LOOK AHEAD

A Thin Green Line

Q1 2022

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Wall Street Parlor Tricks

Market Comparison: 2021 Predictions to Present

	S&P 500 Level	S&P 500 Price Return	U.S. GDP Growth	10-Year Treasury Yield
Average Estimate (December 2020)	4,035	+7.43%	+3.90%	1.24%
Actual (12/31/2021)	4,780	+27.26%	+4.90%	1.51%

Wall Street's 2022 Market Predictions

2022 Predictions

Firm	2022 S&P 500 Forecasts: Year-End Prediction	Year-End Prediction % Chg
Oppenheimer	5,330	+11.50%
BMO	5,300	+10.88%
Deutsche Bank	5,250	+9.83%
Credit Suisse	5,200	+8.78%
BNP Paribas	5,100	+6.69%
Goldman Sachs	5,100	+6.69%
JPMorgan	5,050	+5.65%
RBC Capital Markets	5,050	+5.65%
Jefferies	5,000	+4.60%
Ned Davis Research	5,000	+4.60%
Scotiabank	5,000	+4.60%
Citigroup	4,900	+2.51%
UBS	4,850	+1.46%
Barclays	4,800	+0.42%
Cantor Fitzgerald	4,800	+0.42%
Wells Fargo	4,715	−1.36%
Bank of America	4,600	−3.77%
Cornerstone Macro	4,600	−3.77%
Morgan Stanley	4,400	−7.95%
Average	**4,950**	**+3.55%**
S&P 500 as of 12/31/2021	**4,780**	

- Last year's predictions underestimated market returns by 267.53%
- GDP growth exceeded analyst estimates by 25.64%
- The 10-Year Treasury yield ended the year 21.78% higher than analyst estimates
- In light of 2021's strong rally of the S&P 500 most firms are calling for below average returns.

2022 Projected GDP Growth

	United States	China	Japan	Euro Area	Global
U.S. Federal Reserve	+4.00%	–	–	–	–
IMF	+5.20%	+5.60%	+3.20%	+4.30%	+4.89%
World Bank	+4.20%	+5.40%	+2.60%	+4.40%	+4.30%

Data Sources: Bloomberg, IMF, U.S. Federal Reserve, World Bank

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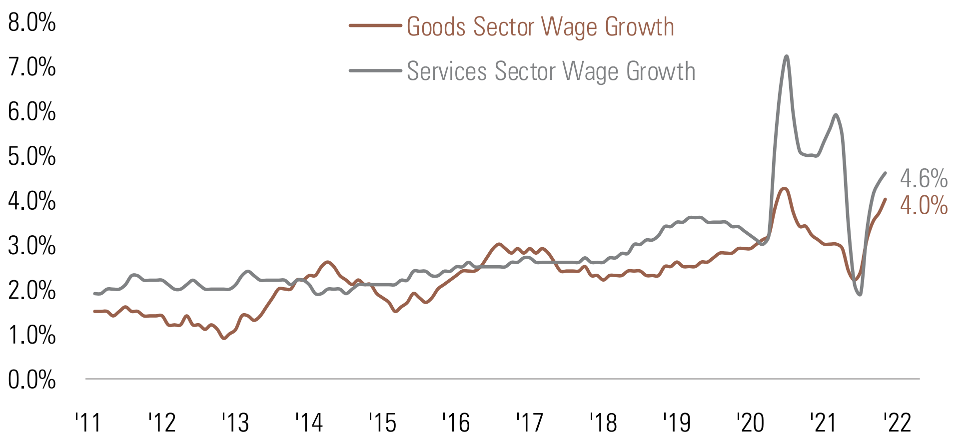
Consumer Strength

Wages are the fuel for spending and confidence.
Current wage growth trends suggest the consumer should be in a strong position to continue to consumer at high levels in the quarter to come.

Goods & Services Sectors Wage Growth

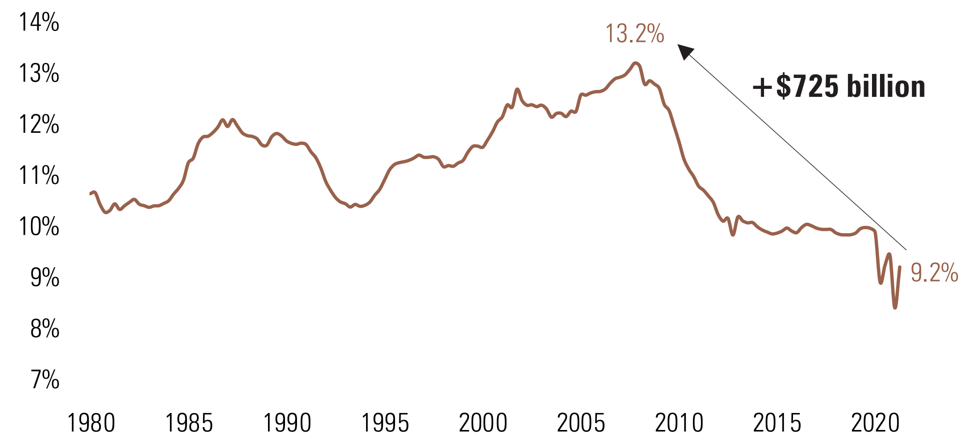
2011 to 2021



Consumers are still sitting on incredible debt servicing power relative to their income.
If the consumer took borrowed back to debt service levels commensurate with the Great Financial Crisis, they would add a whopping $725 billion, or 3.13% of GDP.

U.S. Household Debt Service as a % of Disposable Income

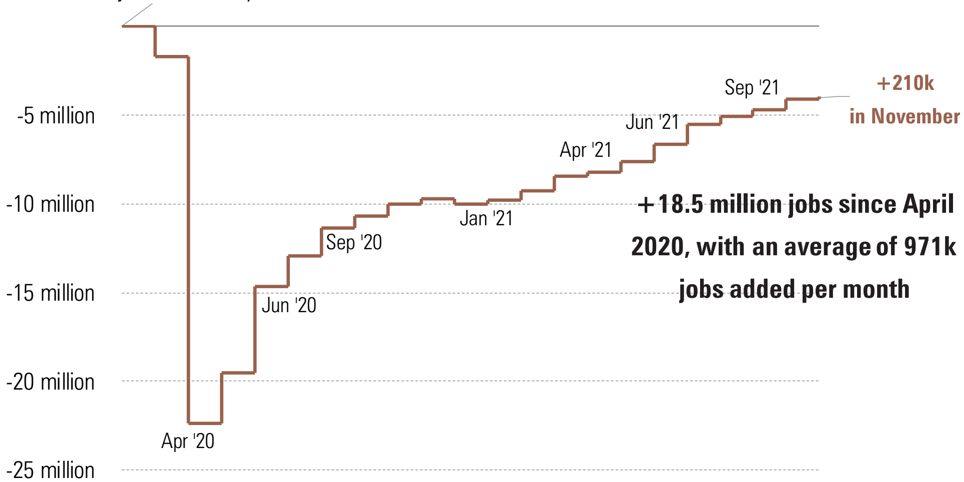
1980 to 2021



Higher wages will pull more workers off the sidelines and fill the unemployment gap which currently stands at 3.9 million jobs below pre-pandemic levels.

Cumulative change in jobs since before the pandemic

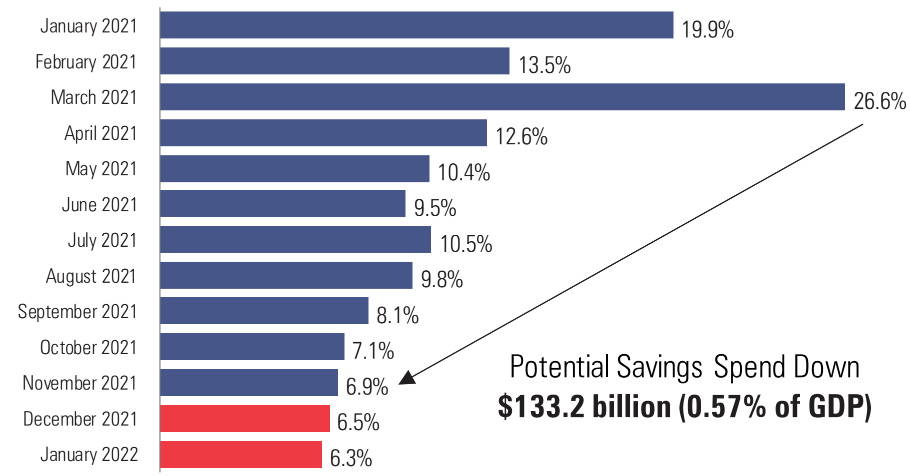
152.5 million jobs in February 2020



Wages should support a waning spenddown of precautionary savings.
We expect this boost to consumption to normalize during Q1 2022.

Potential Spend Down of Personal Savings

Savings rate as a % of disposable income



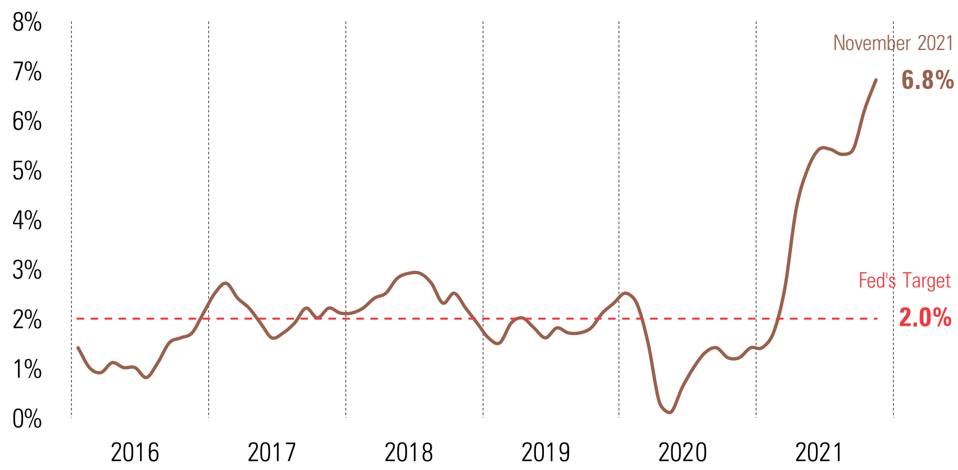
Data Sources: Bureau of Labor Statistics, St. Louis Federal Reserve

Inflation – It Must Transition

Recent inflation readings are alarming to most observers with energy and housing costs driving prices higher.

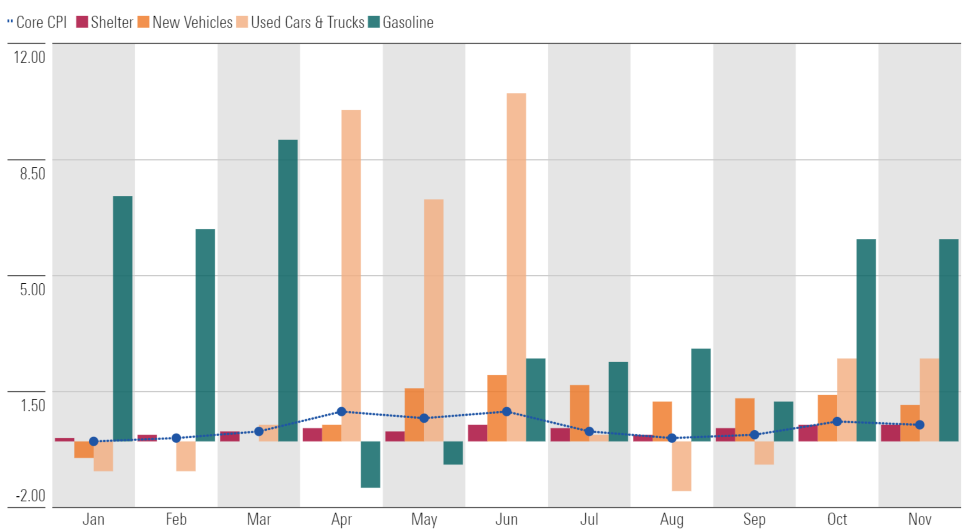
Consumer Price Inflation

year-over-year %



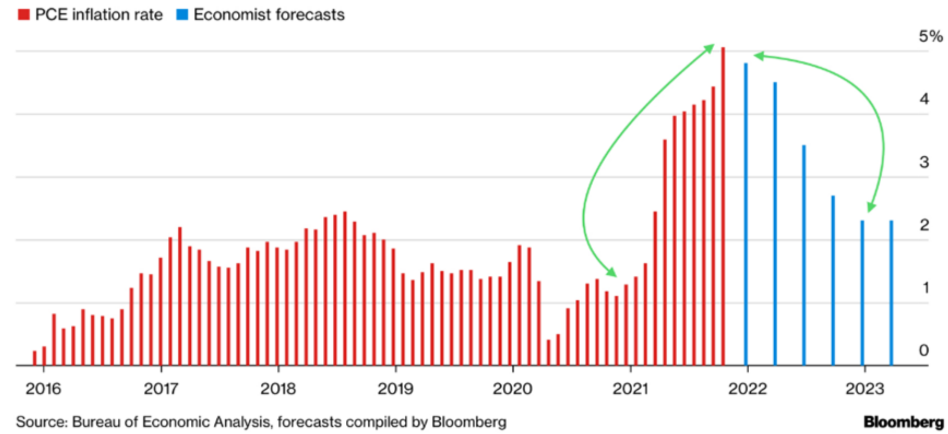
the rapid rise in gasoline along with supply chain issues related to auto's are transitory and should moderate in Q1

CPI Key Components



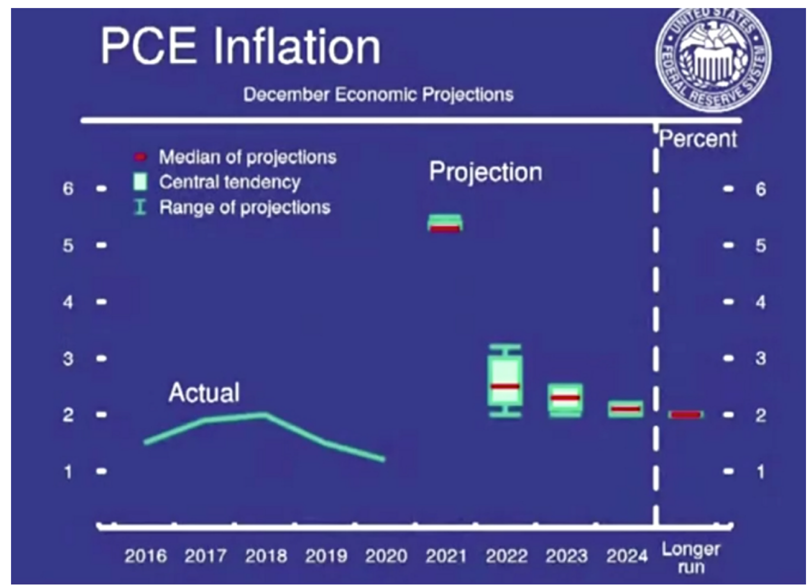
As an important note, Fed Chair Powell reiterated that he expects inflation to moderate closer to the 2% target sometime in 2022.

When we look at the rate of change effect inflation is measured by, it's our view that inflation numbers will moderate in the second half of 2022; perhaps even sooner, as we see commodity prices decline.



Fed officials forecast that inflation would run at 2.6% in 2022, compared to the 2.2% projected as of September.

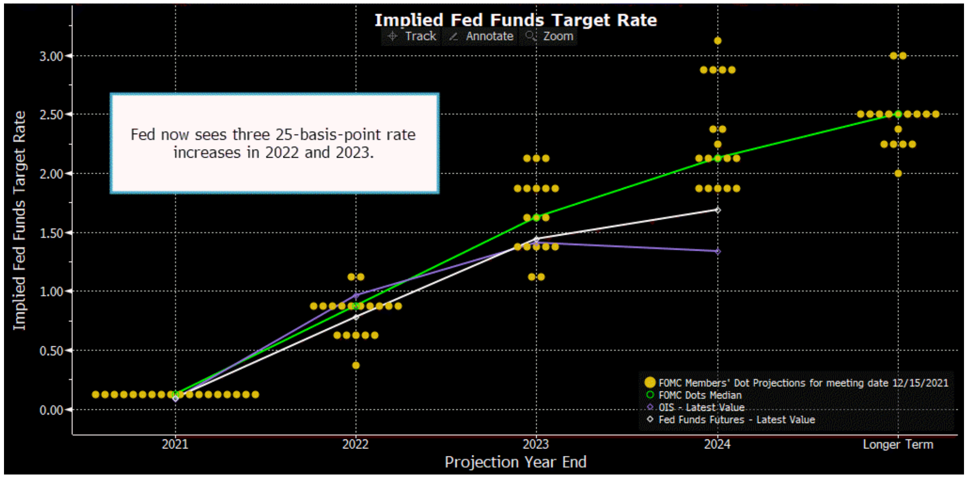
Regardless of if you believe that inflation is transitory, one thing is certain; the Fed has a tough job in soft-landing this economy somewhere between mildly-expansionary with moderate inflation and a recession.



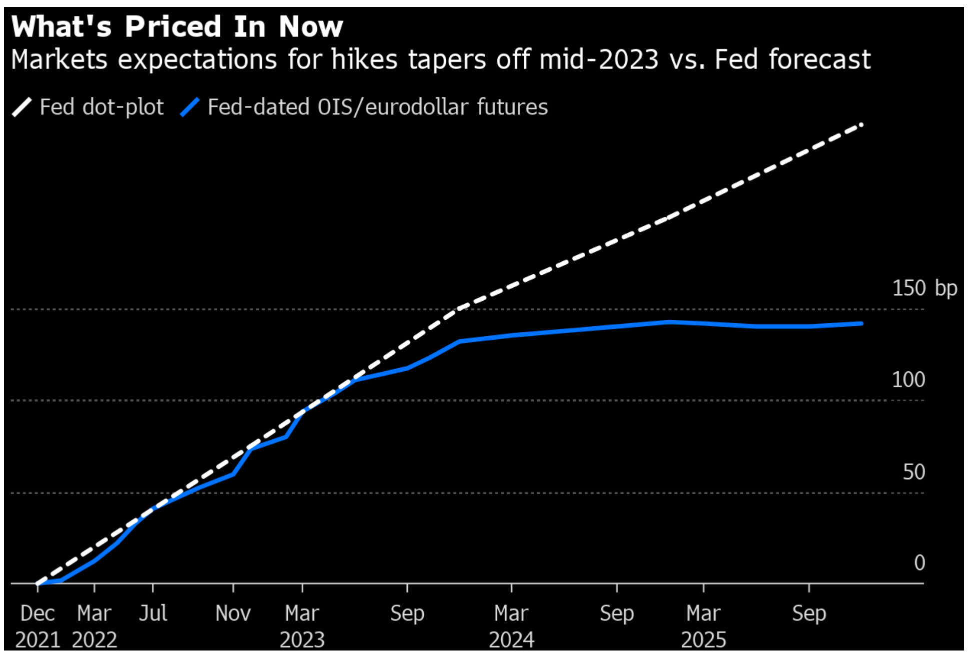
Data Sources: Bureau of Labor Statistics, Morningstar, Bloomberg, FOMC

Federal Reserve Tight Rope – Frenemies of the Consumer

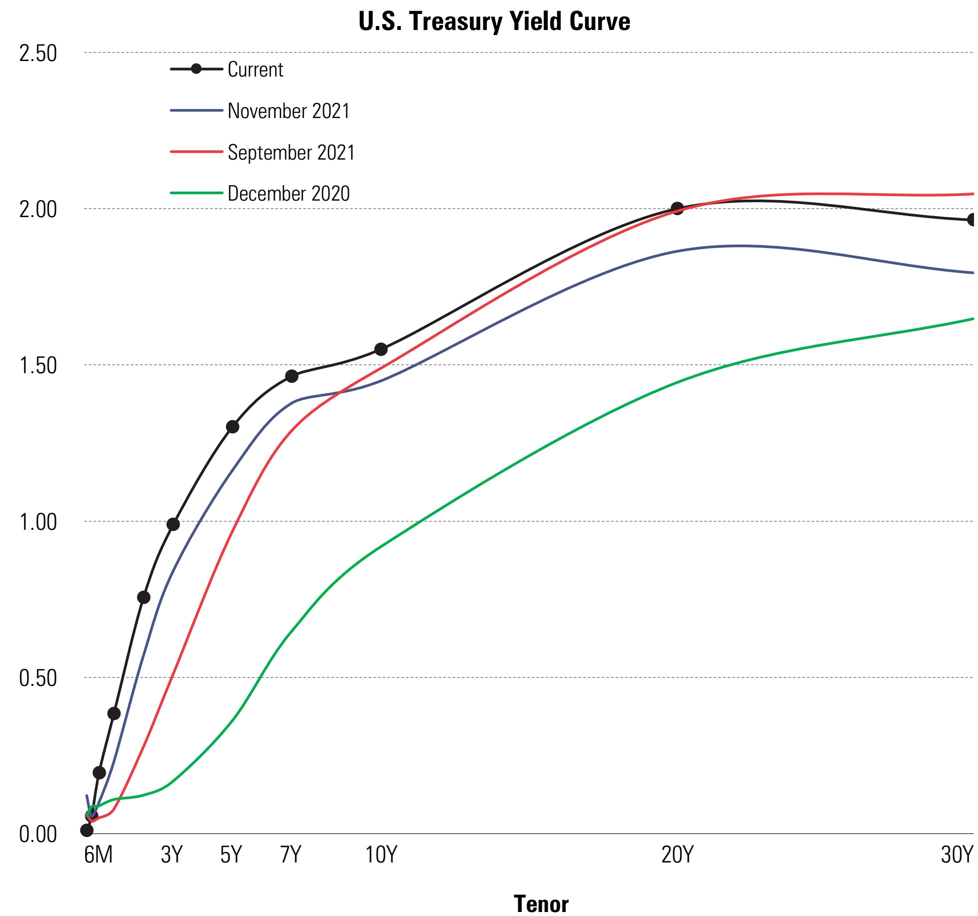
Federal Reserve policy makers expect to raise their benchmark rate by 75 basis points in both 2022 and 2023, and another 50 basis points by the end of 2024 to reach 2%.



The threat that the Federal Reserve might make a mistake and raise rates sooner than market participants currently expect is real and being baked into the cake.



With the Fed front-loading interest rates in 2022 with possibly three rate increases, the yield curve started to flatten at the long end. This reflects the real possibility the Fed could induce a mild recession later in 2022 and pose a real threat to the consumer.



Data Sources: Bloomberg

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Federal Reserve Tight Rope – Policy Error Recession???

What Happened Last Time We Had a Taper

Treasury Yields

In the previous period of tapering, yields rose prior to the onset of tapering in 2013 but then fell during the implementation period.

Regions/Sizes/Sectors	% Chg.	Best S&P 1500 Sub-Industries	% Chg.
Health Care	27.1	Aluminum	89.8
Nasdaq-100	**24.0**	Airlines	72.9
Info. Technology	23.1	Biotechnology	45.3
S&P 500 Growth	**18.5**	Railroads	41.3
Utilities	17.4	Managed Health Care	38.0
S&P 500	**15.7**	Distillers & Vintners	33.1
Industrials	13.8	Health Care Distributors	32.9
Consumer Staples	13.4	Semiconductors	32.0
Financials	13.1	**Worst S&P 1500 Sub-Industries**	**% Chg.**
S&P 500 Value	**12.6**	Construction & Engineering	(9.8)
Materials	10.3	Diversified Metals & Mining	(12.4)
S&P MidCap 400	**9.9**	Personal Products	(13.7)
Consumer Discretionary	9.7	Automobile Manufacturers	(18.0)
S&P SmallCap 600	**7.4**	Computer & Electronics Retail	(19.9)
Communication Services	3.3	Gold	(21.5)
Energy	0.5	Coal & Consumable Fuels	(21.6)
Real Estate	NA	Oil & Gas Drilling	(24.0)
Positive Sectors:	**100%**	**Positive Sub-Industries:**	**89%**

U.S. Equities

The U.S. equity markets posted above-average returns during the tapering process in 2013-14.

Throughout 2021, easy global monetary policy supported financial markets.
But for 2022, the outlook is quite different.
We've already seen central banks pare asset purchases, and we should expect a very different backdrop for short-term interest rates, pricing in rate hikes for most major central banks

Global Monetary Policy Outlook

	2021	2022				2023			
Markets	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**
United States	0.13%	+25 bps	+25 bps	+25 bps		+25 bps	+25 bps	+25 bps	
Canada	0.25%	+25 bps	+25 bps	+25 bps	+25 bps	+25 bps	+25 bps	+25 bps	
Brazil	9.25%	+250 bps			-50 bps	-50 bps	-100 bps	-75 bps	-25 bps
United Kingdom	0.25%	+25 bps	+25 bps		+25 bps				
Euro Area	-0.50%								
China	2.20%								
India	4.00%		+25 bps	+25 bps	+25 bps		+25 bps	+25 bps	+25 bps
Japan	-0.10%								
Russia	8.25%			-50 bps	-50 bps	-50 bps	-50 bps	-50 bps	-50 bps
Australia	0.10%								+15 bps

Rate increases typically don't drag down equity returns. Over most time frames equity prices are higher after rate increase periods in the past.

S&P 500 In Tightening Cycles (%)

S&P 500 Forward Price Perf. (%)

Tightening	1m	3m	6m	1y	18m	2y
4/15/1955	-2.48	11.59	8.93	25.82	21.79	20.47
9/12/1958	6.37	9.97	16.09	15.58	14.86	11.07
7/17/1963	3.55	5.86	11.16	21.11	26.13	22.85
3/1/1972	-0.14	2.18	3.48	6.00	-3.85	-7.17
12/1/1976	4.85	-1.57	-4.68	-9.43	-2.50	-5.25
8/7/1980	0.01	4.77	4.82	8.28	-7.49	-11.98
5/2/1983	0.27	-0.06	0.94	-1.85	3.99	12.22
12/16/1986	6.49	17.61	22.77	-0.20	9.91	11.13
3/29/1988	0.98	4.20	4.81	13.55	37.25	30.76
2/4/1994	-0.84	-5.07	-2.02	2.48	18.89	38.63
3/25/1997	-2.27	12.66	18.86	39.63	25.01	68.16
6/30/1999	-3.20	-6.56	7.03	5.36	-5.42	-14.03
6/30/2004	-3.43	-2.30	6.23	4.74	12.68	10.32
12/16/2015	-9.25	-1.04	0.76	9.27	16.71	29.64
Average	0.07	3.73	7.08	10.02	12.00	15.49
Median	-0.07	3.19	5.52	7.14	13.77	11.68
% Positive	50.0	57.1	85.7	78.6	71.4	71.4

While the risk of a Fed induced recession is not in our base case it's a real possibility. The good news is markets tend to continue to perform well shortly after a recession.

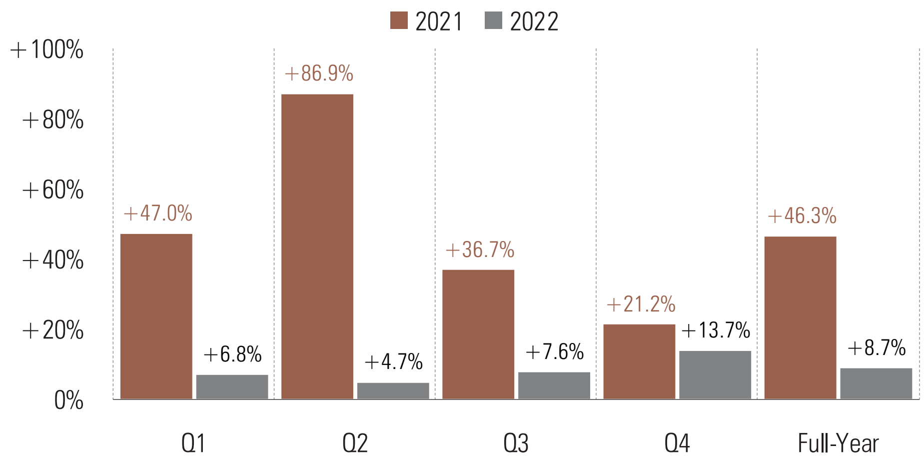
Recession	Prior 6 Months	During	Plus One Year	Plus Three Years	Plus Five Years
Aug 1929 - Mar 1933	14.0%	-74.5%	92.0%	192.1%	84.8%
May 1937 - June 1938	-2.4%	-24.2%	-1.8%	0.9%	44.3%
Feb 1945 - Oct 1945	8.6%	27.7%	-7.3%	15.3%	57.8%
Nov 1948 - Oct 1949	9.8%	4.1%	31.6%	88.0%	171.3%
July 1953 - May 1954	-6.5%	25.9%	35.9%	83.7%	502.7%
Aug 1957 - April 1958	9.3%	-6.5%	37.3%	66.3%	89.7%
April 1960 - Feb 1961	-1.0%	18.4%	13.6%	35.1%	68.4%
Dec 1969 - Nov 1970	-7.8%	-3.5%	11.2%	20.6%	25.2%
Nov1973 -Mar 1975	2.9%	-17.9%	14.4%	21.9%	55.2%
Jan 1980 - July 1980	7.7%	16.1%	12.9%	55.9%	100.9%
July 1981 - Nov 1982	-1.0%	14.7%	25.4%	67.2%	103.2%
July 1990 - Mar1991	3.1%	7.6%	11.0%	29.8%	98.2%
Mar 2001 - Nov 2001	-17.8%	-7.2%	-16.5%	8.4%	34.3%
Dec 2007 - June 2009	-2.3%	-35.5%	14.4%	57.7%	137.0%
February 2021 - April 2021	18.4%	-13.7%	43.6%	–	–
AVERAGE	2.3%	-4.6%	21.2%	53.1%	112.4%

Data Sources: Charles Schwab, Bespoke, Bloomberg

Earnings – High Hurdles

Continued wage growth, the spend down of precautionary savings, and companies leveraging pricing power to withstand rising material and wage costs should support earnings growth in 2022. However, the year-over-year hurdle rate is very high and any dip in consumption will likely lead to a mild earnings recession.

S&P 500 Earnings Growth 2021 — 2022

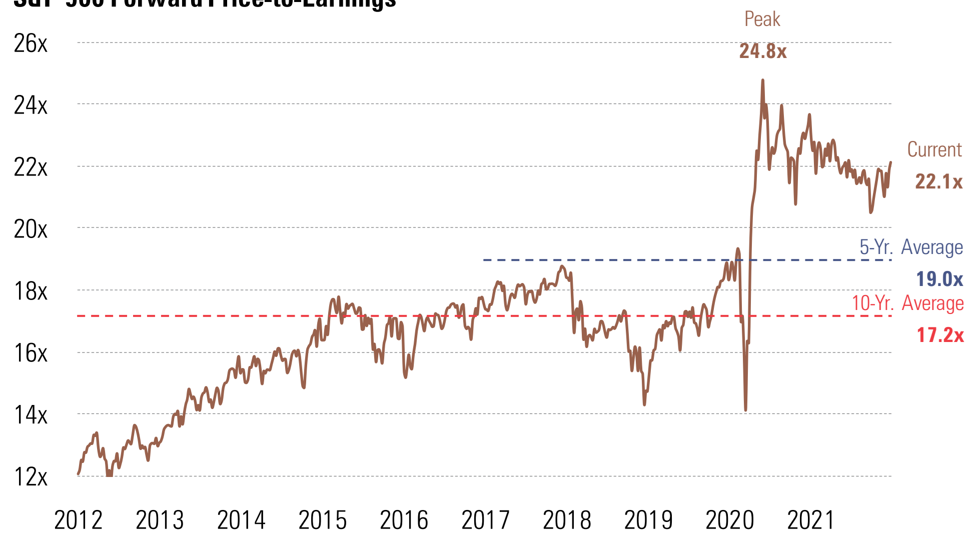


In our Q4 Look Ahead we noted some cracks had emerged in corporate profit margins. Although not as pronounced as in Q3, this trend may continue in Q1 2022 with wages, commodity prices, and available labor remaining the primary drivers.

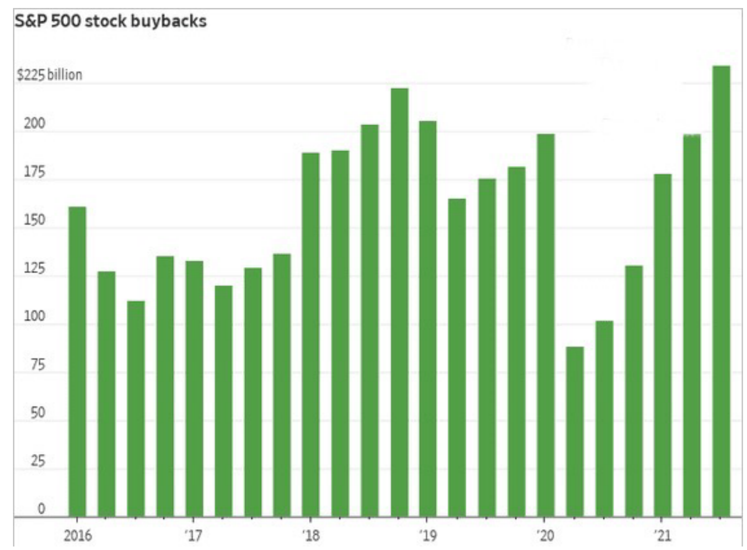
S&P 500 Net Profit Margin

U.S. equities are priced for perfection, with the mildest of misses creating some major volatility. On a forward basis, the S&P 500 is currently trading **17%** above the 5-year average and **29%** above the 10-year average P/E ratio.

S&P 500 Forward Price-to-Earnings



One boost to earnings should be from the buyback binge of 2021. Buybacks shrink shares outstanding and therefore help lift earnings per share. Against tougher year-over-year comps we expect 2021 buybacks to provide an EPS lift throughout 2022.



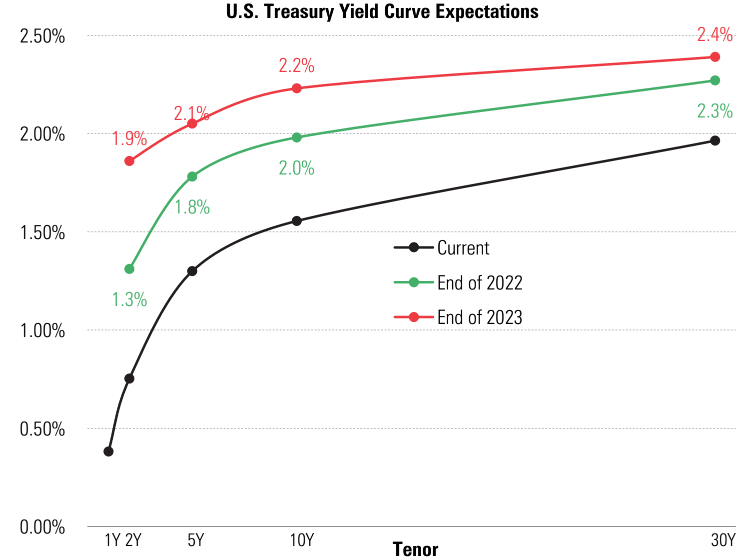
Fixed Income – Another Tough Year

Fixed income is going to continue to prove to be challenge for portfolios.
Rate increases, a threat of Fed policy errors, and Covid concerns will continue to challenge fixed income portfolios.

Hardest Hit Areas of Fixed Income This Year

Ticker	Name	Yield % End of 2021	Return 2021 YTD	Duration (years)	Forward Return Forecast
EDV	Extended Duration Treasury Bonds	1.95%	−5.94%	24.63	0.57%
TLH	10-20 Year Treasury Bonds	1.73%	−5.30%	15.07	0.57%
TLT	20+ Year Treasury Bonds	1.36%	−4.53%	19.41	0.57%
IEF	7-10 Year Treasury Bonds	1.10%	−3.25%	8.12	1.63%
BLV	Long-Term Bonds	2.85%	−2.74%	16.11	1.53%
IEI	3-7 Year Treasury Bonds	0.77%	−2.48%	4.70	1.63%
BIV	Intermediate-Term Bonds	1.92%	−2.35%	6.57	2.21%
EMB	Emerging Markets Bonds	4.04%	−2.04%	8.06	3.86%
BND	Total Bond Market	1.99%	−1.79%	7.25	2.00%
AGG	Core U.S. Aggregate Bonds	1.22%	−1.69%	6.61	2.00%
LQD	Investment Grade Corporate Bonds	2.32%	−1.71%	10.08	2.21%
VCLT	Long-Term Corporate Bonds	3.13%	−1.38%	14.93	1.53%

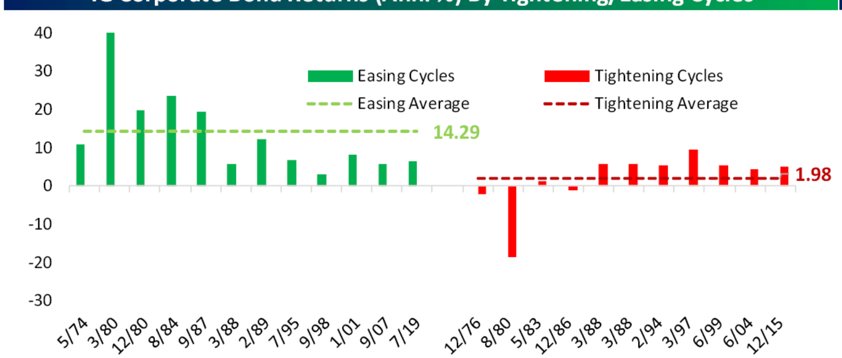
U.S. Treasury Yield Curve Expectations



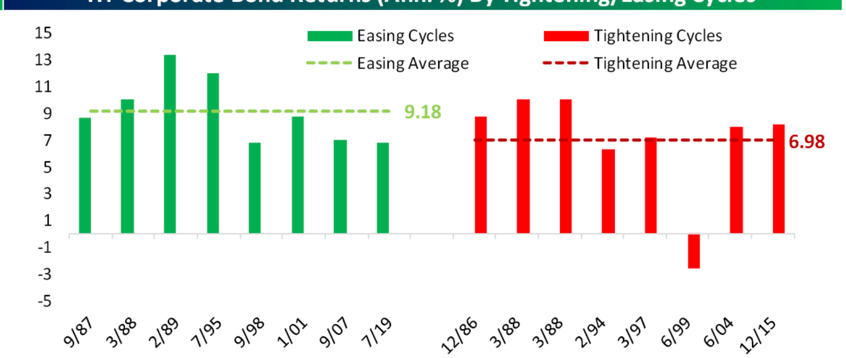
- Active management could help reduce some of the risk as we transition to steeper yield curves in the coming year.
- Managing duration and credit quality will be critical.
- We continue to focus on shorter duration higher quality credits.

Recent tightening cycles have generally seen positive total returns for corporate credit.
As shown in the chart below, across IG and HY credit, tightening cycles have only led to negative total returns in one cycle since 1986.
Maybe investors can find some modest relief in Investment Grade Corporate or High Yield investments.

IG Corporate Bond Returns (Ann. %) By Tightening/Easing Cycles



HY Corporate Bond Returns (Ann. %) By Tightening/Easing Cycles



Data Sources: Bloomberg, Bespoke

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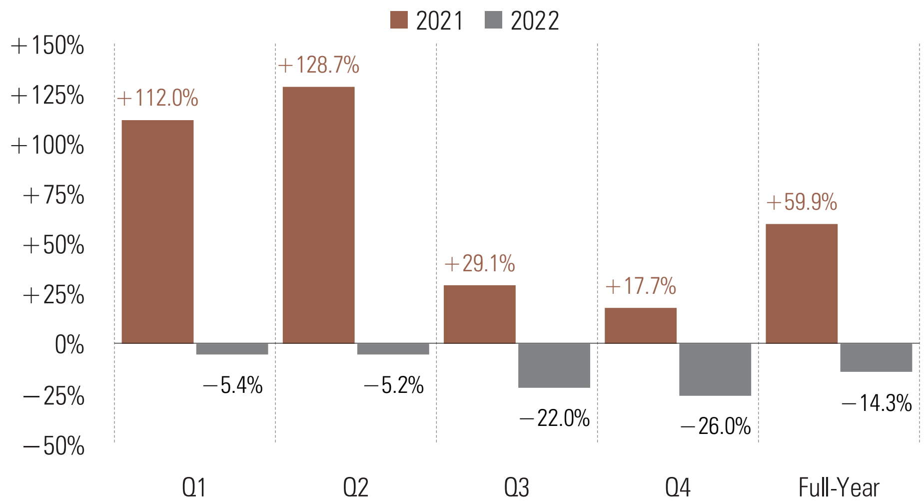
Developed Markets

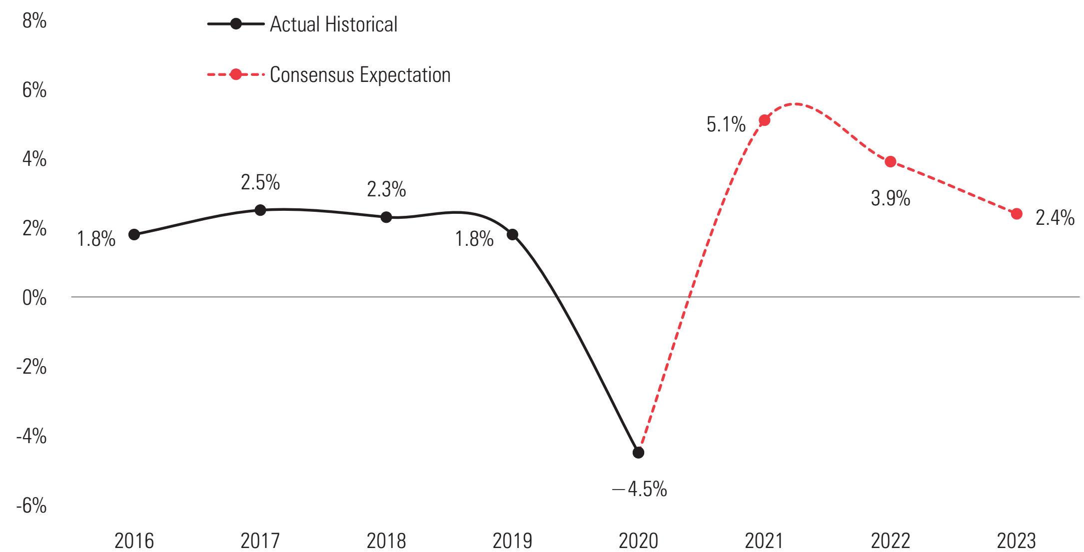
After strong earnings growth in 2021 coming off the pandemic lows, growth is projected to decline in 2022. Valuations, while not as elevated as U.S. companies, are still well below Emerging Markets yet the lower expectations might add some opportunity to exceed expectations in 2022.

While Developed Markets GDP growth is expected to moderate in 2022, it is still faster than the pre-pandemic pace of growth as financial conditions remain supportive, fiscal policy will provide a boost, and there remains some catch-up growth for economies, namely in Southern Europe.

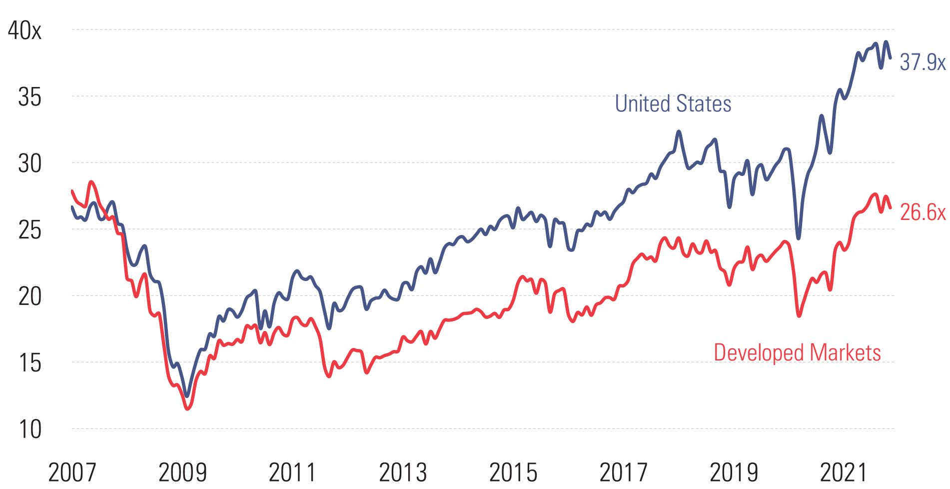
MSCI EAFE Earnings Growth: 2021 vs. 2022



Developed Markets GDP Growth

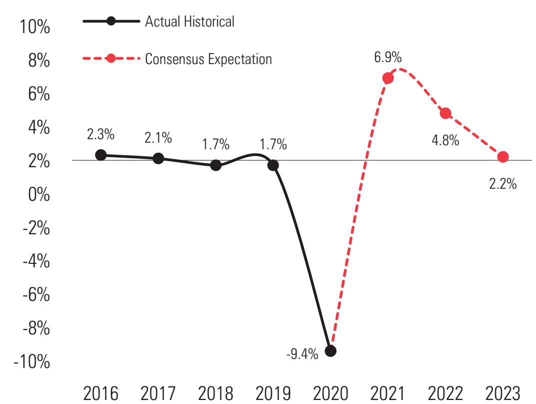


Historical CAPE Ratio Developed Markets & United States

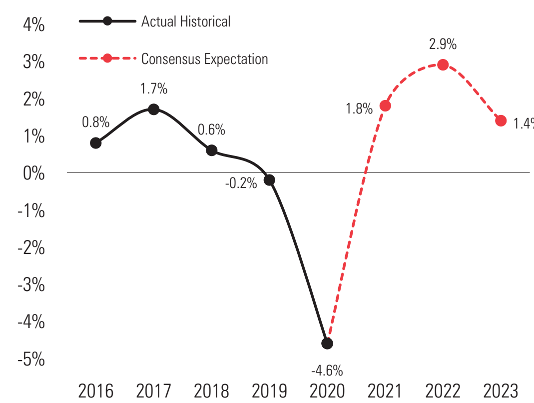


Developed Markets are currently trading at a 30% discount to the United States

United Kingdom GDP Growth



Japan GDP Growth



Data Sources: Bloomberg

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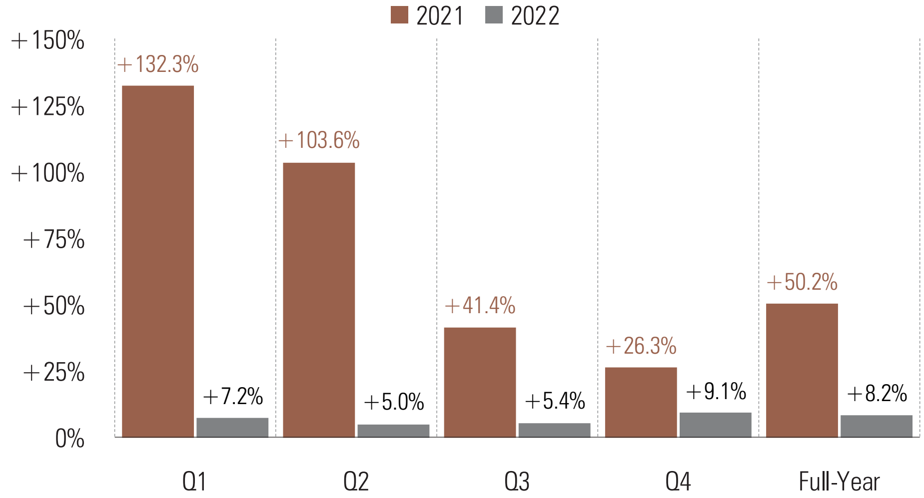
Emerging Markets – Valuation Jumps the Hurdles

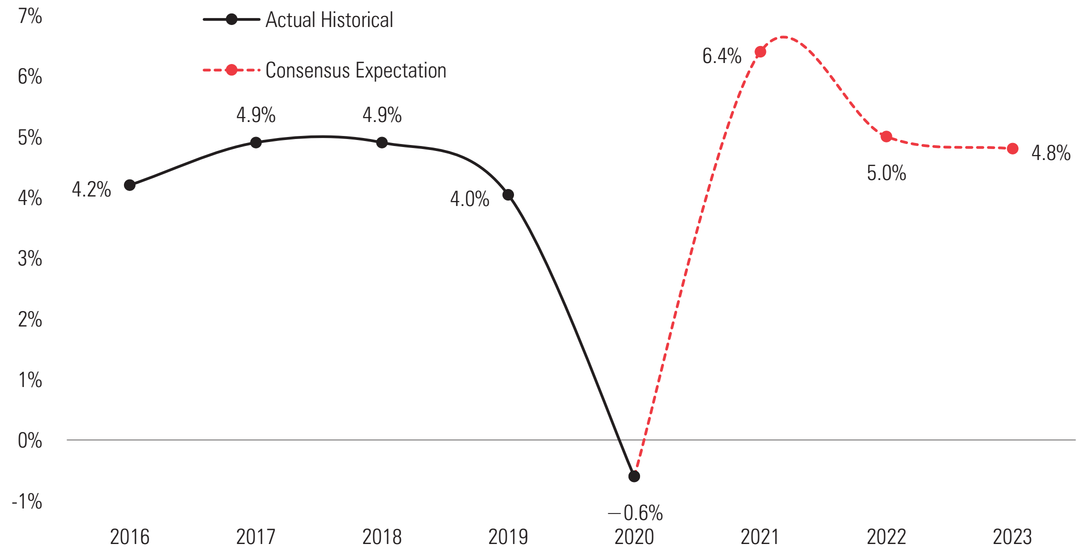
The year-over-year hurdles are high for 2022.

While GDP growth in emerging markets could moderate around the 5% level, China and India will present stronger growth in 2022 and 2023.

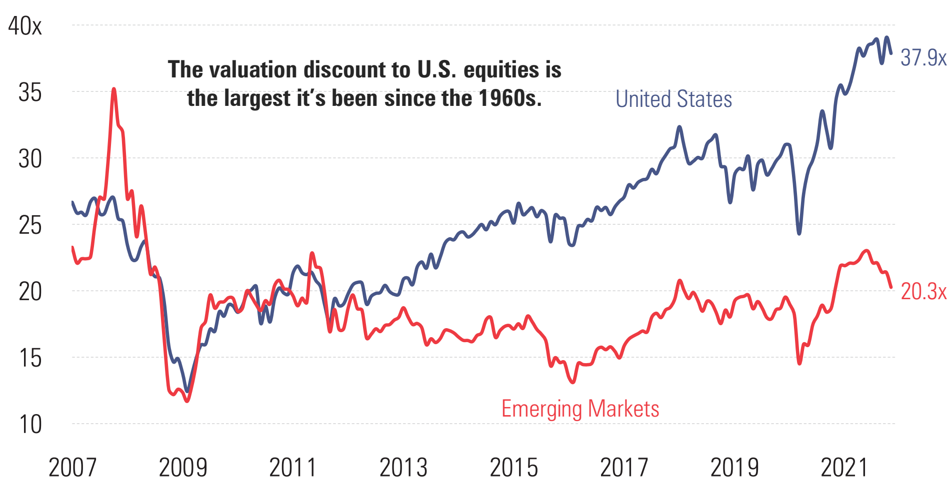
MSCI Emerging Markets Earnings Growth: 2021 vs. 2022



Emerging Markets GDP Growth

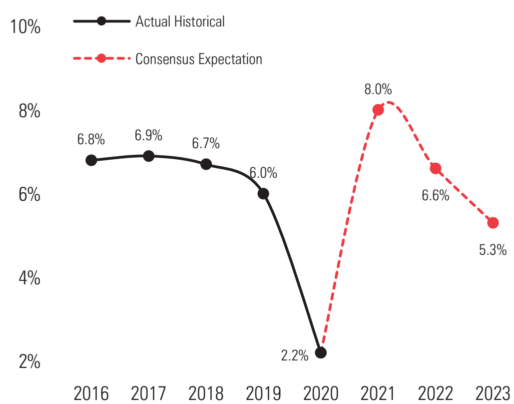


Historical CAPE Ratio Emerging Markets & United States

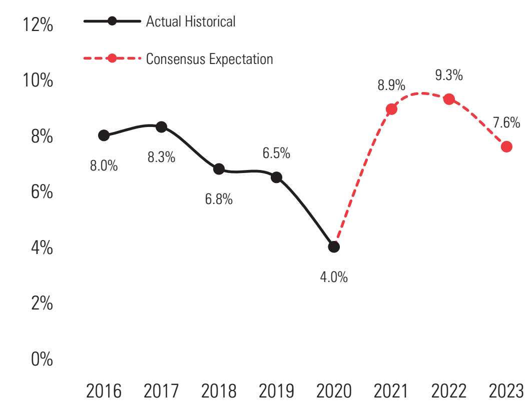


Emerging Markets are currently trading at a 47% discount to the United States

China GDP Growth



India GDP Growth



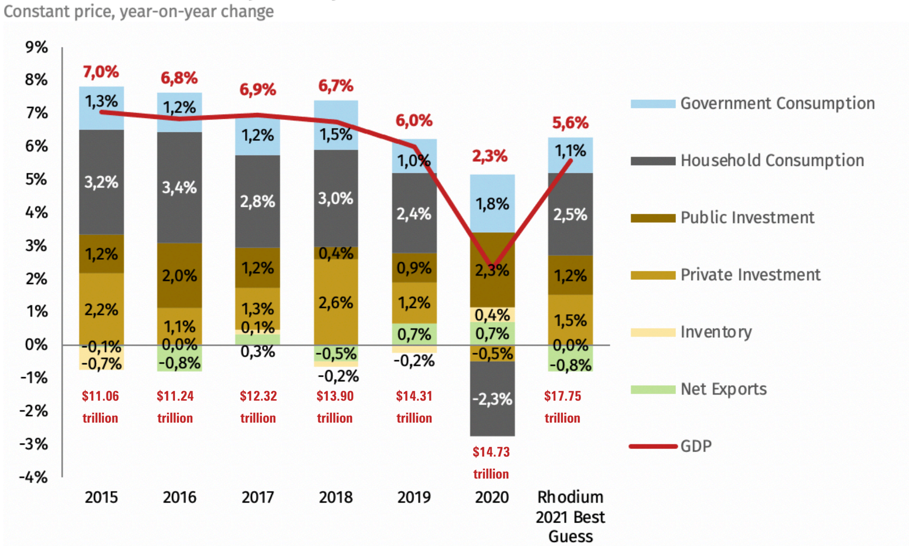
Data Sources: Bloomberg

China

GDP growth expectations are moderating. The law of large numbers becomes abundantly clear. China's large economy cannot maintain prior growth rates.

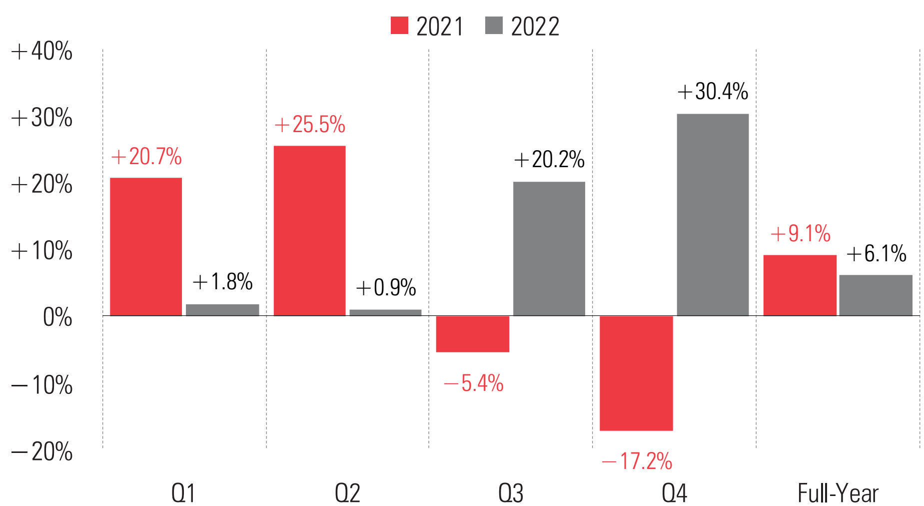
Contribution to Growth, by GDP Expenditure Items, 2015-2020 Actual and Rhodium 2021 Best Guess

Constant price, year-on-year change



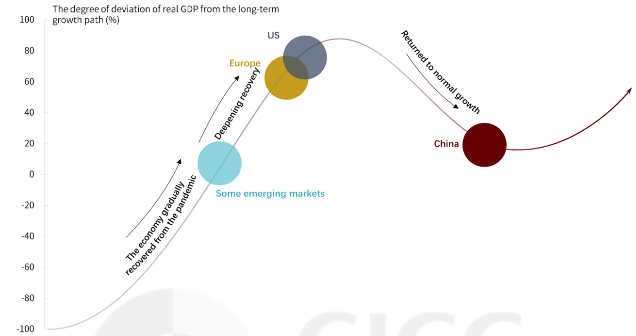
EPS growth rates will also moderate in 2022.

MSCI China A Earnings Growth: 2021 vs. 2022



Most of this moderation in growth reflects where China is in the business cycle

Figure 1: China has taken the lead in entering the stage of economic growth slowdown in the wake of the pandemic, whereas overseas countries might still be in the stage of rapid growth



Investors will be driven by macroeconomic policy in 2022

Fiscal and Monetary Easing Ahead

Note: Shaded areas refer to periods when China CAI 3mma growth was below 5.5%.

They are crawling out of Covid and are preparing to stimulate their economy with more fiscal and monetary policy

Likely stable monetary and credit, but easier fiscal policy in 2022

Type	Instrument	GS 2021F	GS 2022F
Monetary	RRR	Large bank avg: 12% Small/med bank avg: 9%	Large bank avg: 12% Small/med bank avg: 9%
	DR007	average 2.25%	average 2.25%
	7-Day OMO	average 2.20%	2.2%
	MLF (1-year)	average 2.95%	2.95%
	LPR (1-year)	average 3.85%	-
Fiscal	Effective on-budget deficit	4.0% of GDP	5.0% of GDP
	Augmented fiscal deficit	11.0% of GDP	12.0% of GDP
Credit	TSF stock	10.5% (eop yoy)	10.5% (eop yoy)
Housing	Housing policy	tight	tight
FX	USDCNY	6.35 (eop)	6.20 (12m)

Our View & Recommendations

Our View

- We expect a choppy return to normal monetary policy with tapering and rate increases in the coming quarters.
- Corporate earnings growth will be muted relative to year-over-year comparisons. This will create additional hype focus on earnings and profit margins will come into focus in the quarter.
- With precautionary savings being spent down; the US Consumer will continue to spend at a moderating pace yet enough to support continue growth in GDP in Q1. Incomes and low levels of debt service should support the consumer in the first half of 2022.
- The US GDP growth outlook will look expansionary in Q1, but we caution against a Fed induced risk of recession with any policy missteps.
- Emerging Markets continue to offer the best growth-to-valuation opportunities relative to the United States
- Interest rate volatility will create headwinds for the traditional balanced portfolio

Recommendations

- Return to neutral weight US equities (Large, Mid, Small) to mitigate hyper-inflated valuations and defend against small misses in EPS growth.
- Increase Developed Markets, especially European Union equities, as fiscal stimulus will continue to leak out into the broader economy during 2022. However, maintain a slight underweight to policy.
- Maintain an overweight to Emerging Markets and China as the continue to represent the best earnings growth to valuation prospects.
- Continue to use active management within fixed income as this important asset class is trading near all time highs (yields near all time lows). Active managers should help mitigate some of the total return drag to a blended portfolio.
- Base metals are a continued focus as a small, opportunistic portion of a portfolio. Both as a hedge against inflation and equally as an opportunity in the transition to green energy assets that are heavily reliant on copper and aluminum.

Mean Reversion Dashboard

Style Forward P/E as a % of 20-Year Average

Size	Value	Blend	Growth
Large	118.5%	137.5%	166.5%
Mid	109.6%	121.9%	162.6%
Small	97.1%	107.5%	137.1%

Regions & Countries Forward P/E as a % of 20-Year Average

Regions

World	Developed Markets	Emerging Markets
123.4%	103.8%	79.1%

Countries

United States	Germany	United Kingdom	China	Brazil	India	Russia
147.3%	91.1%	81.9%	80.1%	50.1%	152.1%	21.6%

Sector Forward P/E as a % of 20-Year Average

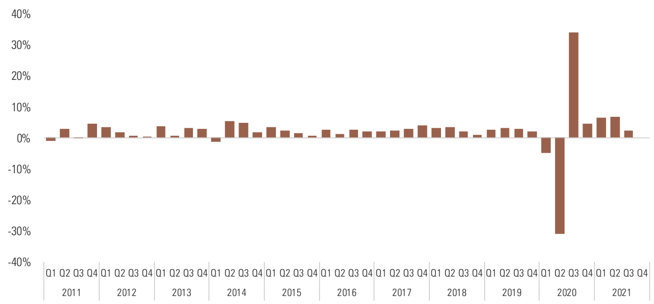
Sectors

Energy	Materials	Industrials	Consumer Discretionary	Consumer Staples	Health Care	Financials	Technology	Telecom	Utilities	Real Estate
54.5%	86.5%	105.6%	152.9%	111.1%	89.5%	75.5%	143.5%	100.7%	105.5%	262.7%

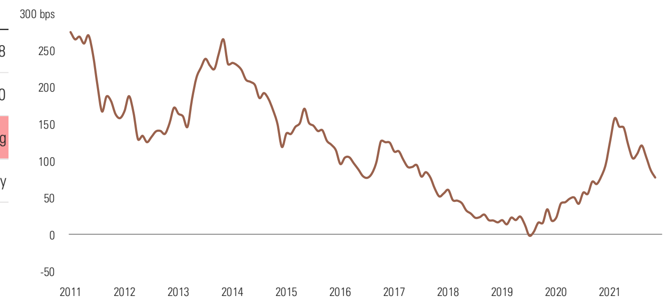
Data Sources: Bloomberg

Economic Dashboard

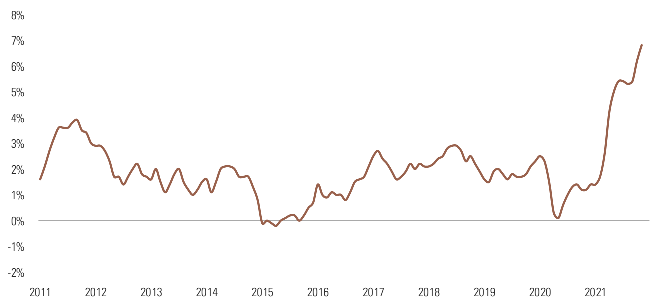
U.S. GDP Growth (YoY %)	
Latest Level	6.70%
Change from Prior Quarter	0.40%
Latest Direction	Expanding
Frequency	Quarterly



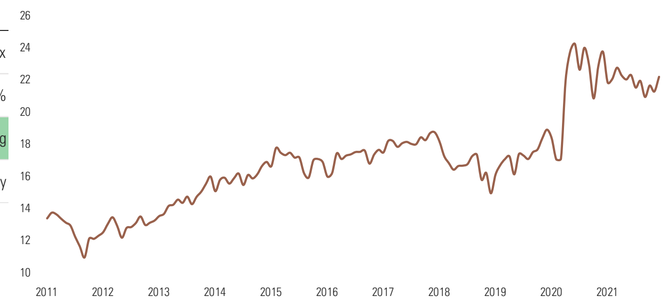
U.S. Treasury Spread (10 Yr vs. 2 Yr)	
Latest Level (basis points)	78
Change from Prior Month	-10
Latest Direction	Flattening
Frequency	Monthly



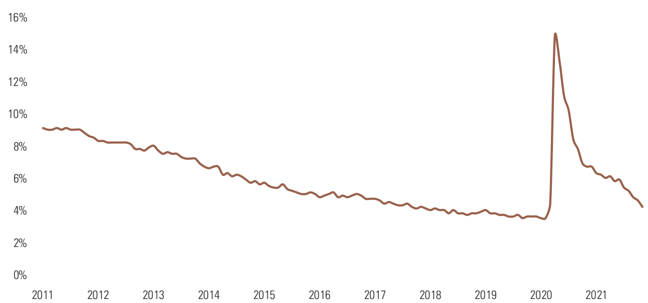
U.S. Inflation (YoY %)	
Latest Level	6.80%
Change from Prior Quarter	1.33%
Latest Direction	Rising
Frequency	Monthly



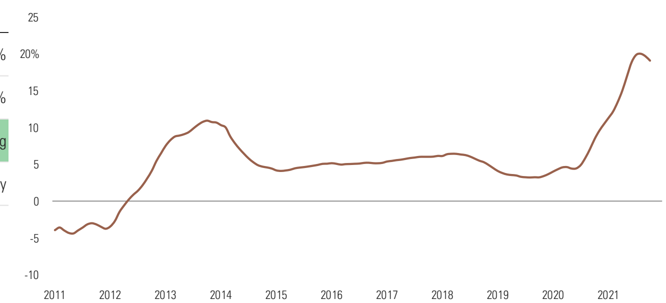
S&P 500 Forward P/E Ratio	
Latest Level	22.1x
Change from Prior Month	4.30%
Latest Direction	Increasing
Frequency	Monthly



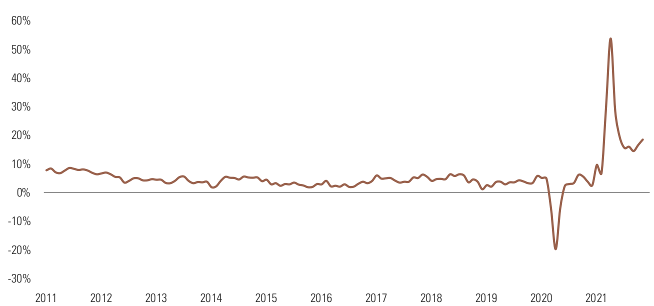
U.S. Unemployment (YoY %)	
Latest Level	4.20%
Change from Prior Month	-0.40
Latest Direction	Falling
Frequency	Monthly



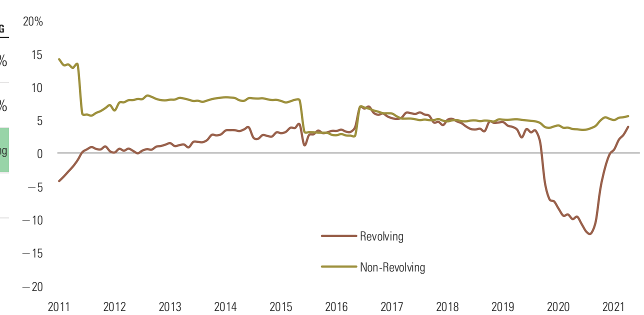
Case-Shiller Home Prices (YoY %)	
Latest Level	19.06%
Change from Prior Month	1.74%
Latest Direction	Increasing
Frequency	Monthly



Retail Sales (YoY %)	
Latest Level	18.20%
Change from Prior Month	4.00
Latest Direction	Decreasing
Frequency	Monthly



Consumer Credit (YoY %)	REVOLVING	NON-REVOLVING
Latest Levels	+4.0%	+5.6%
Change from Prior Month	+0.7%	+0.3%
Latest Direction	Increasing	Increasing
Frequency	Monthly	



Data Sources: Bloomberg

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THANK YOU

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Data Sources

Slide 2	**Wall Street Parlor Tricks** Bloomberg https://data.imf.org/ https://www.federalreserve.gov/data.htm https://data.worldbank.org/country
Slide 3	**Consumer Strength** https://beta.bls.gov/dataQuery/search https://fred.stlouisfed.org/
Slide 4	**Inflation – It Must Transition** https://www.bls.gov/cpi/ https://www.morningstar.com/articles/1071613/inflation-is-getting-worse-before-it-gets-better https://www.bea.gov/data https://www.federalreserve.gov/monetarypolicy/fomc.htm
Slide 5	**Federal Reserve Tight Rope – Frenemies of the Consumer** Bloomberg
Slide 6	**Federal Reserve Tight Rope –Policy Error Recession???** Bloomberg https://www.schwab.com/resource-center/insights/content/fomc-meeting https://www.bespokepremium.com/interactive/research/think-big-blog/
Slide 7	**Earnings –High Hurdles** Bloomberg
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