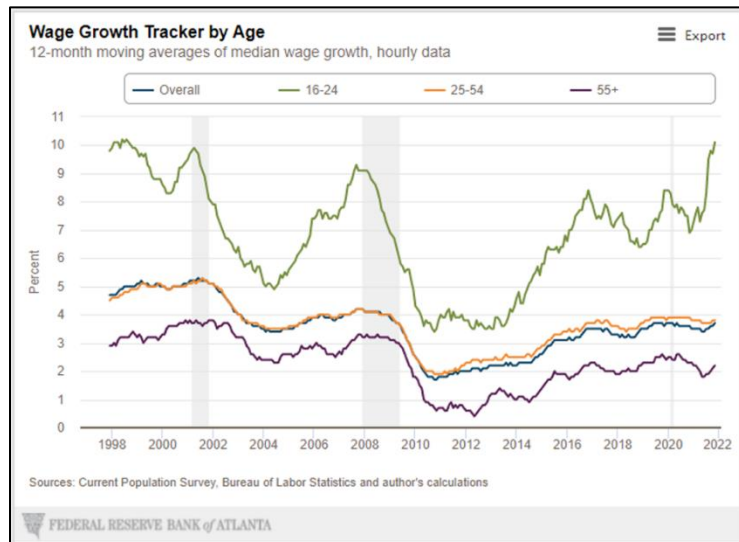
During the pandemic, about 3 million people in the United States left the labor force. Prime-age workers (ages 25-54) account for 1.4 million, or 45%, of the 3 million people who exited the labor force, and

women account for 68% of that 1.4 million. Childcare concerns and the risk of children being exposed to the virus were the likely cause for women to leave the workforce at a higher rate than men. It is estimated that about 42% of the 3 million people who left the workforce since February 2020 are permanent, largely tied to retirement, while 58% are shorter-term, pandemic-specific decisions to leave the market. With Omicron becoming the dominant variant, health risks have gone down, which has resulted in Prime-age labor participation (ages 25 to 54) to rise. Improving childcare, falling health



risks, and rising wages should accelerate that trend throughout the year, which will help stabilize the labor market as prime age workers are the key to a stable labor market.

The December payroll report showed that labor demand continued to outpace labor supply. As a result, unemployment fell to 3.9%, which currently stands below the FOMC's longer-run median forecast of 4.0%, and it is suspected that it will reach 3.3% by the end of 2022. Average hourly earnings growth was strong in 2021, which was led by wages in the leisure and hospitality industry growing by 15.8% from the previous year. Most of the wage growth was in the service sector, which accounts for about 20% of the labor market. The other 80% of the labor market did not see similar wage increases



Moving Forward

The COVID-19 pandemic is still affecting the overall economy and equity market which is apparent by supply chains, labor force participation, and inflation not returning to pre-pandemic levels. The overall uncertainty from the pandemic is still prevalent in the world economy but this year we no longer have stimulus support from central banks and governments around the globe. This has caused a lot of volatility to start the year which will remain elevated as there is a lot of rate and policy questions still in the air. Investors are looking to the central banks for guidance more than ever before. In this type of environment, it is important to still keep fundamentals in mind and focus on quality companies that produce growing cash flows, as these companies weather volatility in a more efficient manner than the overall market.

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 US 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 US 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 unbiased 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 an Investment Management Agreement with our firm.

Past performance is not indicative of future results