EVANS MAY WEALTH

Market Commentary | January 7, 2022

2022 Market Outlook

Welcome to 2022! Looking back on the last year, we never would have predicted that the S&P 500 would be +26.89%, the Dow Jones Industrial Average +18.73%, and the Nasdaq +21.39%, especially given the significant rebound in the market in 2020.[1]

2021 was tame when compared to 2020, with pockets of volatility correlated to waves of new COVID-19 variants and headline news regarding inflation and the Federal Reserve tapering its bond purchases and raising rates. And 2022 appears to be following suit, with a volatile first five days of trading to start the year. We expect volatility to be a recurring theme in 2022.

Risks at the forefront of our minds include another wave of debilitating COVID-19 variant, inflation running hotter and longer than expectations, and an unforeseen and unanticipated global macro event. Some of these risks have a higher probability (and lower impact) than others and that guides our stance towards allocation and positioning of client portfolios going into 2022.

While CPI has increased at a 6.8% annual rate – the fastest since 1982[2] – expectations for inflation over the next 5 years is 2.87% per year, which is a significantly lower and more manageable rate of inflation[3]. This gives us some comfort; however, the dynamic is different than past periods of inflationary spikes. Supply chain bottlenecks caused by human resource shortages and demand fueled by record levels of household savings vis-à-vis fiscal stimulus makes this a unique inflationary environment. The former will continue to be exacerbated by COVID-19 variants and workers' (and employers') reluctance to get back into the workplace.

It is quite clear that the Federal Reserve will continue to taper as it has been over the last three months and will raise interest rates in 2022. Bond yields have already increased, although modestly, on this news and higher inflation data. We expect bond yields to continue to rise in 2022 and 2023. This will likely create a difficult environment for bonds to generate meaningful total return; however, they still provide an important ballast to equities in periods of heightened volatility which we expect in 2022.

Analysts' 2022 consensus price target for the S&P500 is 5,225[4] which implies +9.6% return for the S&P 500 this year[5]. We continue to be cautiously bullish in 2022, as we were in 2021, and believe a high-quality, balanced portfolio is the best way to approach what will likely be a volatile 2022. More speculative stocks took a hit in 2021 on fears of heightened inflation, higher interest rates, and slower economic growth. We believe this will likely continue in 2022.

Expect the market to continue recalibrating during Q1 2022, as market participants digest a higher interest rate environment and the knock-on impact to higher valuation sectors of the market. We expect interest rates to remain historically low (Bloomberg survey results expect 2.04% for 10-year Treasury in 2022) even after the Federal Reserve finishes tapering and raising rates, which should continue to allow for a constructive market for equities. We witnessed significant pent-up demand coming out of waves of COVID-19 in 2021 and, at the same time, many companies mitigated the effects of higher inflation. As a result, corporate earnings were remarkably strong in 2021. We expect corporate earnings to continue to be strong in 2022, but not at the levels reported in 2021.

As always, we seek to invest in high-quality businesses, with hard-to-replicate products/services, sticky revenue models, and healthy balance sheets. These types of companies are more resilient across a variety of market

[1] S&P Dow Jones Indices, Nasdaq Index. Price return as of 12/31/2021.
[2] U.S. Bureau of Labor Statistics. Consumer Price Index All Items Index. November 2021. Report released December 10, 2021.
[3] 5-Year Breakeven Inflation Rate as of 1/5/2022. Federal Reserve Bank of St. Louis.
[4] FactSet Insights. December 13, 2021.
[5] As of January 5, 2022

cycles and economic conditions, which we certainly have seen over the last two years and expect to see in 2022.

On a separate note, as you may recall, in 2021, we invited you to participate in a survey to provide feedback on your experience as a client of Evans May Wealth and to offer input on client events, education seminars, and other ways that we can provide more value to you. Thank you to all that participated in the survey. We took the feedback seriously and are excited to announce our first education seminar for 2022!

We are thrilled to host a virtual fireside chat with Liz Ann Sonders, Chief Investment Strategist for Charles Schwab & Co., exclusively available to clients and guests of Evans May Wealth. The virtual event is scheduled for January 25, 2022, at 4 pm Eastern Standard Time via Zoom. Look out for a separate invitation with Zoom dial-in details in the coming days.

Liz Ann is one of the premier investment strategists in the world. We regularly follow her thought leadership and market outlooks, and we look forward to what is sure to be a very informative and thought-provoking discussion.

We wish you good health, happiness, and prosperity in 2022!

- Evans May Wealth