

# CIO CORNER

## January 2022



**As we move into January and the New Year, investor attention remains on many of the 2021 themes such as inflation, supply chain disruptions, Covid-19 and variants of the virus, Fed policy and the global reopening of economies.**

**Happy New Year – It's a saying we enjoy sharing with family and friends this time of year, but it's also a saying that can quickly raise eyebrows when pertaining to market outlooks for the next twelve months. So here it goes, Happy New Year, as I do believe that 2022 will indeed be a positive year for equity markets.**

The S&P 500 rose 27% in a tremendous year, notching 70 record closing highs during the twelve months. The often-used S&P 500 benchmark outpaced the 19% gain in the Dow Jones Industrial Average and the 21% rise in the Nasdaq Composite. At the Thursday close, the Dow Jones Industrial Average had risen on the year by 18.9%, to 36,398; the S&P had climbed 27.2%, to 4778; and the Nasdaq Composite was up 22.1%, to 15,741.

### HIGHLIGHTS

- ▶ Constructive on U.S. equity markets and positive on global economic growth as hotter than anticipated inflation moderates over the course of next year.
- ▶ Equities move gradually higher as the Federal Reserve's accommodative policies will not waiver, specifically its swollen \$9 trillion balance sheet will remain intact.
- ▶ Although I only anticipate just one rate hike in 2022, I expect significant volatility surrounding the "number of rate hikes" debate. Volatility will stubbornly elevate as we endure the transition period from asset purchases to a raising rate environment.
- ▶ Diversification will be critical: favoring tangible and essential blue-chip names. Dividend paying companies will attract investors and the tilt into value from growth will persist.
- ▶ ESG investing moves from a portfolio requirement to a must-have ingredient in every portfolio.
- ▶ Based on recent data, small-cap companies, relative to large-cap companies, have never been cheaper.
- ▶ Bond leadership will again prevail and help quell volatile episodes. The 10-year note should have a ceiling of 2% in 2022.

Equities creating new all-time highs (70 new highs in 2021) and finishing 2021 on a high note assists my constructive view as my Santa Rally forecast on CNBC (which was initially met with skepticism) indeed came to fruition. The Santa Rally had an extremely high hurdle to overcome after the latest Covid-19 variant Omicron creamed markets on the day after Thanksgiving. Having conviction, staying invested in a model and rebalancing exposure during times of distress during 2021 was a differentiator as well as a source of alpha production for investors.

The S&P 500 finished the year with strength as it rose more than 10% in the final 3 months. Historically speaking, when the benchmark index accomplished this feat, it was positive the quarter 15 out of the previous 17 times, with an impressive 5% average return. Wall Street has been wagering that this year's economic recovery and strong earnings from U.S. corporations will continue to underpin equity buying into 2022, at least for the first few months.

2022 will have similarities to the emotional rollercoaster of 2021, yet my belief is that the coming year will also be quite different. These key differences will surface while we digest the transition process from historic fiscal and monetary policy to a raising rate environment. Volatility will be a theme for investors to contend with in the new year but, I am optimistic during this unique period of time, as I envision the global reopening to persist in the wake of Covid and all of its unwelcomed variants.

## POSITIONING FOR 2022

Staying invested was a critical criterion in 2021, as there were various spikes in volatility that sent investors to the exit doors. In the event cash was raised during those volatile episodes, the S&P index marked 70 all-time highs for the year, along with broader market advances in the final stretch of 2021.

In many ways, the COVID-19 crisis was more like a war or a natural disaster than an economic recession, and policymakers reacted with equal force. Globally, post-pandemic spending commitments totaled almost \$20 trillion, the highest levels of fiscal spending relative to GDP since World War II.

Household net worth is at all-time highs, debt service payments are at all-time lows and consumer sentiment has room to recover. Across the developed world, household savings are elevated. U.S. consumers saved almost \$2.5 trillion more than the pre-pandemic trend. This is in stark contrast to the Great Recession when households endured falling home values and significantly lower equity prices which both contribute to reducing household wealth.

Happy New Year and have a happy, healthy and prosperous 2022!

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