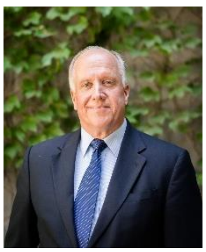
2021 – 4th Quarter Review & Outlook

Economic and Investment Review



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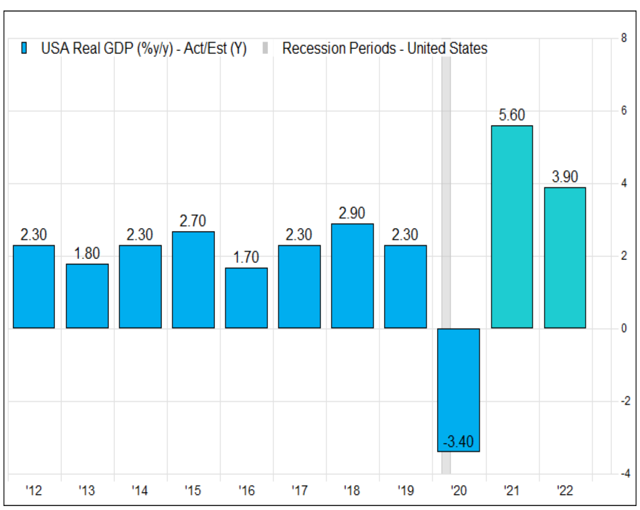
Economic Growth: Despite headwinds of COVID, supply chain issues and inflation, the U.S. economy continues to perform well. GDP for Q4 and for the full year 2021 is expected to be reported at 5.6% for each period respectively. Growth is forecasted to moderate to 3.9% in 2022 but is still well above the long-term historical trend. The International Monetary Fund expects global growth to decline from 5.9% in 2021 to 4.4% in 2022. Growth in 2022 is expected to be

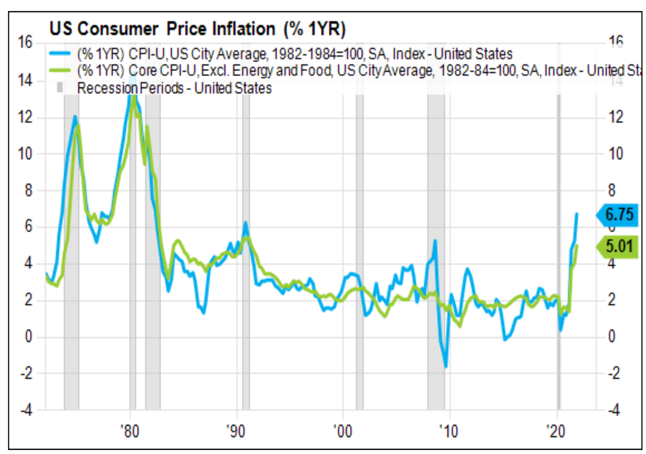


Source: FactSet

led by consumer strength in the U.S. The level of expected growth is somewhat dependent on an assumption that we put the pandemic behind us sooner rather than later. Rebuilding inventory levels, restocking shelves and business spending should lead the way. Increased consumer spending on travel and entertainment would also be additive.

Reaching these levels will require successfully navigating through an inflation storm and a headwind of higher interest rates with less monetary support from the Fed and less fiscal support from the federal government.

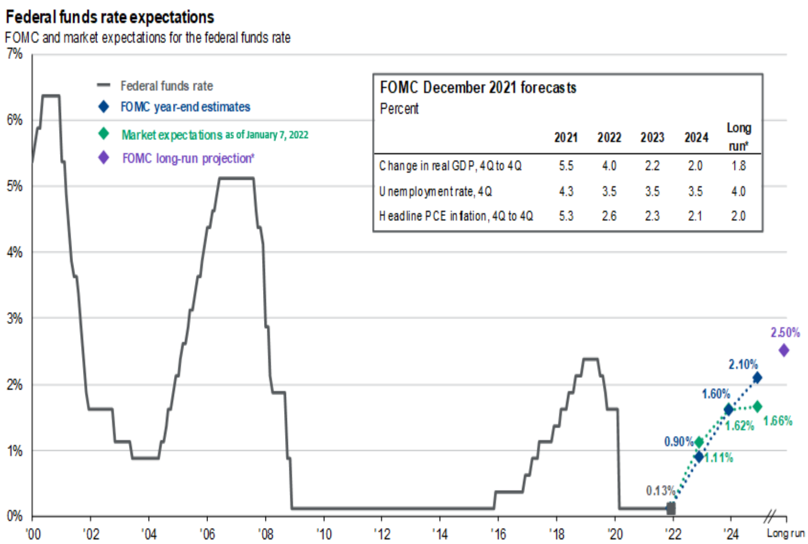
Inflation, as measured by the consumer price index, exceeded 6% for the first time in over 30 years in the fourth quarter of 2021. Production limitations, supply chain issues, labor shortages and demand imbalances for good and services have fueled the liftoff for inflation. In short, demand has exceeded supply in many areas. Areas of greatest impact include energy (+31% Y/Y) and transportation (+19% Y/Y). A limited supply of transportation related semiconductors constrained new vehicle production leading to higher prices for new and used vehicles. Certain food subgroups also soared higher. Meats, poultry, fish, and eggs were up over 12% in Q4 relative to the same period in the previous year.



Source: FactSet

Economists and strategists generally expect inflation to moderate in 2022 as the Covid-19 pandemic fades in the coming months, but expect it to remain above the long-term average. The consensus estimate for

CPI is 4.2% in 2022, declining to 2.3% in 2023. Due to heightened inflation concerns, the Fed has announced that they will accelerate the time frame and the amount of tapering of asset purchases as well as move up the calendar for rate hikes. They are expected to execute a series of 3-to-4 0.25% hikes to the Fed Funds target rate by the end of 2022. The first rate increase is expected to come in



Source: Bloomberg, FactSet, Federal Reserve, J.P. Morgan Asset Management

March. Federal Reserve Chairman Jerome Powell recently stated that consumer demand no longer needs to be propped up, allowing the Fed to reduce the amount of economic support provided by easy/stimulative monetary policy.

The employment picture has improved significantly since the early days of the pandemic. The unemployment rate has plummeted from a spike of 14.7% in April 2020 to 3.9% in the December 2021 report. The consensus estimate for year end 2022 shows further expected improvement to 3.7%. Labor availability remains challenging for employers as many people have dropped out of the job market. The U.S. labor force is down 2.4 million workers from February 2020 and the labor force participation rate has dropped from 63.4% pre-pandemic to 61.9% currently. Baby boomer retirements and limited immigration have contributed to the labor shortage. The shortage has led to a 4.2% increase in wages and salaries in the most recent report according to the Bureau of Labor Statistics.

Manufacturing, as measured by the ISM Purchasing Managers Index - PMI, contracted during the first half of 2020 due to the initial impact of COVID. It has since reversed course into expansion. December Manufacturing PMI was reported at 58.7 down from a recent peak of 64.7 in March 2021. The December Non-Manufacturing Index also indicated continued expansion at 62.0, down from a recent peak of 69.1 in November 2021. (Any reading over 50.0 indicates expansion and any reading under 50.0 indicates contraction.)

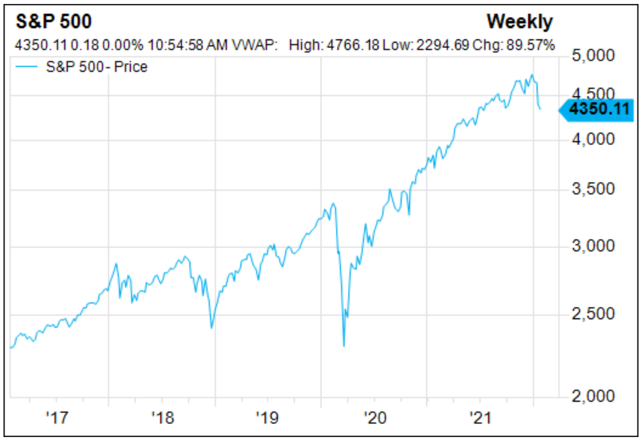
Industrial Production, as measured by the Federal Reserve System, continued to show growth through the end of 2021, albeit at a slower pace than earlier in the year. Areas of greatest growth include Oil & Gas Well Drilling and Defense & Space Equipment. The area of greatest contraction continued to be Motor Vehicles & Parts.

Retail & Food Services were up 16.9% y/y in December as the consumer remains healthy. Growth was broad based but was led by Gasoline Stations at 41.0% and Food Service & Drinking Places at 41.3%, two areas that have been significantly impacted by inflation.

The Biden administration's "Build Back Better" plan hit a road block last year as Republicans were united in opposition and several Democrats balked at the price tag. A scaled down version focusing on extending healthcare subsidies, lowering prescription drug costs, subsidized child care and incentivizing reducing carbon emissions is being advanced. The plan to pay for the related programs continues to involve tax increases on corporations and high-income individuals and families.

Equity Markets

The S&P 500 closed at 4766 on December 31, up 11.03% in Q4 and up 28.71% for 2021. However, the index has moved sharply lower so far in January in reaction to the Fed plans to initiate a series of increases to the Fed Funds rate in reaction to higher inflation. The S&P is currently down about 7% year-to-date through January 28.



Source: FactSet

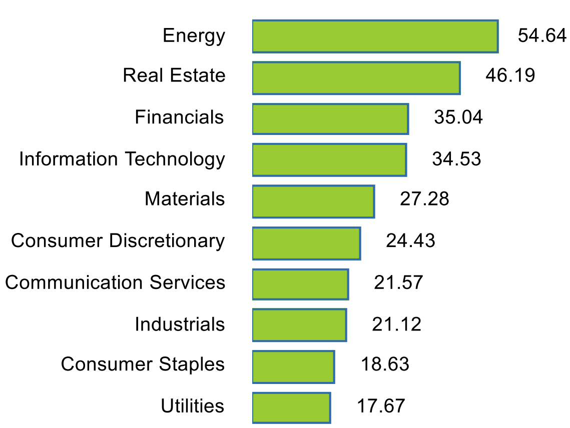
Growth stocks outperformed value stocks in Q4 and for 1 and 3 years through the end of the 2021. However, value stocks have held up better than growth stocks in the current downturn so far.

2021 Q4 Returns				
		YTD	1 Year	3 Years
EQUITY	Q4 2021	12.31.21	12.31.21	Annualized
S&P 500	11.03	28.71	28.71	26.07
S&P 500 Value	8.31	24.90	24.90	18.65
S&P 500 Growth	13.37	32.01	32.01	32.20
Dow Jones Ind Avg	7.87	20.96	20.95	18.49
S&P Mid Cap 400	8.00	24.76	24.76	21.41
S&P Small Cap 600	5.64	26.82	26.82	20.11
MSCI EAFE	2.69	11.26	11.26	13.54
MSCI Emerging Mkts	-1.31	-2.54	-2.54	10.94

Source: FactSet

Performance was strong for all sectors of the S&P 500 in 2021 but was led by Energy, Real Estate, Financials and Information Technology.

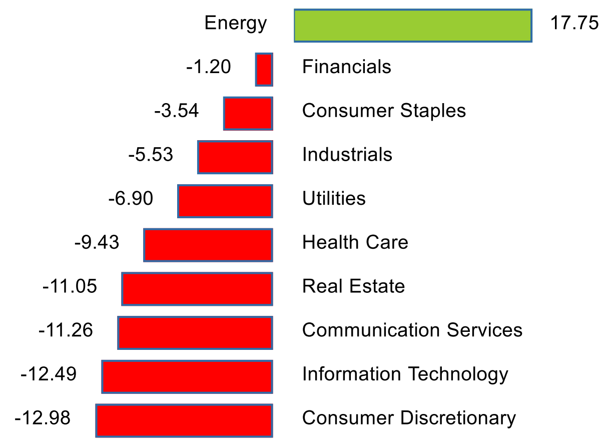
1 Year Total Return Change - Top/Bottom 5



Source: FactSet

Energy is the only sector that has remained positive on a year-to-date basis so far this year. Consumer Discretionary, Information Technology, Communication Services and Real Estate have been the hardest hit sectors in the downturn.

YTD Total Return Change - Top/Bottom 5

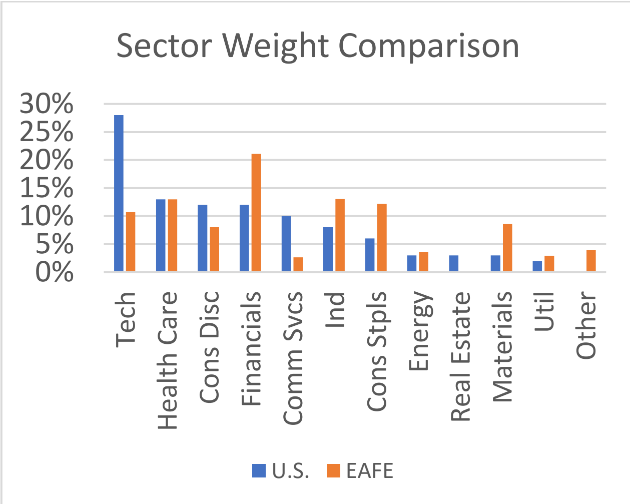


Source: FactSet

Mid cap and small cap stocks also posted an outstanding year in 2021, only slightly lagging their large cap counterparts. The S&P Mid Cap Index was up 24.76% and the S&P Small Cap 600 Index was up 26.82% for the year. Both benchmarks are down over 9% so far in January.

Developed international markets (MSCI EAFE) and emerging markets (MSCI EEM) continued to underperform the U.S. equity markets in 2021. Developed markets were up 11.26% and emerging markets were down -2.54% for the year. Both developed and emerging markets are in negative territory so far in 2022 but not so much as the domestic market. The developed international markets index is down about -5.5% and the emerging markets index is down about -3.5% YTD.

Part of the differential in returns and valuation can be explained by the comparative differences in sector weights. The largest differences are in Information Technology and Financials. Tech accounts for 28% of the S&P 500 compared to just 11% of the EAFE index. Financials accounts for 21% of the EAFE index compared to 12% of the S&P 500.



Source: FactSet

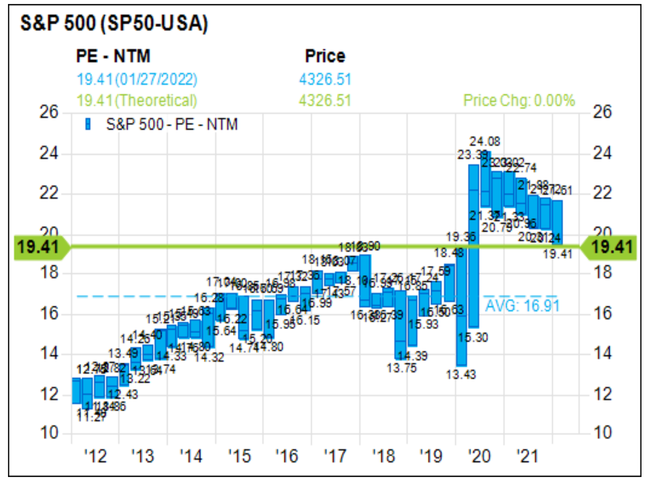
Over the past five years the S&P 500 Information Technology sector returned 27.16% annualized compared with only 1.77% for Euro Financials. Looking forward, the outlook for Financials should improve with higher interest rates and could deteriorate for that portion of the Tech sector with high PE multiples and with the majority of earnings further out on the horizon.

Our current 12 month forecast for the S&P 500 is 4,900, an increase of about 11% from current levels (January 28) but only indicating an upside of about 3% for the year. The forecast is based on EPS numbers of 225.28 for 2022, and 246.33 for 2023. The EPS numbers reflect a 0.5% reduction in consensus growth expectations. The reduction is based on margin pressure from higher input and labor costs. Forward PE multiples are also adjusted down slightly due to higher interest rates and a less accommodative Fed.

The consensus target price is currently 5,330 indicating a return of nearly 12% for the year before dividends. This would require earnings and PE multiples to remain stable.

The Goldman Sachs forecast is 5,100 for 12 months and the Raymond James forecast is 5,050 for year-end 2022.

Higher than average PE multiples continue to be supported by historically low interest rates and stronger than average earnings growth. As interest rates begin to adjust upward and if earnings growth begins to trend down, PE multiples should trend toward long term averages. The 10-year average PE for the S&P 500 NTM (next twelve months) is 16.9x.



Source: FactSet

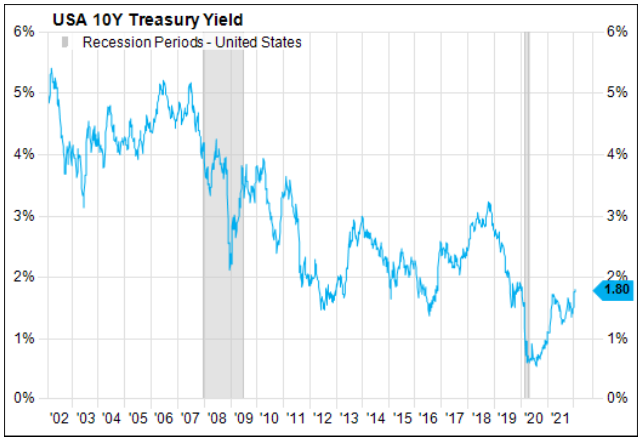
Price earnings multiples may continue to stay above the long-term average due to:

- Historically low interest rates
- Tactical asset allocation towards equity
    - Fixed income less desirable due to increasing interest rates
- High cash levels
- Expected stock buyback levels
- Continued above average earnings growth

Earnings and earnings growth will be an even greater focus point for investors when conducting valuation analysis. The fourth quarter earnings reporting season is well under way. FactSet reports that the S&P 500 index is reporting earnings growth of more than 20% for the fourth quarter and more than 40% for the full year. So far, more companies are beating EPS estimates than average; however, they are beating estimates by a smaller margin than average.

Fixed Income Markets

Fixed income yields continue to trend upward due to inflation concerns and anticipated Fed activity. The 10-year U.S. Treasury yield is currently near its highest level in two years.



Source: FactSet

Returns for investment grade bonds (Barclays U.S. Aggregate Index) were relatively flat in Q4 but were down -1.54% for 2021. The index has continued to move down an additional -2.45% so far this year.

2021 Q4 Returns				
FIXED INCOME	Q4 2021	YTD 12.31.21	1 Year 12.31.21	3 Years Annualized
B B US Agg Bond	0.01	-1.54	-1.54	4.79
S&P National Muni	0.79	1.55	1.55	4.61
B B High Yield	0.70	4.51	4.51	8.45

Source: FactSet

We expect interest rates to continue to trend upward. In order to reduce the negative impact, we recommend modestly shortening duration (reducing the sensitivity to changes in interest rates) of bond portfolios and bond funds held. Also, the use of TIPS (treasury inflation protected securities) and floating rate funds for a portion of a fixed income allocation may help to offset some of the downside pressure while still producing income. The advantage of TIPS is that the principal is periodically adjusted according to the rate of inflation (CPI), allowing for the coupon dollar payments to rise. Although TIPS protect against inflation, the yields are typically lower than regular bonds with similar maturities. TIPS and related funds are highly sensitive to interest rate movements which can cause values to fluctuate considerably between the time of issuance and maturity. Of course, TIPS funds have no final maturity so the valuation at future dates is dependent upon duration, interest rates and holdings management just like a regular bond fund.

Municipal bonds, as represented by the S&P Municipal Index, were up 0.79% for the quarter and up 1.55% for the year. Demand for municipal bonds is expected to remain constant as credit quality is stable and as higher tax rates become reality.

High yield bonds, as represented by the Bloomberg Barclays High Yield Index, returned 0.70% in Q4 and 4.51% for one year ending December 31. High yield bond spreads have tightened to historically low levels as investors reach for yield in a low interest rate environment. High yield bond returns will likely be more confined to income production than from any further tightening in credit spreads.

Real Estate posted a very strong year in 2021. The Dow Jones U.S. Real Estate Index was up 39.22% for the year. The Index has moved down by over 10% so far this year in response to higher interest rates.

2021 Q4 Returns				
Real Assets	Q4 2021	YTD 12.31.21	1 Year 12.31.21	3 Years Annualized
Dow Jones U.S. R/E	14.61	39.22	39.22	19.35
S&P GSCI	1.51	40.35	40.35	7.99

Source: FactSet

Commodities had a stellar year after 10 years of flat-to-down performance. The S&P Goldman Sachs Commodities Index (GSCI) was up over 40% for the year. The index has continued to move up nearly 10% so far this year driven by energy, agricultural goods and industrial metals prices.

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