4th QUARTER 2021 REVIEW AND OUTLOOK

2021 – Good Riddance but Good Returns.....

Overview

The past quarter started out with a nice rebound in risk assets but grew more volatile toward year end as the Omicron surge and rising inflation pressed the Fed into a more inflation fighting focus than before. Covid continued to hold the world hostage spurred by new variants which triggered both public health policy responses and restrained consumer behaviors in response. Fed policy also fueled some late quarter volatility as policy makers shifted focus from job market recovery to containing alarming levels of inflation which reached a 7% annual clip by year end, the highest levels we've seen in 40 years. The Chinese economy continued to mature and slow due to the Omicron surge and a continued push toward regulation and various strategic social equity initiatives.

Overall, 2021 was a year where the markets underestimated both earnings growth and inflation – to a meaningful degree. Consensus estimates for S&P earnings growth began the year at +23.2% and were steadily revised upward throughout the year. With Q4 earnings season quickly approaching, current estimates suggest the S&P 500's earnings grew at over +50% in 2021 (but will moderate to 8% in 2022). In the end, the S&P 500 returned an impressive 11% for the quarter, taking 2021 to a whopping 28.7% return. Interest rates, which began to rise toward quarter end, introduced a new factor and with it, a potential change in equity market leadership.

With growth/inflation feeling more mid-cycle and monetary policy more early cycle, one can deduce 1) this has subsidized risk taking and should translate to more normalized levels of volatility looking forward and 2) risk assets may be slightly ahead of fundamentals. We expect persistent supply and demand imbalances, including labor markets, to result in a 'stickier' inflation backdrop than desired by the Fed. Based on current information, we do not expect the current Omicron Covid surge to derail the economy or capital markets but rather to factor in marginally by extending supply chain and labor market distortions throughout the first quarter. As always, financial markets face a myriad of geopolitical risks with China-U.S. and Russia/Ukraine currently heading the list. Importantly, political, or geopolitical events are typically short lived or looked past by financial markets, unless they are extreme and protracted.

We are maintaining an overweight to global equities and underweight fixed income. Within equity markets, we are favoring developed equity markets, particularly Europe and the U.S. over a 12-18 month horizon and feel fixed income investors should maintain a modestly short duration and remain overweight credit sectors.

Constructive Observations	Cautious Observations
• Beginning stages of monetary policy normalization but still a very stimulative stance from the Fed and most global central banks. • Global economic growth backdrop remains firmly intact despite a slow-down in rate of change. • Expected continuation of improvements in the labor market and addressing of supply chain issues for the next several quarters. • Fast surge in Omicron cases seemingly leading to a commensurate rapid decline. • Labor market grinding toward full employment and consumer balance sheets are in good condition.	• A clear pivot toward a more pointed removal of accommodative monetary policy by the Fed and several global central banks. • Persistent inflation may push policy makers toward a more aggressive tightening campaign, particularly if inflation seeps into stickier wage and rental costs. • Omicron and uncertainty regarding future Covid variant bouts poses risks to economic growth, job creation, and supply chain normalization. • Increases in inflation and yields will pressure high equity market valuations and profit margins.

MACRO OVERVIEW

A new CoVid-19 variant, dubbed "Omicron", emerged during the fourth quarter and quickly became the prevalent strain impacting the country. Omicron's appearance resulted in some additional delays in the reopening of businesses and supply chains and created increased market volatility. As the number of new cases increased, data suggested that the variant has a lower risk of severe effects, easing concerns of the severity of its impact. U.S. economic data was a mixed bag in the fourth quarter as job growth and gross domestic product (GDP) increased, while manufacturing activity moderated from recent record high levels. The Infrastructure Investment and Jobs Act was signed into law in November, creating further stimulus likely to benefit companies providing broadband access, clean water, electric grid renewal, transportation services and road improvements. For most of the year, comments from Fed officials referred to looming inflationary pressures as "transitory", based on an assumption that CoVid-induced imbalances would quickly ameliorate as economies opened and returned to a semblance of normalcy. On December 15th the Federal Reserve vocalized its plans to accelerate the tapering of its asset purchases soon, setting the stage for potential interest rate increases sooner than previously expected. The Fed said it expects to raise short-term interest rates three times in 2022. Inflationary pressures, coupled with potential rate increases has raised concerns regarding the sustainability of economic growth. This has caused the U.S. Treasury yield curve to flatten in the fourth quarter. For now, corporate earnings remain strong, as reflected by the strong equity market returns posted this quarter and the full year 2021. The three-year annualized return for the S&P 500 at year-end was just over 26%, the highest level since 1999 when the figure was 27.6%. The Atlanta Fed's GDPNow model is currently forecasting GDP growth of 5.1% year-over-year.

MARKETS OVERVIEW

Equities

Major U.S. equity markets surged in the fourth quarter. The S&P 500 rose an impressive 11% for the quarter and 28.7% for the year, marking the third consecutive year of double-digit gains. REITS, Info. Tech. and Materials were the strongest performing sectors this quarter while Communication Services,

Financials and Energy stocks lagged the broader equity market. Much of the gains for the year were concentrated in a handful of mega-cap technology stocks. Growth stocks outperformed value stocks in the large-cap space, but among mid- cap and small-cap stocks, value stocks outperformed growth.

The MSCI EAFE Index returned 11.8% for the year with only two developed countries posting negative returns: Hong Kong and New Zealand. The performance of the international equity markets was a tale of two periods. The first ten months of the year proved strong for value stocks with the MSCI EAFE Value Index up 12.0% while the MSCI EAFE Growth was up 10.7%. The final two months of the year saw a resurgence of growth as the MSCI EAFE Growth rallied with both indices coincidentally returning the same 11.6% result.

The Chinese stock market pulled back -6.1% in the quarter, bringing the full year retreat to -21.6%. The broader Emerging Markets were down -1.2% for the quarter and -2.2% for the full year.

Fixed Income

In the 4th quarter, the Barclays Aggregate Bond Index was essentially flat, returning 0.01%. U.S. Investment Grade Corporates posted a return of 0.23%, while U.S. High Yield generated 0.71%. Full year 2021 returns for the Aggregate Index was -1.5%. Investment Grade Corporates were -1.04% and 5.28% for High Yield. Returns for the month of December were driven by tighter credit spreads partially offset by higher Treasury yields in the 5-30 year part of the curve. In 2021, the 10yr U.S. Treasury yield increased 57bps from 0.94% to 1.51%, producing a -3.68% return. Among major bond sectors, Treasury Inflation- Protected Securities (TIPS) were the standout performers, returning 6.0%.

Real Assets

Most commodities had a strong year and fourth quarter. Oil prices pulled back in the fourth quarter, but still ended the year higher by over 50% from year-ago levels. Most agricultural commodities returned double-digit returns this year, as did most industrial metals. Copper appreciated 27% in 2021. Surprisingly, precious metals ended the year in negative territory.

S&P 500 POSTS ONE OF ITS HIGHEST YEARLY RETURNS ON RECORD

Greater Than 20% Return Years For The S&P 500							
Rank	Year	Return	Following Year Return	Rank	Year	Return	Following Year Return
1	1933	54.0%	-1.4%	19	1938	31.1%	-0.4%
2	1954	52.6%	31.6%	20	1991	30.5%	7.6%
3	1935	47.7%	33.9%	21	2021	28.7%	?
4	1928	43.6%	-8.4%	22	2003	28.7%	10.9%
5	1958	43.4%	12.0%	23	1998	28.6%	21.0%
6	1995	37.6%	23.0%	24	1961	26.9%	-8.7%
7	1927	37.5%	43.6%	25	2009	26.5%	15.1%
8	1975	37.2%	23.9%	26	1943	25.9%	19.8%
9	1945	36.4%	-8.1%	27	1951	24.0%	18.4%
10	1936	33.9%	-35.0%	28	1967	24.0%	11.1%
11	1997	33.4%	28.6%	29	1976	23.9%	-7.2%
12	1980	32.5%	-4.9%	30	1996	23.0%	33.4%
13	2013	32.4%	13.7%	31	1963	22.8%	16.5%
14	1985	31.7%	18.7%	32	1983	22.6%	6.3%
15	1950	31.7%	24.0%	33	2017	21.8%	-4.4%
16	1989	31.7%	-3.1%	34	1982	21.6%	22.6%
17	1955	31.6%	6.6%	35	1999	21.0%	-9.1%
18	2019	31.5%	18.4%	36	1942	20.3%	25.9%

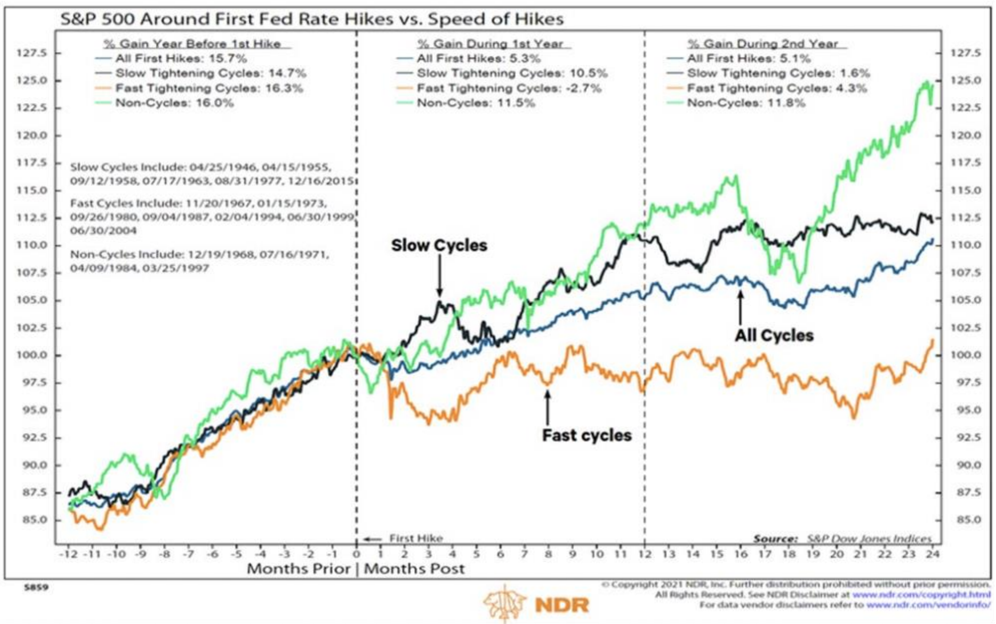
SOURCE: STRATEGAS

BOND RETURNS NEGATIVE FOR ONLY THE FOURTH TIME SINCE 1976 DESPITE RECORD INFLOWS TO BOND FUNDS

Net Flows into Mutual Funds + ETFs ($BN)						
	Domestic Equity		International Equity			
Year	MF	ETF	MF	ETF	Bond	Money Mkt
2009	($27.6)	$30.9	$29.6	$39.6	$417.2	($539.1)
2010	($81.1)	$46.7	$56.7	$41.5	$262.0	($525.1)
2011	($133.3)	$47.3	$4.1	$24.3	$163.7	($124.1)
2012	($159.1)	$80.9	$6.4	$51.9	$358.5	($0.2)
2013	$18.1	$104.1	$141.4	$62.8	($59.0)	$15.0
2014	($60.2)	$141.5	$85.4	$46.6	$94.5	$6.2
2015	($170.8)	$65.4	$93.9	$109.7	$29.4	$21.5
2016	($235.4)	$167.6	($24.5)	$20.1	$190.1	($30.3)
2017	($236.0)	$186.0	$76.7	$159.8	$381.1	$106.9
2018	($253.2)	$139.1	($7.3)	$70.3	$103.0	$158.8
2019	($302.2)	$132.7	($59.8)	$29.8	$458.5	$552.7
2020	($470.8)	$189.1	($175.0)	$62.6	$445.7	$692.5
2021 YTD	($314.5)	$403.6	($16.2)	$179.8	$549.8	$220.5
TOTAL	($2,425.9)	$1,734.8	$211.4	$898.7	$3,394.5	$555.2

SOURCE: STRATEGAS

PACE OF TIGHTENING IS A SIGNIFICANT FACTOR INFLUENCING FORWARD RETURNS

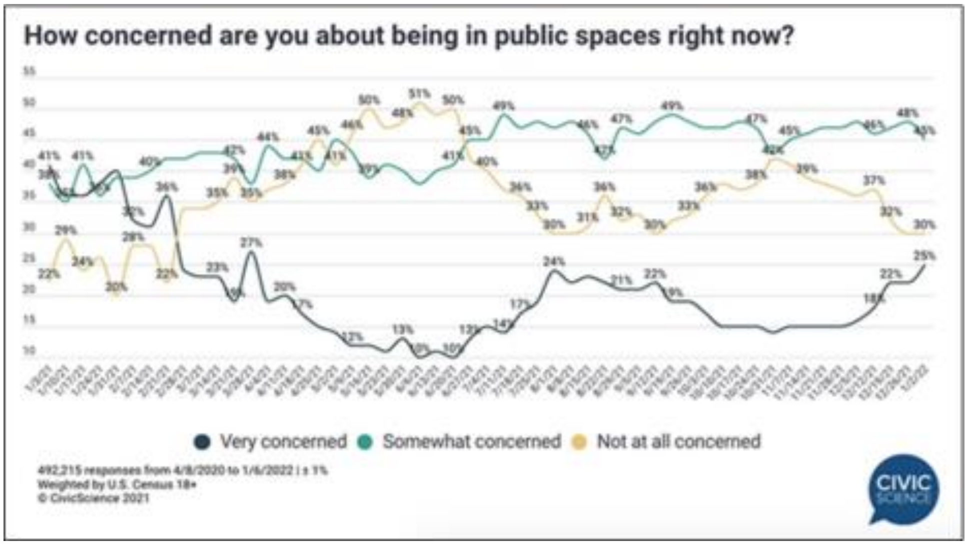


SOURCE: NED DAVIS

CHINESE MARKETS PULLING BACK BUT CREDIT CYCLE BEGINNING TO TURN HIGHER

SOURCE: ALPINE MACRO

PUBLIC CONCERN REGARDING OMICRON NOW HIGHER THAN THE DELTA WAVE



SOURCE: CIVIC SCIENCE

INFLATION HITS HIGHEST LEVEL SINCE THE 1980'S

SOURCE: BIANCO RESEARCH

RISING RATES ALWAYS COMPRESS EQUITY MULTIPLES

SOURCE: ALPINE MACRO

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