JAG CAPITAL MANAGEMENT LLC

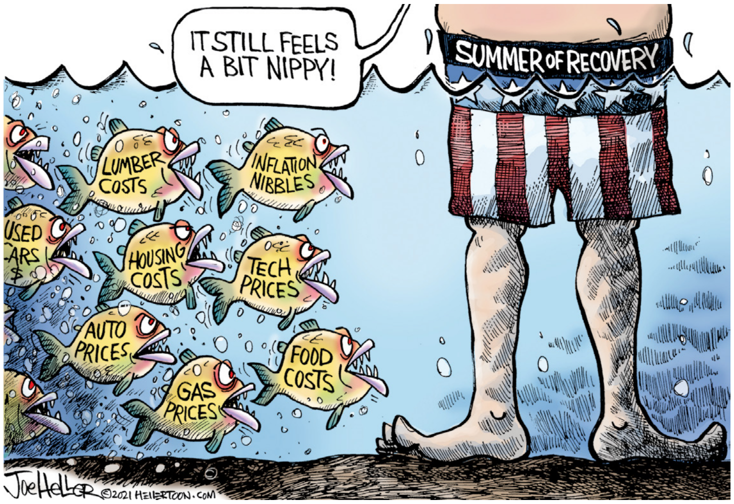
Quarterly Comments

Inflating Worries

The first half of 2022 has been unusually difficult for investors, with both stock and bond prices ending the 2nd quarter firmly in the red. The S&P 500 logged its worst first half-year return since 1970, and the Bloomberg Aggregate Bond Index's year-to-date total return of –10.4% represented its worst six-month start to a year in the history of the data dating from 1977. Markets are volatile and struggling to digest the combined effects of persistently high inflation, rising interest rates, growing recession fears, and ongoing geopolitical unrest related to the war in Ukraine.

Moreover, widespread COVID-related lockdowns in China have caused global supply chain disruptions to persist longer than most expected. Unlike most countries in the developed world, China has committed to a "Zero-COVID" policy, whereby small outbreaks are met with intense city- and province-wide lockdowns. According to CNBC, this has affected an estimated 46 cities and 300 million people, representing nearly 80% of China's economic output. The resulting sharp decline in economic activity in the world's second largest economy increased the odds of a global recession, and it has also contributed to ongoing price pressures for essential goods and manufacturing components. Long term, China's approach to COVID containment could create greater urgency for US and European manufacturers to re-onshore or re-orient their manufacturing bases to other geographies. However, we expect this process will take years rather than months to evolve. For better or worse, we expect China to retain its title as "the world's factory" over the short and intermediate terms.

The Fed has adopted its most aggressive interest rate policy in decades to fight inflation. Its 50-basis point hike in May 2022 was the biggest since May 2000, and its 75-basis point rate increase in June was the largest in almost 28 years. Snarled supply chains have contributed to high inflation, but Chairman Powell and his colleagues cannot unilaterally drill more oil, negotiate an end to the war in Ukraine, produce more semiconductor chips, or manufacture more automobiles. The Fed's dual mandate is a challenge. It is aiming to dampen demand enough to tame inflation without pushing the economy into recession. A so-called "soft landing" may be difficult to achieve. US GDP growth was negative in the first quarter of 2022, and it is possible that second quarter economic growth could be flat to negative on a year-over-year basis. A panel of economists at the NBER (National Bureau of Economic Research) is empowered to declare official recessions, and the current



Source: Hellerrtoon.com

Firm Highlights

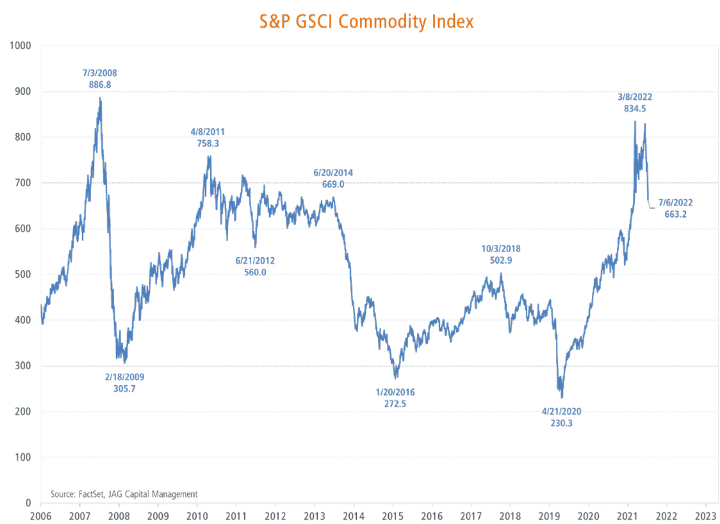
- **JAG Achieves Third Party Veteran Owned® Business Certification**

JAG is proud to announce that we have achieved third party certification as a Veteran Owned Business from the National Veteran Business Development Council (NVBDC). The NVBDC is the leading certifying authority for businesses to ensure valid documentation of veteran status, ownership, and operational control.

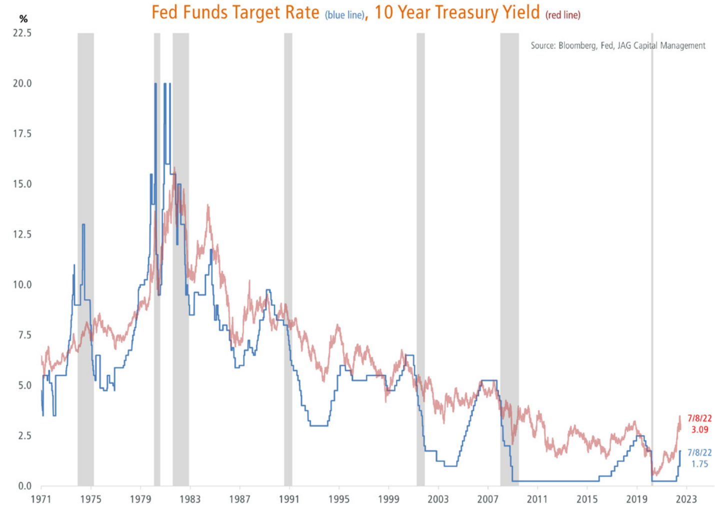
slowdown in economic activity may or may not meet its threshold. We think it reasonable to assume a high probability that the US has already entered a technical recession, with some uncertainty as to depth and duration. Although economic contractions are unpleasant to endure, they are an unavoidable component of the investing and economic landscape. If this is indeed a recession, it would represent the 14th such occurrence since World War II.

Our investment team has decades of experience in navigating recessions and their aftermaths. Markets look forward, not backward, and the current bear market is now seven months old. Stocks are already priced for a significant amount of bad economic news. This sets up the potential for positive surprises over the coming months and years. It is also important to note that stocks may bottom out before the actual data improves. This occurred most recently in the short but violent COVID-19 recession during the spring of 2020, as well as during the 2007-2009 Great Financial Crisis. Recessions also tend to create excellent opportunities for long-term investors, as asset prices eventually overshoot to the downside. Although we cannot forecast the precise path of the markets over the coming months, we can say that we are seeing an increasing number of attractive opportunities in the stock and bond markets.

Over the past several weeks, tentative signs of moderating inflation have begun to appear. Important commodities like copper, aluminum, and lumber have all sharply corrected since early June. Although oil prices remained elevated, they have eased from a peak of $123.70/barrel to $105.76/barrel as of 6/30/2022. Gold logged a 6.7% quarterly decline, despite its traditional reputation as a safe-haven asset, and the US dollar has reached parity with the Euro. Given the fact that inflation has become the Fed's "Public Enemy #1," this bears watching. Continued weakness in commodity prices could translate into cooler inflation data as we approach the end of the year. We already see evidence of this in July with declining commodity prices and some supply chain easing, in the transport area especially. To the extent that this continues, Fed policy may become less hawkish. In our view, this sets up an improving risk/reward profile for risk assets like equities and corporate bonds.



Notably, credit markets also reflect concerns about the economy. Credit spreads have exceeded their widest levels since 2018. Although the Fed and other central bankers are openly uninterested in supporting equity prices, they monitor credit spreads very closely. At the risk of oversimplifying a complex topic, the Fed cares little about the price of Apple stock, but it cares deeply about the cost of credit to Apple and other corporations. Therefore, widening credit spreads tend to get the Fed's attention and might foreshadow a less-hawkish Fed rate stance as we finish out 2022 and head into 2023.



Outlook

Although the volatility and market declines of the first six months of 2022 have been unsettling and painful, we see potential silver linings as we look ahead to the second half of the year and into 2023.

Regarding inflation and Fed rate hikes, markets have aggressively priced in the next six or so months of stubbornly high inflation and additional rate hikes from the Federal Reserve. We can envision a scenario where the Fed decides to hike rates less than feared, which could be a positive force on the markets.

The Chinese economic shutdown seems to be abating, and recently officials in Shanghai declared "victory" against the latest COVID outbreak. If Chinese economic activity can normalize in the coming months, that would be a positive development for global economic growth.

Finally, regarding geopolitics, the human tragedy in Ukraine continues with no end in sight, but the conflict has not explicitly expanded beyond Ukraine's borders, and many analysts believe that some sort of conflict resolution can be reached in the coming months. Any sort of a truce between Russia and Ukraine may quickly reduce commodity prices further, and global recession fears may abate as a result.

Bottom line, the markets have experienced numerous macro- and micro-economic headwinds through the first six months of the year, legitimately pressuring asset prices. Current sentiment is very negative, but much of the potential "bad news" has been at least partially priced into stocks and bonds, creating the opportunity for potential positive surprises.

According to Bespoke Investment Group, the S&P 500's -20.58% decline over the six months ending June 30 represents only the 8th time since World War II that the S&P 500 dropped more than 20% over two quarters. Although this is a small sample size, and past performance is no guarantee of what the future holds, after such declines, stocks have tended to generate strong forward returns. All seven previous instances saw positive returns over the following 12 months, averaging 31.2%.

The question is whether assets are now "cheap enough" to stabilize in the coming months. Corporate earnings and company outlooks will help us form an answer to this question, beginning with the upcoming earnings season during the next several weeks.

We expect haphazard shifts in investor (and media) sentiment in the coming months, reflecting the uncertainties of the future. Ambiguity is emotionally uncomfortable, but it is familiar to us and is a vital component of long-term investing.

S&P 500 Post-War Quarterly Drops of 15%+ and Subsequent Returns

#	Date	3 month Decline	Next 3 months	Next 6 months	Next 12 months
1	Sep-46	-18.8%	2.3%	1.4%	1.0%
2	Jun-62	-21.3%	2.8%	15.3%	26.7%
3	Jun-70	-18.9%	15.9%	26.7%	35.7%
4	Sep-74	-26.1%	7.9%	31.2%	32.0%
5	Dec-87	-23.2%	4.8%	10.7%	12.4%
6	Sep-02	-17.6%	7.9%	4.0%	22.2%
7	Dec-08	-22.6%	-11.7%	1.8%	23.5%
8	Mar-20	-20.0%	20.0%	30.1%	53.7%
9	Jun-22	-16.4%			
		Average	6.2%	15.1%	25.9%
		Median	6.3%	13.0%	25.1%
		Max	20.0%	31.2%	53.7%
		Min	-11.7%	1.4%	1.0%

Source: FactSet & JAG Capital Management

We understand the risks facing both the markets and the economy, and we are committed to helping our clients effectively navigate this challenging investment environment. Successful investing is a marathon, not a sprint, and extended bouts of volatility like we've endured over the past six months are far from unique in the experience of our investment team. We are comfortable in these environments, and we are confident in our ability to capitalize on the inevitable opportunities that have been created by the current sharp corrections in many parts of the capital markets.

Warm regards,

Norm Conley
CEO, Chief Investment Officer &
Portfolio Manager

Mike Kimbarovsky
Managing Director &
Portfolio Manager

Disclosures

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A Veteran Owned Business (VOB) is a business owned, (51% ownership or greater) by a Veteran who has met the definition of a veteran. The following represents the criteria that the National Veteran Business Development Council (NVBDC) uses in determining ownership:

Ownership: Fifty-one percent ownership by a Veteran or Veterans. The applicant must share in all risk and profits commensurate with their ownership interest.

Control and Management: Proof of active management of the business. Veteran must possess the power to direct or cause to direct the management and policies of the business.

Contribution of Expertise and Capital: Contribution of capital and/or expertise by Veteran owner(s) to acquire their ownership interest shall be real and substantial and be in proportion of the interest acquired.

Independence: The Veteran owner(s) shall have the ability to perform in their area of specialty/expertise without substantial reliance on non-Veteran-owned businesses.

About JAG

JAG Capital Management (JAG) actively invests for institutions and individuals in highly selective, customizable, and nimble equity and fixed income strategies. JAG is a boutique, independent, employee-owned investment management firm with offices in St. Louis and Chicago.

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