Economic Summary

2021 was a year marred by shortages of labor, shipping containers, semiconductors, and a myriad of other items sought by businesses and consumers. Supply chains remain clogged going into 2022, as supply/demand imbalances remain unresolved. Eventually, these issues will improve, and companies will need to replenish inventories. Restocking will keep demand high, with labor and material costs elevated in the new year. Additionally, multiple rounds of stimulus payments, a hot housing market, a bull market in stocks, and increasing wages have all led to a surge in consumer net worth (CHART 1). The U.S. economy could remain vibrant in 2022, as the demand side of the equation has seldom looked stronger, and the supply side is poised to rectify many of the issues faced since the start of the pandemic.

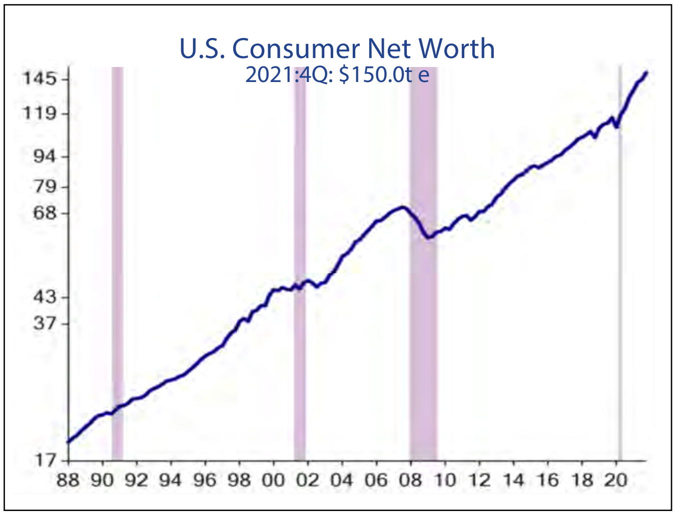

Chart 1

SOURCE: EVERCORE ISI
"WEEKLY ECONOMIC REPORT" – JANUARY 2, 2022

Corporations had a tremendous year, as earnings and margins were robust (CHART 2). So far, companies have been able to easily pass on higher input and labor costs to consumers. According to a recent Evercore ISI survey (CHART 3), companies believe they can pass on further price increases. What is yet to be seen is how much inflation consumers are willing to absorb before demand is hampered. With wages currently increasing in lockstep, it might take longer for inflation to really bite consumers. Corporations have record amounts of cash on their balance sheets (CHART 4), while dividend payout ratios have fallen to multi-year lows. The opportunity for rising dividends and share repurchases are an additional tailwind for stocks.

Chart 2

SOURCE: STRATEGAS RESEARCH PARTNERS
"QUARTERLY REVIEW IN CHARTS" – JANUARY 3, 2022

Past performance does not guarantee future results.

After nearly two years of extreme monetary policy expansion, the Federal Reserve (THE FED) finally reached its long sought-after inflation target of 2%.

In fact, they got much more than that. As of the latest reading, inflation registered a staggering 7% on a year-over-year basis, the highest reading in 40 years (CHART 5). Alarming inflation readings have forced the Fed to reduce Quantitative Easing (QE) faster than anticipated and expedite the timeframe to start increasing interest rates. Currently, the consensus view is the Fed will begin increasing the fed funds rate in March. The recent posturing and rhetoric from various Fed members has given the illusion that Powell and company are now inflation hawks. The reality is the contrary (CHART 6). The real fed funds rate (FED FUNDS RATE MINUS INFLATION) is negative and indicative of accommodative monetary policy. In fact, the Fed would need to increase short-term rates significantly just to achieve real rates at 0%. Perhaps they still believe that inflation is merely "transitory" and will abate soon, but many economic indicators are pointing to higher for longer inflation readings.

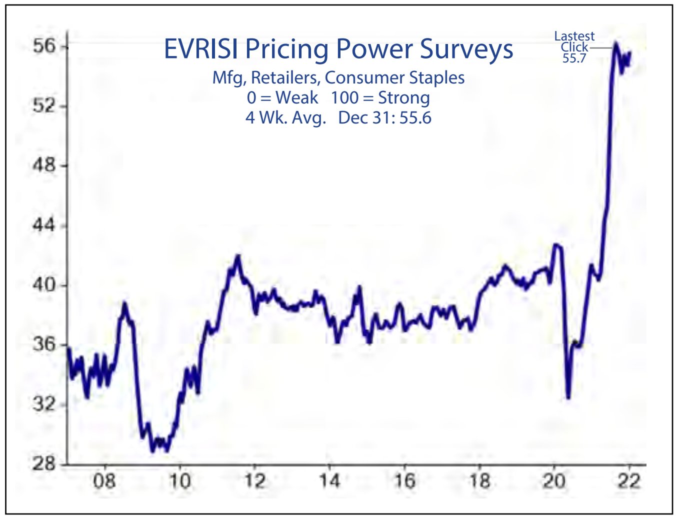

Chart 3

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"WEEKLY ECONOMIC REPORT" — JANUARY 2, 2022

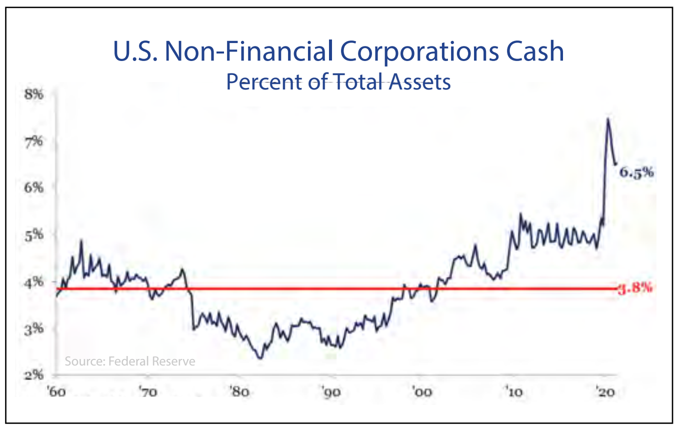

Chart 4

SOURCE: STRATEGAS RESEARCH PARTNERS
"QUARTERLY REVIEW IN CHARTS" — JANUARY 3, 2022

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The Stock Market

In absolute terms, the returns of equity indexes have been astonishing. The S&P 500 has had annualized 3, 5 and 10-year returns of 26.07%, 18.47% and 16.55% respectively. In a historical context, the S&P 500 has an average annualized return of just over 11.15% for the past 50 years.

2021 saw the continued outperformance of growth vs. value (CHART 7), as the Russell 1000 Growth posted a 27.60% total return vs. 25.16% for the Russell 1000 Value. The technology-heavy S&P 500 (CHART 8) posted a total return of 28.71% on the year and handedly outperformed the Dow Jones Industrial Average and the small-cap Russell 2000, which were up 20.95% and 14.82% respectively.

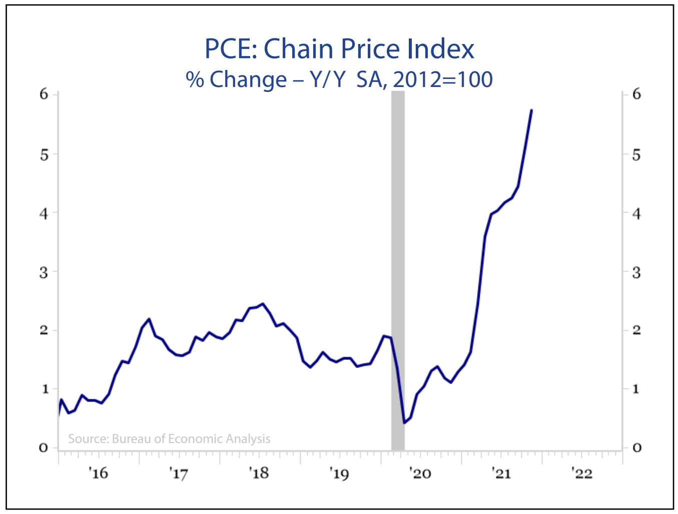

Chart 5

SOURCE: STRATEGAS RESEARCH PARTNERS
"QUARTERLY REVIEW IN CHARTS" — JANUARY 3, 2022

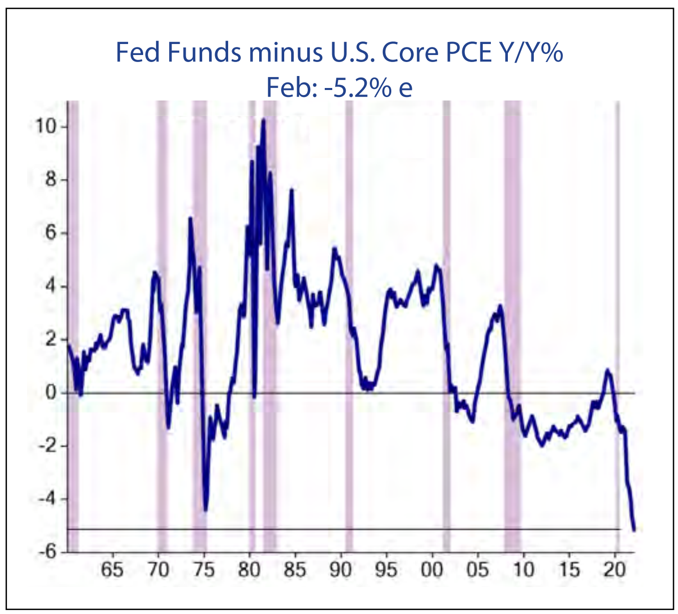

Chart 6

SOURCE: EVERCORE ISI
"WEEKLY ECONOMIC REPORT" — JANUARY 2, 2022

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The Bond Market

The 10-year U.S. Treasury Note started 2021 yielding 0.9%, quickly rose to 1.7% by the end of the first quarter, and finished the year at 1.4%. With inflation running hot, the Fed has started to address the issue by curtailing their quantitative easing program implemented at the start of the pandemic. In addition, the Fed has indicated that short-term interest rates are set to increase in March, and as of this writing, the market is pricing in four 25 basis-point increases this year. The pump looks primed for higher interest rates.

Corporate credit spreads spent most of the year hovering near all-time lows. Apart from November and December when spreads widened marginally as markets reacted to the Fed's action, spreads remain well below historical averages. With low underlying interest rates and tight credit spreads, bond investors should be cautious, as slight changes in either or both could cause substantial changes in bond prices.

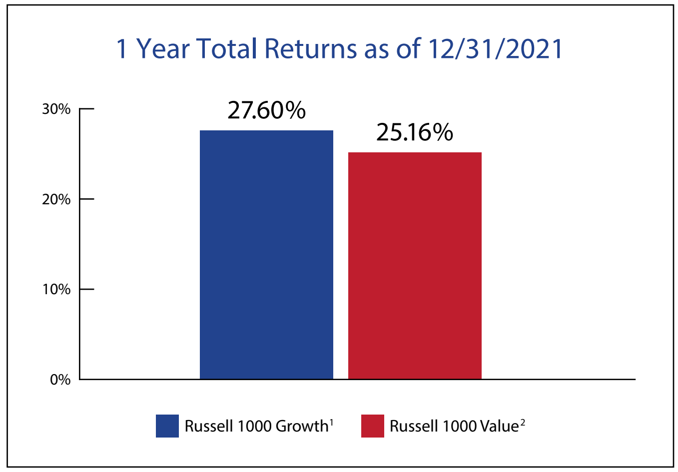

Chart 7

SOURCE: MORNINGSTAR DIRECT

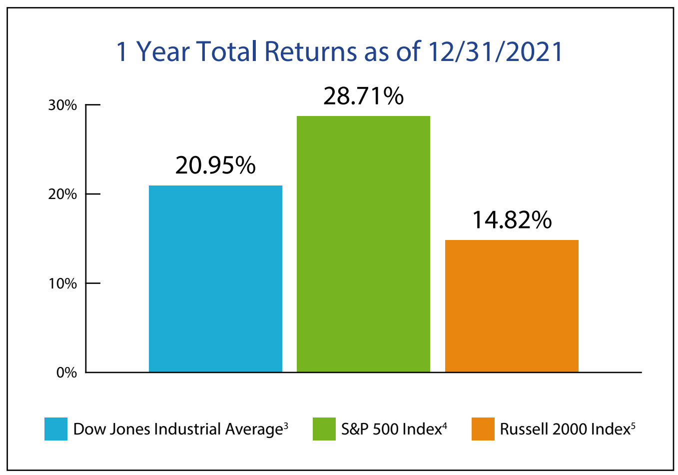

Chart 8

SOURCE: MORNINGSTAR DIRECT

Past performance does not guarantee future results. You cannot invest directly in an index.

[1] The Russell 1000® Growth Index measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000® companies with higher price-to-book ratios and higher forecasted growth values.

[2] The Russell 1000® Value Index Measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000® companies with lower price-to-book ratios and lower expected growth values.

[3] The Dow Jones Industrial Average is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the NASDAQ.

[4] The S&P 500® Index is a capitalization weighted unmanaged index of 500 widely traded stocks, created by Standard & Poor's. The index is considered to represent the performance of the stock market in general.

[5] The Russell 2000® Index is an unmanaged index of the smallest 2,000 stocks in the Russell 3000® Index.