



Quarterly Insights

– January 2022



Earnings, Economic Growth, and Vaccines Push Stocks to New Records in 2021

Welcome to 2022! Stocks overcame numerous headwinds during the past three months, including a resurgence in COVID cases, the Federal Reserve moving aggressively to end the current QE program, and a lack of additional stimulus from Washington, to hit new all-time highs in the fourth quarter and produce very strong returns for 2021.

The fourth quarter started with a continuation of the volatility that we saw at the end of the third quarter, as in early October there was still little progress in Washington on extending the debt ceiling, avoiding a government shutdown, or providing investors clarity on future tax changes contained in the Build Back Better bill. That political uncertainty combined with concerns over third-quarter corporate earnings resulted following a series of negative earnings pre-announcements to send stocks lower to start the fourth quarter. But by the middle of October, Republicans and Democrats had extended the debt ceiling and avoided a government shutdown, while many of the tax increases proposed in the Build Back Better bill were removed from the bill, which eased investor anxiety about future tax increases. Additionally, the third-quarter earnings season proved to be better than feared as corporate America again proved resilient. The vast majority of companies posted better-than-expected results and 2022 S&P 500 earnings expectations rose yet again. Each of those positive developments helped send the S&P 500 sharply higher in October as the S&P 500 recouped all the September losses and hit a new all-time high late in the month.

The positive momentum continued in early November, as the S&P 500 drifted steadily higher given the tailwinds of 1) clarity from Washington, 2) strong earnings, and 3) declining COVID cases. Additionally, while the Federal Reserve announced it would begin to reduce, or taper, its Quantitative Easing (QE) program starting in November, the pace of the reductions met investor expectations, and markets continued to rally and hit new all-time highs in mid-November. But on Thanksgiving Day, the World Health Organization declared the Omicron variant of COVID-19, which had just been discovered in South Africa, a “variant of concern.” This designation caused a sharp selloff in stocks, partially thanks to very low liquidity, as governments once again closed borders to international travel, and the world wearily braced for another increase in cases.

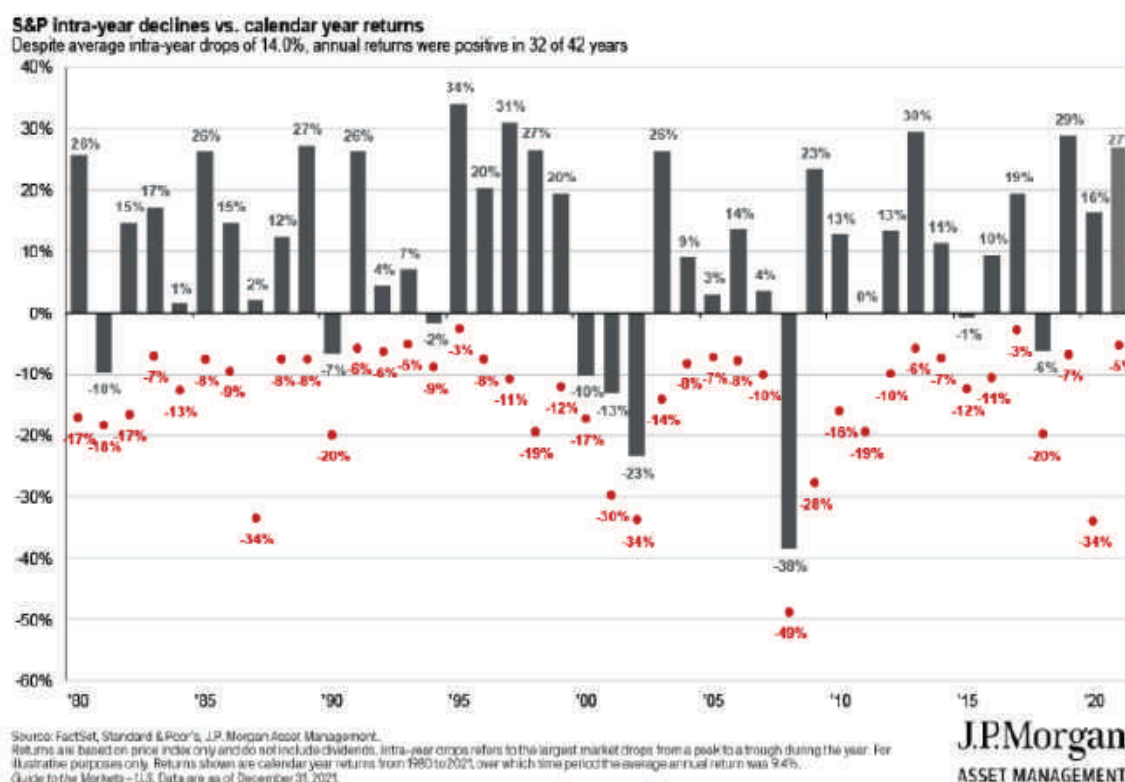
Additionally, at a Congressional hearing in late November, Federal Reserve Chairman Jerome Powell surprised markets by stating that due to persistently high inflation, the Fed would likely need to accelerate the just-announced tapering of QE and endorsed doubling the pace of reduction. That acceleration came less than a month after the Fed’s initial tapering announcement, and it caused markets to price in sooner-than-expected interest rate hikes in 2022. Concerns about future Fed policy combined with Omicron uncertainty led to declines in stocks late in November and the S&P 500 finished the month with a small loss.

Markets rebounded in December, however, thanks to less aggressive messaging on rate hikes from the Fed combined with governments not imposing economically crippling lockdowns in response to the surging Omicron outbreak.

First, at its December meeting, the Fed announced it will accelerate the tapering of QE in 2022, and that QE would end in mid-March, about three months earlier than expected. The Fed also signaled it expected to raise interest rates three times in 2022 to combat rising inflation. But both of those announcements largely met the latest market expectations, and some reassuring commentary by Chair Powell that the Fed would remain supportive of the economy helped ease investors' concerns that interest rates would rise too quickly in 2022, and stocks rallied in the wake of the Fed decision. Then, late in the month, multiple studies implied that the Omicron variant, while more contagious than previous strains, resulted in substantially fewer severe COVID cases. So, while there would likely be new records in daily cases due to Omicron, the risk of hospitalizations and deaths remained low, and as such, governments could avoid lockdowns such as those seen in March 2020. That news helped stocks extend the rally late in December, and the S&P 500 finished the month with a 4% gain.

In sum, 2021 was another historic year for markets and the S&P 500 ended near new all-time highs, as the governmental policy remained supportive of the economy, corporate earnings growth was strong, and substantial progress was made against the pandemic in the form of widespread vaccination and advancement in treatments. Those positives, in aggregate, were reflected in the very strong market returns, especially in the final quarter of the year.

Following is a chart we like which shows the largest decline for each calendar year compared to where the S&P 500 finished the year in terms of returns. As you can see for 2021, the S&P 500 had a decline of approximately 5.2% but finished +27%. In 2017, the stock market declined 3% and finished +19%, while in 2013, the S&P 500 declined 6% while finishing +30%. Be prepared for more volatility in 2022!



Q4 and Full Year 2021 Performance Review

All four of the major U.S. stock indices were higher for the fourth quarter, with the tech-heavy Nasdaq slightly outperforming the S&P 500 while the Dow Industrials modestly lagged both aforementioned indices. Meanwhile, the small-cap focused Russell 2000 registered only a small gain for the fourth quarter. Concerns about economic headwinds from the Omicron variant and the Fed's more aggressive QE tapering and rate hike schedule weighed on small-cap companies especially, as investors sought relative safety in large-cap tech amidst the rising possibility of slower economic growth in 2022. On a full-year basis, all four major indices posted positive returns, with the S&P 500 slightly outperforming the Nasdaq for the first time since 2016. The Russell 2000 relatively underperformed thanks to lackluster returns during the second half of 2021, as the Delta and Omicron variants weighed on economic growth.

By market capitalization, large caps handily outperformed small caps both in the fourth quarter and throughout 2021. As mentioned, concerns about future economic growth were the main driver of large-cap outperformance and small-cap underperformance especially in the second half of 2021. The aforementioned Delta and Omicron variants were headwinds on economic growth in the second half of the year, while the Fed potentially hiking rates more than expected made the growth outlook for 2022 less certain, and those two factors drove a rotation from small caps to large caps in the third and fourth quarters.

From an investment-style standpoint, a late-year rally in large-cap tech helped growth outperform value both in the fourth quarter and for the full year. That outperformance reflected the deceleration in economic growth during the second half of 2021 due to the Delta and Omicron variants.

Stock Index Performance					
Index	Week	YTD	12-mo.	2021	5-yr.
Dow Jones Industrial Avg. (36,338)	1.08%	20.95%	20.95%	20.95%	15.50%
S&P 500 (4,766)	0.87%	28.68%	28.68%	28.68%	18.44%
NASDAQ 100 (16,320)	0.08%	27.51%	27.51%	27.51%	28.60%
S&P 500 Growth	0.36%	32.00%	32.00%	32.00%	24.07%
S&P 500 Value	1.44%	24.86%	24.86%	24.86%	11.87%
S&P MidCap 400 Growth	1.61%	18.89%	18.89%	18.89%	14.64%
S&P MidCap 400 Value	1.78%	30.61%	30.61%	30.61%	11.04%
S&P SmallCap 600 Growth	1.41%	22.56%	22.56%	22.56%	14.30%
S&P SmallCap 600 Value	0.76%	30.85%	30.85%	30.85%	10.17%
MSCI EAFE	0.89%	11.26%	11.26%	11.26%	9.54%
MSCI World (ex US)	0.96%	7.82%	7.82%	7.82%	9.60%
MSCI World	0.80%	21.82%	21.82%	21.82%	15.01%
MSCI Emerging Markets	1.04%	-2.54%	-2.54%	-2.54%	9.86%
S&P GSCI	0.51%	40.35%	40.35%	40.35%	2.79%

Source: Bloomberg. Returns are total returns. 5-yr. return is an average annual. One-week, YTD, 12-mo. and 5-yr. performance returns calculated through 12/31/21. An index cannot be purchased directly by investors. Past performance is no guarantee of future results.

On a sector level, 10 of the 11 S&P 500 sectors finished the fourth quarter with positive returns, with the tech and real estate sectors leading the way higher. Tech benefitted from that rotation to safety amidst COVID and Fed policy uncertainty, while real estate rose as investors priced in a continued rise in inflation, as real estate has had strong historical returns during periods of elevated inflation. For 2021, however, energy was by far the best-performing sector in the market as a surge in oil and natural gas prices helped energy handily outperform all other market sectors. Real estate, tech, and financials were also strong performers for the full year 2021, as investors sought protection from inflation via real estate and financials, while tech benefitted from continued strong earnings growth and the familiar defensive rotation following the Delta and Omicron waves.

S&P Sector Performance					
Index	Week	YTD	12-mo.	2021	5-yr.
Communication Services	-0.79%	21.57%	21.57%	21.57%	11.47%
Consumer Discretionary	0.42%	24.43%	24.43%	24.43%	21.32%
Consumer Staples	2.51%	18.63%	18.63%	18.63%	11.74%
Energy	1.08%	54.39%	54.39%	54.39%	-1.48%
Financials	0.58%	34.87%	34.87%	34.87%	13.19%
Health Care	1.14%	26.13%	26.13%	26.13%	17.56%
Industrials	1.81%	21.10%	21.10%	21.10%	12.76%
Information Technology	0.47%	34.52%	34.52%	34.52%	32.09%
Materials	2.65%	27.28%	27.28%	27.28%	15.11%
Real Estate	3.80%	46.14%	46.14%	46.14%	14.84%
Utilities	2.66%	17.67%	17.67%	17.67%	11.76%

Source: Bloomberg. Returns are total returns. 5-yr. return is an average annual. One-week, YTD, 12-mo. and 5-yr. performance returns calculated through 12/31/21. An index cannot be purchased directly by investors. Past performance is no guarantee of future results. On 9/28/18, the Global Industry Classification Standard (GICS) was reconstituted and the Telecommunications Services sector was renamed Communication Services. GICS sector information for periods prior to 9/28/18 may not necessarily be comparable to the reconstituted sectors.

The only S&P 500 sector to post a negative return for the fourth quarter was communication services, as investors rotated out of internet-focused tech stocks and into more diversified technology companies such as Microsoft, Apple, and others. Financials also relatively underperformed, but still registered a positive return as concerns about sooner-than-expected Fed rate hikes in 2022 led to a flattening of the yield curve, which was a headwind on bank stocks. On a full-year basis, traditionally defensive sectors lagged, but still logged substantially positive annual returns. Utilities and consumer staples were the worst-performing sectors for the full year, as investors focused on companies with more positive exposure to higher inflation and economic growth.

S&P 500 Total Returns by Month in 2021											
Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
-1.01%	2.76%	4.38%	5.34%	0.70%	2.33%	2.38%	3.04%	-4.65%	7.01%	-0.69%	4.48%

Source: Morningstar

U.S. Equity Indexes	Q4 Return	2021 Return
S&P 500	11.03%	28.71%
DJ Industrial Average	7.87%	20.95%
NASDAQ 100	11.28%	27.51%
S&P MidCap 400	8.00%	24.76%
Russell 2000	2.14%	14.82%

Source: YCharts

Internationally, foreign markets saw modest gains in the fourth quarter as declines in emerging markets partially offset gains in developed markets. Emerging markets dropped in the fourth quarter in reaction to a stronger U.S. dollar, while the Omicron variant also weighed on global economic growth estimates. Developed markets posted a positive return for the fourth quarter, although they badly underperformed the S&P 500. For the full year 2021, foreign markets registered solidly positive returns but, again, handily underperformed the S&P 500 as only moderate gains in developed markets were offset by a modest annual decline in emerging markets.

International Equity Indexes	Q4 Return	2021 Return
MSCI EAFE TR USD (Foreign Developed)	2.74%	11.78%
MSCI EM TR USD (Emerging Markets)	-1.24%	-2.22%
MSCI ACWI Ex USA TR USD (Foreign Dev & EM)	1.88%	8.29%

Source: YCharts

Commodities saw gains in the fourth quarter as both oil and gold logged positive returns. Oil rallied late in the quarter on fading concerns that Omicron would materially impact consumer demand for refined products around the globe. Gold, meanwhile, saw a small gain in the fourth quarter thanks to continued high inflation readings, a decline in the U.S. dollar, and a general increase in market volatility following the Omicron surge. For 2021, commodities posted a large, positive return due to the significant gains in oil futures and other energy commodities which surged as the global economy reopened and demand increased amidst still-constrained supply thanks to a disciplined OPEC+ group. Gold, however, saw a modestly negative return for 2021 as the increasing attractiveness of alternative investments, such as Bitcoin and other cryptocurrencies, combined with a stronger dollar to weigh on precious metals.

Commodity Indexes	Q4 Return	2021 Return
S&P GSCI (Broad-Based Commodities)	1.51%	40.35%
S&P GSCI Crude Oil	0.24%	55.01%
GLD Gold Price	4.09%	-3.75%

Source: YCharts/Koyfin.com

As we start 2022, there are two key questions that will determine whether stocks can continue the rally, or whether we see a pullback:

- ❶ What happens with inflation?
- ❷ What does the Fed do with rates?

Inflation

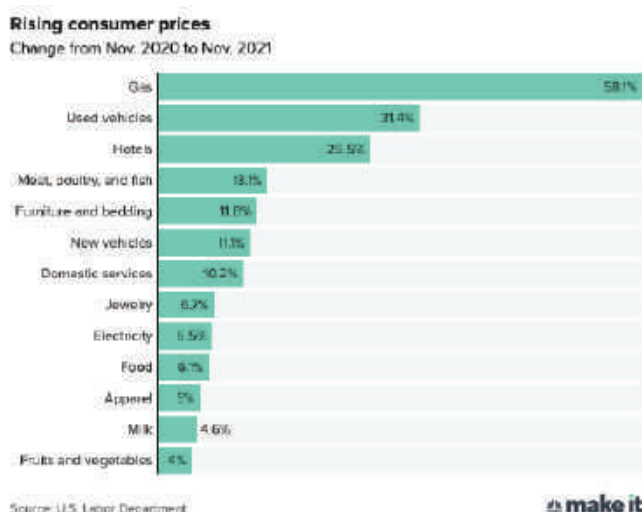
What is the definition of inflation that we are experiencing?

“Too much demand” means people have a lot of money, and they do! The combination of **1)** forced savings from pandemic lockdowns, **2)** extra money from nearly two years of historical stimulus, **3)** surging asset prices (homes, boats, cars, etc.), and **4)** historic wage increases means that many people, especially in the U.S., are as flush with cash as they’ve been, maybe ever. That has caused increased demand for virtually everything—because more people have money to spend.

“Too few goods” means that people can’t get what they want, when they want it—and that causes prices to go up. This unprecedented increase in demand has run full force into the worst supply-chain breakdown we’ve seen since the global economy developed starting in the late ‘90s/early 2000s, and the net result is a reduction in the amount of goods available and rising prices. Similarly, due to a multitude of factors that include stimulus and COVID isolation protocols, the amount of service labor has similarly been historically constrained, and that only increases upward pressure on inflation (so inflation is coming from constrained goods and services supply).

Consumer prices continue to surge as inflation accelerated to its fastest pace **since 1982**, driven largely by the cost of energy, vehicles, and food. The **consumer price index**, which measures the cost of various goods and services, jumped up another 0.8% on a **seasonally adjusted** basis in November—a 6.8% increase on a year-over-year basis compared to last November, according to a Labor Department report.

Here’s a look at some of the biggest consumer prices changes in the past year, by percentage:



There are two events looming that could make this situation worse (meaning more demand/less supply).

The first is Omicron. Evidence continues to mount that Omicron will 1) not be a material headwind on global growth, and as such, won't delay rate hikes and 2) will cause more supply-chain disruptions and delays, and that could mean higher-for-longer inflation metrics. Those two realities could combine to make the Fed more hawkish (or at least more firmly reiterate their current plans), and the combination of possibly higher inflation and a hawkish Fed pushed rates higher on Monday.

The second is Build Back Better. While the Democrats failed to pass the Build Back Better bill in December, it could well pass in early 2022, and there are reports that negotiations between Sen. Manchin and President Biden have resumed. If Build Back Better passes, it'll unleash additional stimulus and Federal spending—meaning even more demand! That will possibly meet with continued supply chain issues due to Omicron to further stoke inflation, which means a possibly more hawkish Fed and higher yields.

The Federal Reserve and Rising Interest Rates: How will the markets react?

Well, I think we found our near-term answer on Wednesday, January 5th, with the S&P 500 declining -1.94% and the Nasdaq declining -3.34%.

The Federal Reserve set the stage for a series of interest rate increases beginning this spring, completing a major policy pivot that showed much greater concern about the potential for inflation to stay high. Most central bank officials, in projections released in December 2021 at the conclusion of their two-day meeting, penciled in at least three quarter-percentage-point rate increases next year. In September 2021, around half of those officials thought rate increases wouldn't be warranted until 2023.

For months, Fed leaders had stuck to a view that higher price pressures this year were caused primarily by supply-chain bottlenecks and would ease on their own. But Fed Chairman Jerome Powell had in recent weeks signaled much less conviction about that forecast, and the projections Wednesday suggest most of his colleagues share his concern.

On Wednesday, January 5th, the FOMC minutes from their December meeting sent stocks, especially the tech-heavy Nasdaq, sharply lower, and there was one clear reason why: the minutes revealed that FOMC members discussed balance sheet reduction—otherwise known as “Quantitative Tightening,” i.e., the opposite of QE. Balance sheet reduction wasn't expected until 2023 at the earliest, so the fact that it was discussed at the December meeting caught markets by surprise.

Now, it seems like the Fed is intent on removing accommodation faster than the last time, so things could go quicker—but at this point, the threat of balance sheet reduction isn't enough to warrant abandoning medium- or long-term positions, although it is another reminder that the Fed transition to a more "normal" policy will 1) create more volatility and 2) hurt growth more than cyclical and defensive sectors.

Near-Term Pain for Long-Term Gain

When the Federal Reserve starts with their first interest rate increase, over a 6- and 12-month time period, the S&P 500 is positive 6 out of 7 years with an average gain of 10.2% over 12 months.

What Happens After The First Rate Hike? Stocks Do Well

S&P 500 Index Performance After The First Fed Rate Hike

Date Of First Hike	S&P 500 Index Future Returns		
	Next Three Months	Next Six Months	Next Twelve Months
12/16/2015	-1.1%	0.1%	9.1%
6/30/2004	-2.3%	6.4%	5.2%
6/30/1999	-7.6%	6.6%	6.0%
3/25/1997	13.6%	20.6%	39.6%
2/4/1994	-5.9%	-2.5%	2.4%
5/11/1988	3.4%	8.6%	20.7%
4/1/1987	3.6%	10.1%	-11.7%
Average	0.5%	7.1%	10.2%
Median	-1.1%	6.6%	6.0%
% Positive	42.9%	85.7%	85.7%

Source: LPL Research, Bloomberg 04/20/21

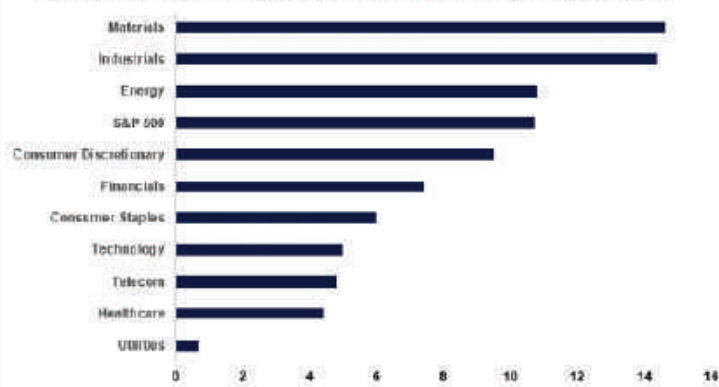
All indexes are unmanaged and cannot be invested into directly. Past performance is no guarantee of future results.

LPL Research also notes that in the previous six rate cycles, materials, industrials, and energy companies generally performed the best during these periods.

Figure 6: Some Sectors Thrive During Rate-Hike Cycles

Cyclical Value Sectors Have Historically Done Well Leading Up To Fed Rate Hike Campaigns

■ Average S&P 500 Sector Performance 6 Months Before First Fed Tightening (%)



Source: LPL Research, Strategas 12/15/2021

Calculations based on Fed rate hike cycles starting in 1983, 1987, 1994, 2004 and 2015.

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6 Reasons to Be Cautiously Optimistic in 2022

Now, I know I've voiced some caution for the first quarter of 2022, specifically that we can expect more normal volatility as the Fed removes accommodation. But that's not a guaranteed outcome, and there is a path for stocks to continue higher and to again post above-average returns for the fourth year in a row.

What Could Go Right 1: Inflation peaks. We expect inflation to be a major influence on markets in 2022 primarily because of the politics of inflation: It is now listed high among concerns for consumers and voters, and as such the focus on inflation from Washington (including the White House, Capitol Hill, and the Fed) is as intense as we've seen it in decades. That is one of the major factors behind the Fed's more aggressive tapering of QE.

What Could Go Right 2: Central banks don't tighten too much. This obviously goes hand in hand with inflation. If various measures of inflation begin to back off, then the chances the Fed overtightens will decline significantly, and that could be an unanticipated tailwind for stocks in Q1, 2022. The Federal Reserve has its work cut out for it. Economists are predicting three rate hikes this year (25 basis points each). The big question is whether Fed policymakers have the guts.

What Could Go Right 3: Build Back Better gets passed. Next key event: A vote in January 2022. The markets and the economy are facing a huge drop in fiscal spending in 2022, and that will remove a tailwind on the economy. Consider that budget deficits for 2020 and 2021 were in the double digits (so above 10%). Prior to the pandemic, they were around 4%. The massive increase in fiscal spending in '20 and '21 helped spur economic growth, and there's concern that a sharp drop in fiscal spending will be a headwind in 2022. According to Brian Wesbury, chief economist at First Trust, "It's still possible that a plan totaling something like \$1.5 trillion or more gets passed. But we think that's unlikely. More likely? Either nothing at all, or a much smaller bill. Put yourself in the shoes of relatively moderate Democrats in Congress—being forced to vote on tax hikes in an election year is difficult, and reluctance is going to grow every week as 2022 unfolds."

What Could Go Right 4: 2023 earnings remain very strong. Next key event: Week of Jan. 10–Feb. 4, Q4 earnings season. 2023 is not a typo. Sooner than later (by early to mid Q2) markets will begin to focus on 2023 earnings, which currently are estimated to be \$250/share for the S&P 500. If corporate earnings commentary in the coming weeks again downplays inflation pressures and margin compression, and we see earnings estimates for both 2022 and 2023 rise, then that allows the S&P 500 to trade decidedly higher from here and still be in the bounds of "reasonable" valuations.

What Could Go Right 5: COVID ends. Key indicator: Case counts. Each successive wave of COVID has seen less and less of a market reaction, including with Omicron. If, as markets currently expect, Omicron essentially "burns out" and we are left with the vast majority of the global population with some protection against future disease (either natural antibodies or vaccines), then markets will increasingly view COVID as "over" and that will provide a general tailwind for stocks. And as we look ahead to 2022, we sadly must be prepared for more variants to impact the global economy, and we will continue to watch for any sustainably negative impacts from COVID on the economy or markets.

What Could Go Right 6: Republicans win either the House or Senate. Key indicator to watch: Polls as we move toward November. Markets prefer gridlock over one party being in total power, as it usually guarantees that there are no major changes to tax policy or other important regulations or laws. And while a divided government will set up a potential repeat of the debt ceiling and shutdown dramas of the '12-'16 periods in 2023, markets will embrace a divided government in 2022. Given the history of mid-term elections as well as the election returns in 2021 (gubernatorial and state legislative races in New Jersey and Virginia, as well as some races elsewhere), the most likely possibilities seem to be either a GOP Wave or a GOP Tsunami. Either would mean no more tax hikes and that all legislation would have to be bipartisan to pass, which should mean lots of gridlock.

However, while markets face numerous risks as we start a new year (like they always do), there remain multiple powerful tailwinds on stocks and other risk assets. Corporate earnings remain incredibly strong, and the performance of corporate America through the pandemic has been nothing short of amazing. Interest rates, while they will likely rise in 2022, remain very, very low and not yet close to levels that would historically be considered a headwind on economic activity. Personal savings remain high, unemployment remains low, and broadly speaking, the U.S. economy is in strong shape.

So, while there are risks to the markets and the economy that could result in more historically typical market volatility in 2022, on balance the outlook remains decidedly positive.

Q1 and 2022 Market Outlook

Markets have exhibited very impressive resilience since the pandemic began, and that remained the case throughout the fourth quarter and all of 2021, as the strength of the U.S. economy and corporate America helped produce another year of substantially positive returns in stocks. And that resilient nature will continue to support markets and the economy as we begin a new year.

Like all years, however, 2022 presents numerous potential challenges to economic growth, corporate earnings, and market returns, including a reduction in global stimulus, still stubbornly high inflation pressures, political uncertainty, and the ongoing pandemic.

First, global central banks, led by the Federal Reserve, have already begun to reverse the historically accommodative policies that were enacted in response to the pandemic. The Fed specifically expects to end its QE program by mid-March and increase interest rates three times in 2022. That transition to more normal monetary policy will likely create headwinds on the economy and potentially corporate earnings, and while historically U.S. stocks have performed well during the initial phases of a Fed rate hike campaign, we will closely monitor the impact of rate hikes on economic growth and the corporate earnings outlook as we move through 2022.

We have already started to see other countries around the world start to raise interest rates, as you can see in the chart below. This should continue to be a trend we see going into 2022 as more and more central banks around the world start to raise interest rates.

Global Central Bank Policy Rates						
Country	Rate	Central Bank Rate (Today)	CPI YoY	Real Central Bank Rate	Last Move	Last Move Date
Switzerland	Target Rate	-0.75%	1.5%	-2.3%	Cut	Jan-15
Denmark	Deposit Rate	-0.60%	3.4%	-4.0%	Cut	Sep-21
Eurozone	Deposit Rate	-0.50%	4.9%	-5.4%	Cut	Sep-20
Japan	Policy Rate Bal	-0.10%	0.1%	-0.2%	Cut	Jan-16
Sweden	Repo Rate	0.00%	3.4%	-3.4%	Hike	Dec-19
Australia	Cash Rate	0.10%	3.0%	-2.9%	Cut	Nov-20
US	Fed Funds	0.1%	6.8%	-6.7%	Cut	Mar-20
UK	Bank Rate	0.25%	5.1%	-4.9%	Hike	Dec-21
Canada	Overnight	0.25%	4.7%	-4.5%	Cut	Mar-20
Norway	Deposit Rate	0.50%	3.1%	-2.6%	Hike	Dec-21
Thailand	Policy Rate	0.50%	2.7%	-2.2%	Cut	May-20
New Zealand	Cash Rate	0.75%	4.9%	-4.1%	Hike	Nov-21
Hong Kong	Base Rate	0.85%	1.8%	-0.9%	Cut	Mar-20
South Korea	Repo Rate	1.00%	3.7%	-2.7%	Hike	Nov-21
Saudi Arabia	Reverse Repo	1.00%	1.1%	-0.2%	Cut	Mar-20
Taiwan	Discount Rate	1.1%	2.8%	-1.7%	Cut	Mar-20
Poland	Repo Rate	1.75%	7.8%	-6.1%	Hike	Dec-21
Malaysia	Policy Rate	1.75%	3.3%	-1.6%	Cut	Jul-20
Philippines	Key Policy Rate	2.00%	4.2%	-2.2%	Cut	Nov-20
Peru	Policy Rate	2.50%	5.7%	-3.2%	Hike	Dec-21
Colombia	Repo Rate	3.00%	5.3%	-2.3%	Hike	Dec-21
Indonesia	Repo Rate	3.50%	1.8%	1.8%	Cut	Feb-21
Czech Republic	Repo Rate	3.75%	6.0%	-2.3%	Hike	Dec-21
South Africa	Repo Rate	3.75%	5.5%	-1.8%	Hike	Nov-21
China	Loan Prime Rate	3.80%	2.3%	1.5%	Cut	Dec-21
Chile	Base Rate	4.00%	6.7%	-2.7%	Hike	Dec-21
India	Repo Rate	4.00%	4.9%	-0.9%	Cut	May-20
Mexico	Overnight Rate	5.50%	7.4%	-1.9%	Hike	Dec-21
Russia	Key Policy Rate	8.50%	8.4%	0.1%	Hike	Dec-21
Brazil	Target Rate	9.25%	10.7%	-1.5%	Hike	Dec-21
Turkey	Repo Rate	14.00%	21.3%	-7.3%	Cut	Dec-21
Argentina	Benchmark Rate	38.00%	51.2%	-13.2%	Hike	Nov-20

COMPOUND

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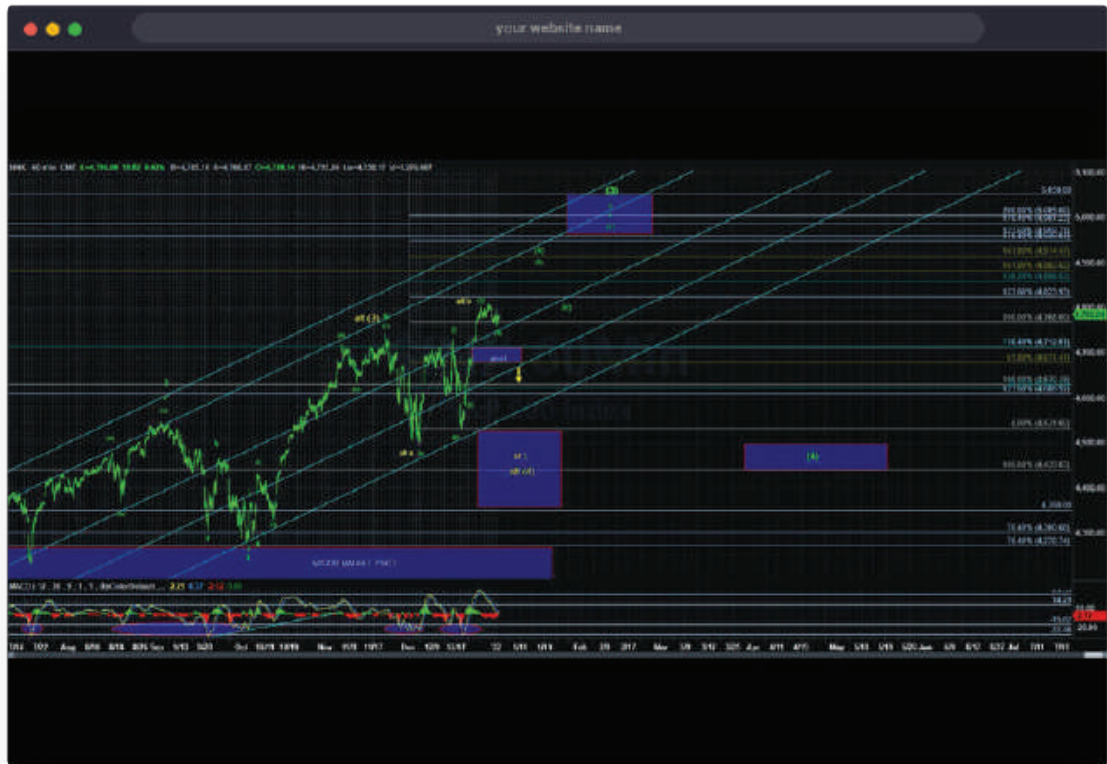
The reason the Fed is more aggressively removing accommodative policies is because inflation surged to 30-plus-year highs in 2021. Positively, rising inflation did not have a negative impact on consumer spending or corporate earnings in 2021. But that risk remains as even optimists do not expect inflation to decline substantially in 2022. As we did in 2021, we will continue to monitor inflation closely to see if it becomes a negative influence on corporate margins and earnings, or consumer spending more broadly, because if that's the case, it will result in a rise in market volatility.

More broadly, as we consider all that occurred in 2021 and look forward to 2022, one of the biggest takeaways from another unpredictable year in the markets is that a well-planned, long-term-focused, and diversified financial plan can withstand virtually any market surprise and a related bout of volatility, including multiple COVID waves, inflation reaching 30-year highs, and the Federal Reserve removing historic accommodation.

Technically Speaking, Caution Is the Name of the Game

Following is our intermediate term chart of the S&P 500. As of January 5, 2022, the S&P 500 is currently at 4700. Our next objective is a minimum of 4860-4882, representing approximately 3.4% higher to 4860 on the S&P 500. We believe 2022 will also provide a year with greater volatility with the possibility of a 7-10% pullback sometime in the first quarter. Our target for the decline is the blue box with the green 4 at the 4440 region. That means we have approximately 60-160 points of potential upside, with approximately 260 points of potential downside, based upon current levels of 4700 S&P 500. We are in a period of time where the downside potential significantly outweighs further upside potential. For this reason, we will be raising cash (and have already started) on the next bounce higher in the coming weeks. The market is now telling us we have taken one step closer. So, I am going to be planning for that potential in the coming weeks.

But just begin to mentally prepare yourself for the certain and likely deep bearishness that the next expected decline will elicit as we look toward early 2022. We will need to see that extreme bearishness in order to set up the rally to 5163-5500SPX later in 2022.



As we head into 2022 and 2023, our longer-term objectives, I still think the 5163-5500SPX region is a reasonable target. And I still think we can get there within calendar year 2022, but that is a guesstimate right now. Of course, as the market progresses in the coming months, there may be some slight adjustments we will make within this path, but this is the general path I fully expect we can see over the coming year.



In conclusion, I want to reiterate again that this is still likely a bull market with much higher levels to be seen. When we were down in the 2200SPX region in March 2020 and many were strongly arguing with me that the bull market is dead, I still maintained a strong conviction that we were about to begin a rally to 4000+, with an ideal target in the 6000SPX region. And even before the current pullback began, I warned you that many would be viewing this pullback as the start to some bear market.



I still view current market conditions as a high probability that we will see a strong 2022. Again, while I was still bullish off the 2200SPX region when we were at those depths of despair in March of 2020, I was adamant that 2021 would be another banner year for the stock market with an expectation that the S&P 500 can see a 20%+ continuation rally. And I will boldly state that I think we can see a 15-20% rally in 2022 as well.

So, while you will undoubtedly be bombarded with many “beliefs” that the bull market is over, I still maintain a high probability expectation that 2022 will see further gains in the market.

We understand the risks facing both the markets and the economy, and we are committed to helping you effectively navigate this still-challenging investment environment. Successful investing is a marathon, not a sprint, and even intense volatility is unlikely to alter a diversified approach set up to meet your long-term investment goals.

Therefore, it’s critical to remain patient and stick to the plan, as we’ve worked with you to establish a unique, personal allocation target based on your financial position, risk tolerance, and investment timeline.

The strong performance of markets in 2021 notwithstanding, we remain vigilant toward risks to portfolios and the economy, and we thank you for your ongoing confidence and trust. Please rest assured that our entire team will remain dedicated to helping you successfully navigate this market environment

Please do not hesitate to contact us with any questions, comments, or to [schedule a portfolio review](#).

Disclosure

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Live Oak Wealth Management | 10892
Crabapple Rd Suite 100 Roswell, GA 30075 |
www.liveoakwm.com
P/Fax: 770.552.5968 |
matthew@liveoakwm.com |
shawn@liveoakwm.com

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