

# Mid-year Market and Economic Update

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# Market Summary

- Economic recovery in progress, albeit with volatility due to Omicron and Delta variants impact
- Increased inflation is making investors nervous
- Supply chain shortages forecasted to gradually move towards inventory glut
- There is an upward pressure on wages due to labor shortages
- Fed is determined to start increasing interest rates in 2022 and onwards
- Corporate earnings have generally shown growth and positive outlook
- US dollar is strengthening
- Proposed changes in taxes is still being debated in the congress

# Build Back Better Act

Proposal	IN or OUT?
Individual income tax rates	OUT
Surtax on wealthy individuals	IN
Capital Gains Tax Rate Increase	OUT
Estate Tax Rate Increase	OUT
State and Local Tax (SALT) deduction	IN
Prohibition on “Backdoor” Roth IRA conversions	IN
Corporate Minimum Tax	IN
Cap on aggregate retirement account balances	IN
Billionaires’ tax on unrealized gains	OUT

# Actionable Items before 12/31/21

- Tax loss harvesting in taxable accounts
- Required Minimum Distributions (RMDs)
- Roth conversions (partial/full)
- Maximize 401K / IRA contributions for the current year
- Backdoor Roth IRA
- Funding Donor Advised Funds (DAF) for tax write off
- Charitable contributions from IRAs for clients > 72 years of age (QCD)
- New year resolution for 2022 – Financial Goals Plan (new plan / update existing)

# Market Outlook - 2022



# The Stock Market and Earnings

*S&P 500 Index price and trailing earnings-per-share since 1990*

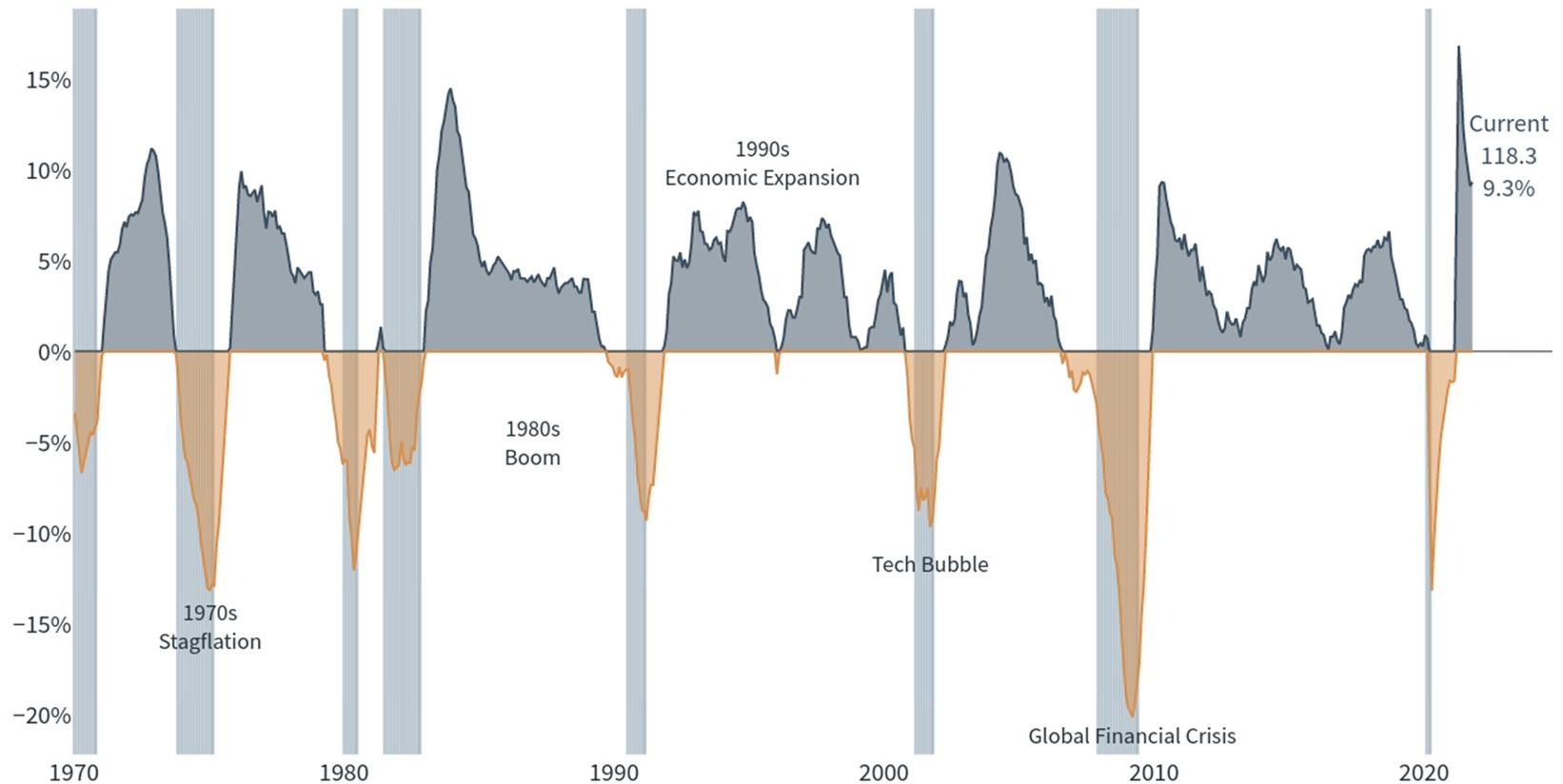


*Latest data point is Dec 8, 2021*

- This chart shows the S&P 500 index alongside its trailing 12 months earnings-per-share.
- Over the long run, the stock market tends to follow earnings. If earnings are rising, investors are willing to pay more per share.
- Earnings, in turn, tend to track economic growth. Thus, a healthy economy tends to result in a rising stock market.

# Leading Economic Indicators

Conference Board LEI year-over-year percent change  
Recessions are shaded



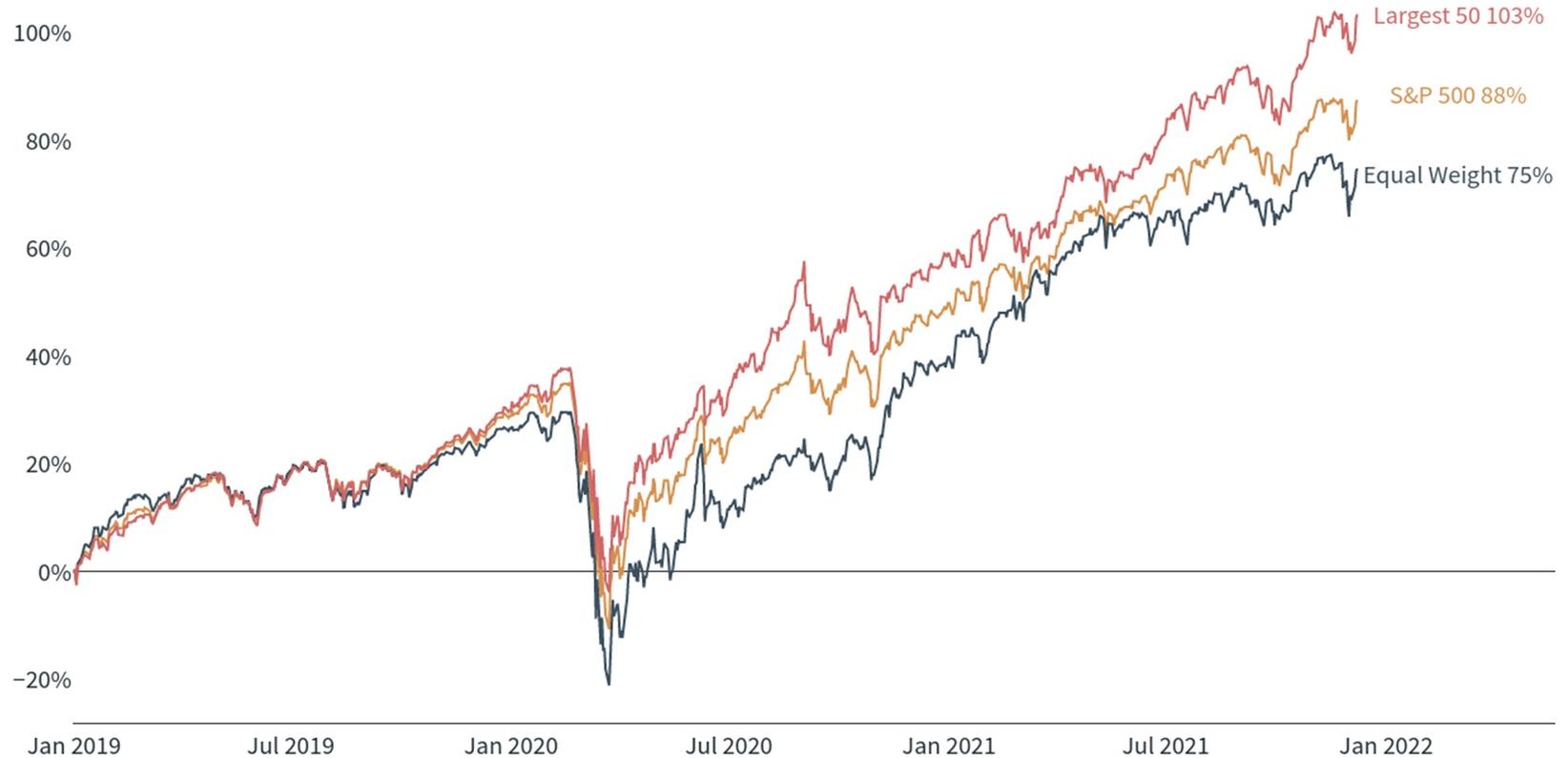
Latest data point is Oct 2021

Source: Conference Board, NBER, Refinitiv

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# S&P 500 Equal Weight Recent Performance

*Equal weight index compared to market cap weighted and top 50 stocks  
Cumulative price return since 2019*



*Latest data point is Dec 8, 2021*

Source: Standard & Poor's

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# Wage Growth

*Year-over-year change in the average hourly earnings of production and non-supervisory employees in the private sector*



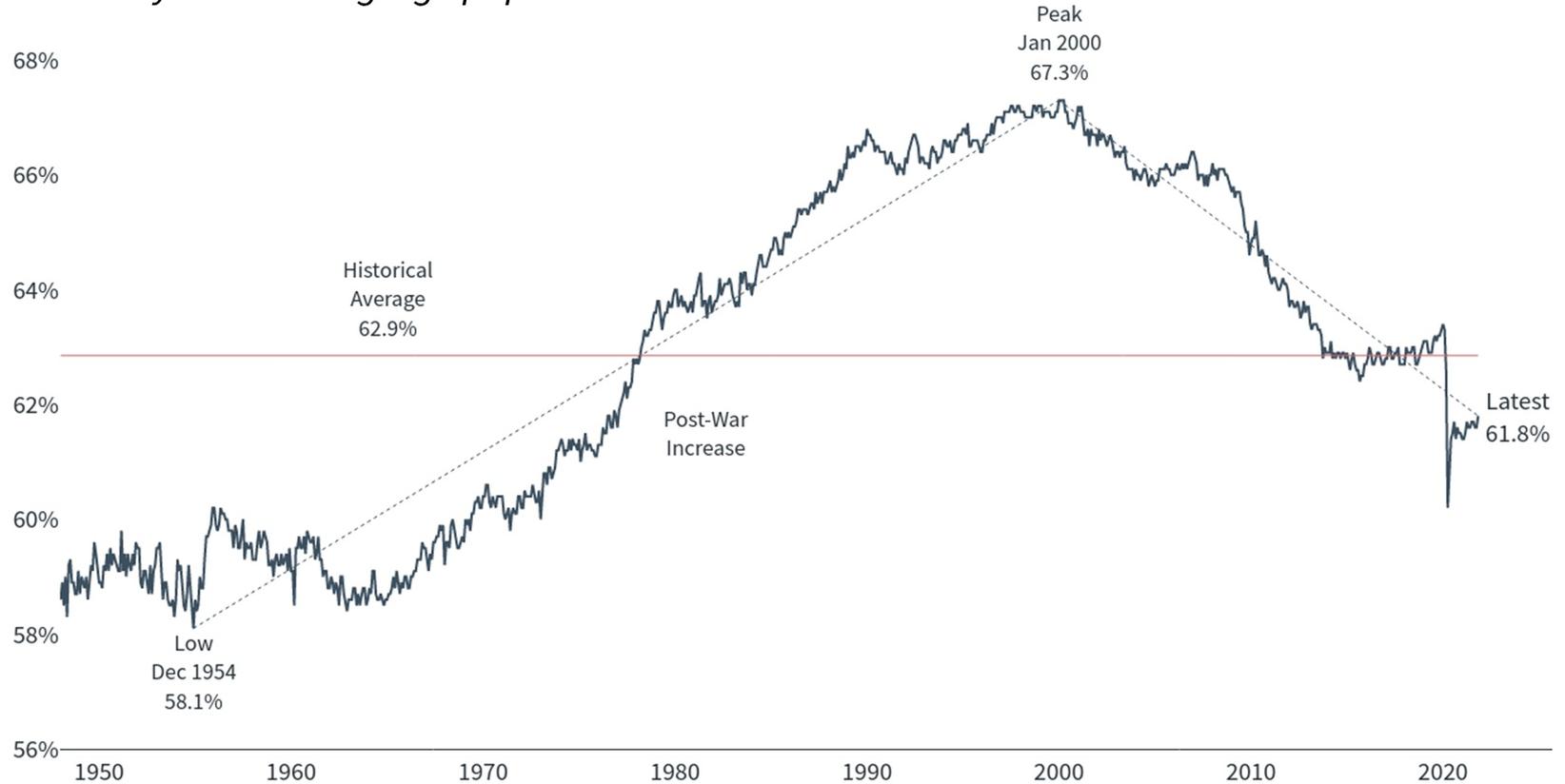
*Latest data point is Nov 2021*

- Wages have begun to rise for many workers as the recovery continues and labor markets tighten.
- Whether wages continue to rise will depend on labor market slack and the economic recovery in the coming years.

Source: Bureau of Labor Statistics

# Labor Force Participation

*Percentage of the population working or actively seeking work divided by the working-age population*



*Latest data point is Nov 2021*

Source: Bureau of Labor Statistics

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# Job Openings and Quits

*The number of job openings and quits per the Job Openings and Labor Turnover Survey (JOLTS)*



Latest data point is Sep 2021

Source: Bureau of Labor Statistics

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# Historical Interest Rates

*10-year and 2-year yields since 1960*

Interest Rates



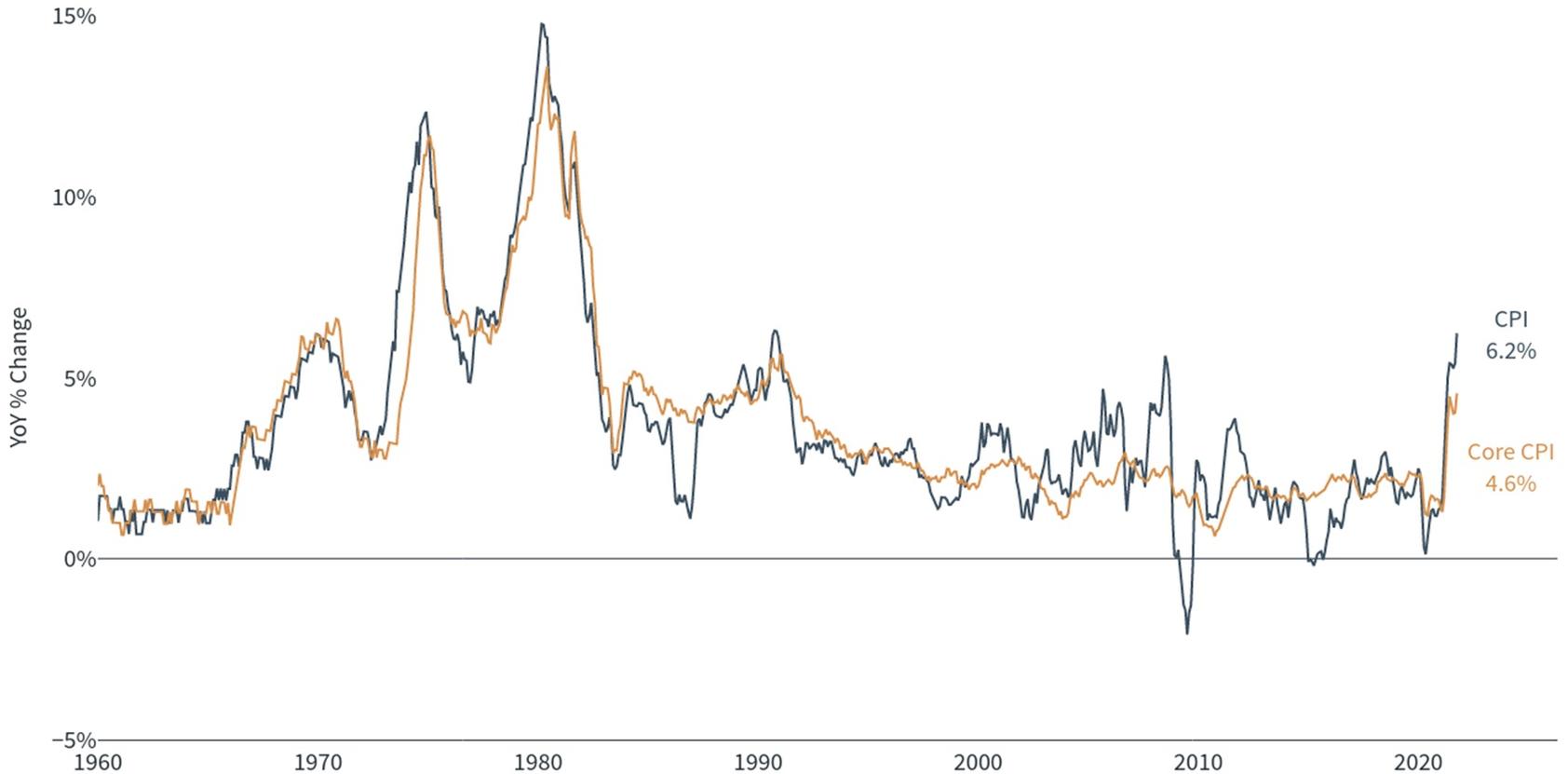
*Latest data point is Dec 8, 2021*

- Interest rates have been on a declining trend since the 1970, resulting in a multi-decade bull market for bonds.
- Interest rates are rising but have been near historic lows since 2009. Many global rates are still negative.

Source: Federal Reserve

# Consumer Price Index

## CPI and Ex Food and Energy, YoY % Change



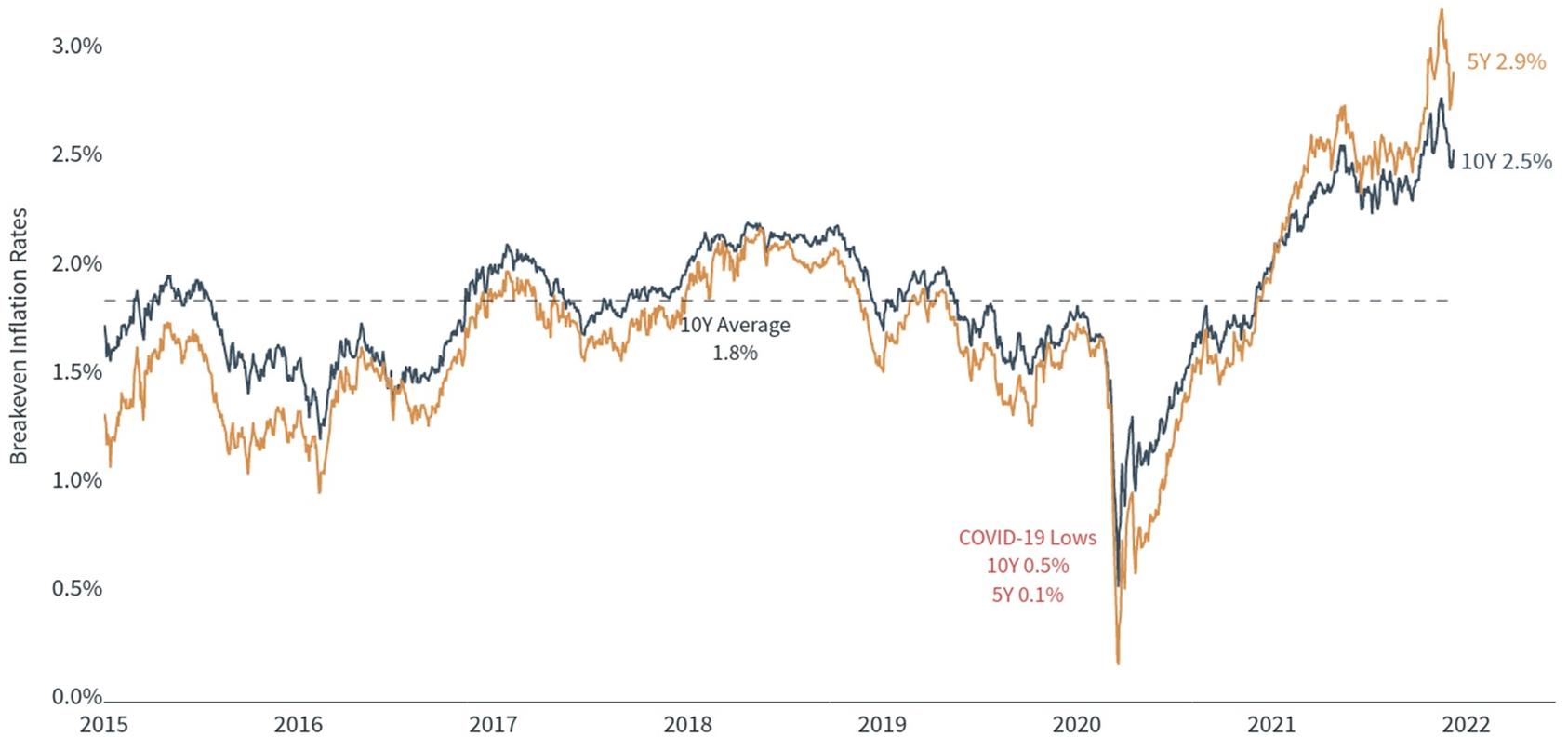
Latest data point is Oct 2021

- CPI is a commonly cited measure of inflation. It uses a basket of goods and services to track price changes for consumers.
- In order to measure the underlying trend in inflation, rather than temporary shocks to food and energy, economists often focus on Core CPI.
- Inflation remains at multi-decade highs due to global supply chain problems.

Source: U.S. Bureau of Labor Statistics

# TIPS Breakeven Inflation

## 5 and 10-year Inflation Rates



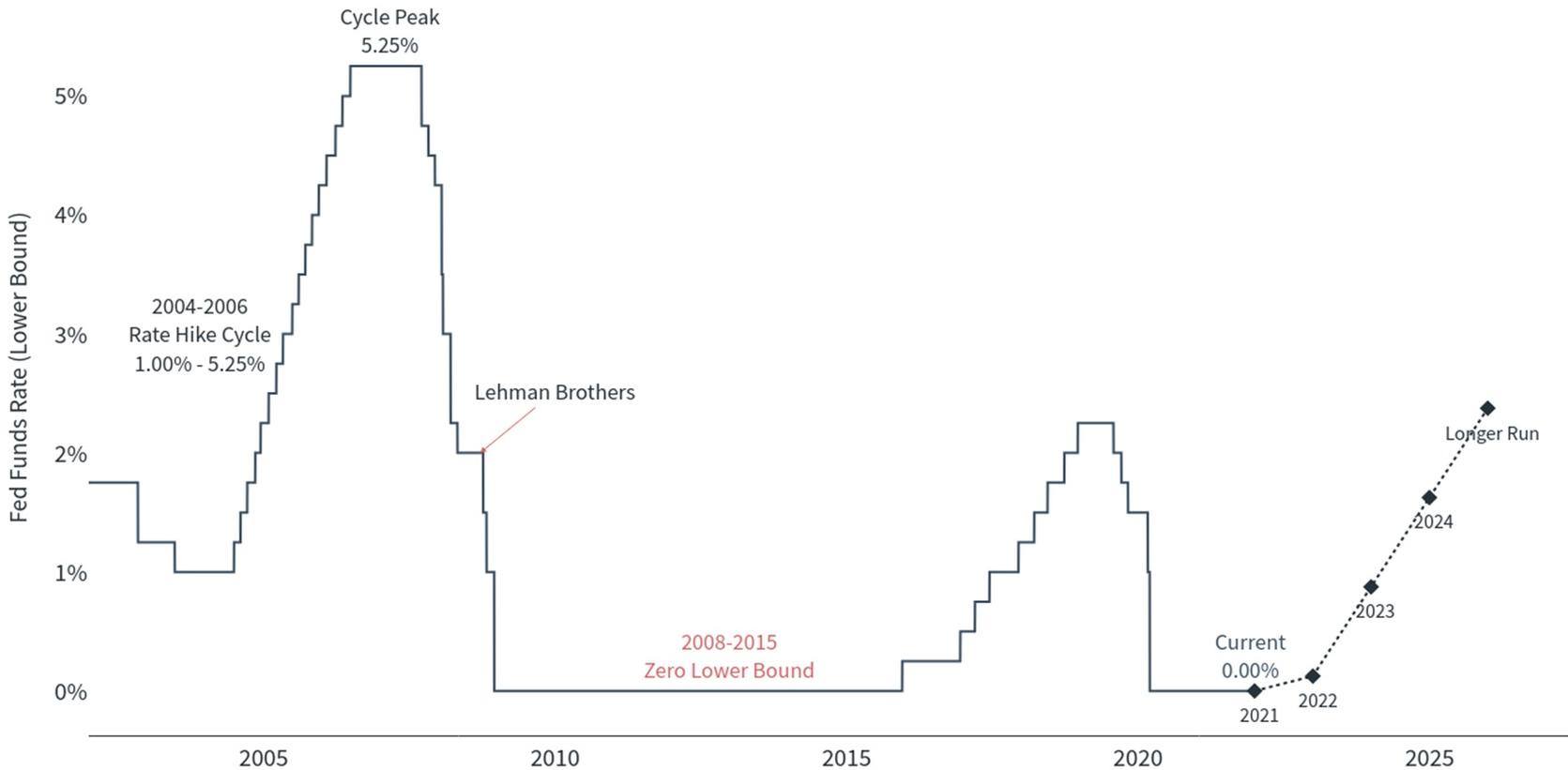
Latest data point is Dec 8, 2021

Source: Federal Reserve

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# Federal Funds Rate

*Target range lower limit*



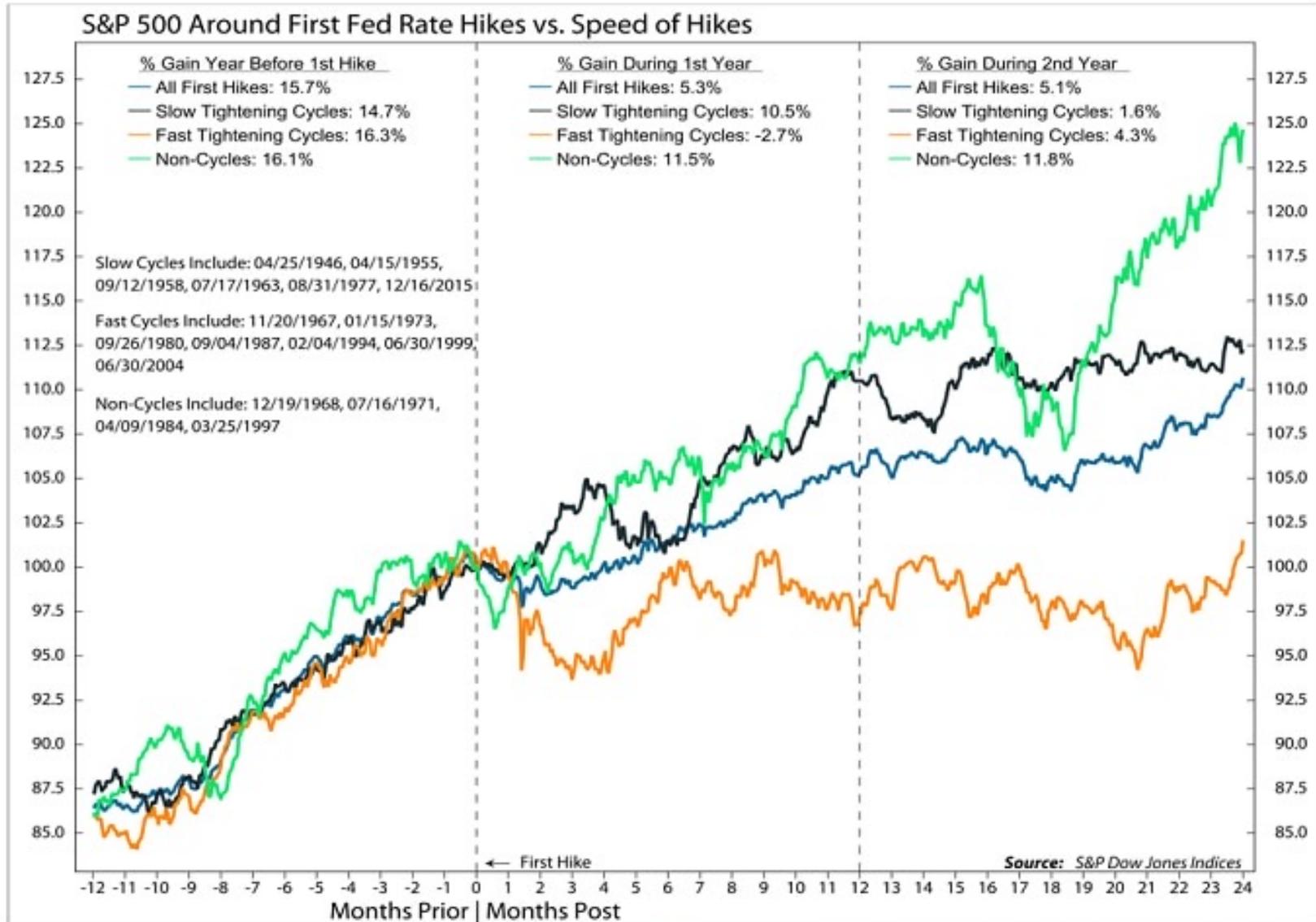
*Latest data point is Dec 2021*

- The Fed has kept interest rates at the zero lower bound since the pandemic began.
- This policy could reverse in 2022 with one or two Fed rate hikes.
- This change in Fed policy could push interest rates higher in the coming years.

Source: Federal Reserve

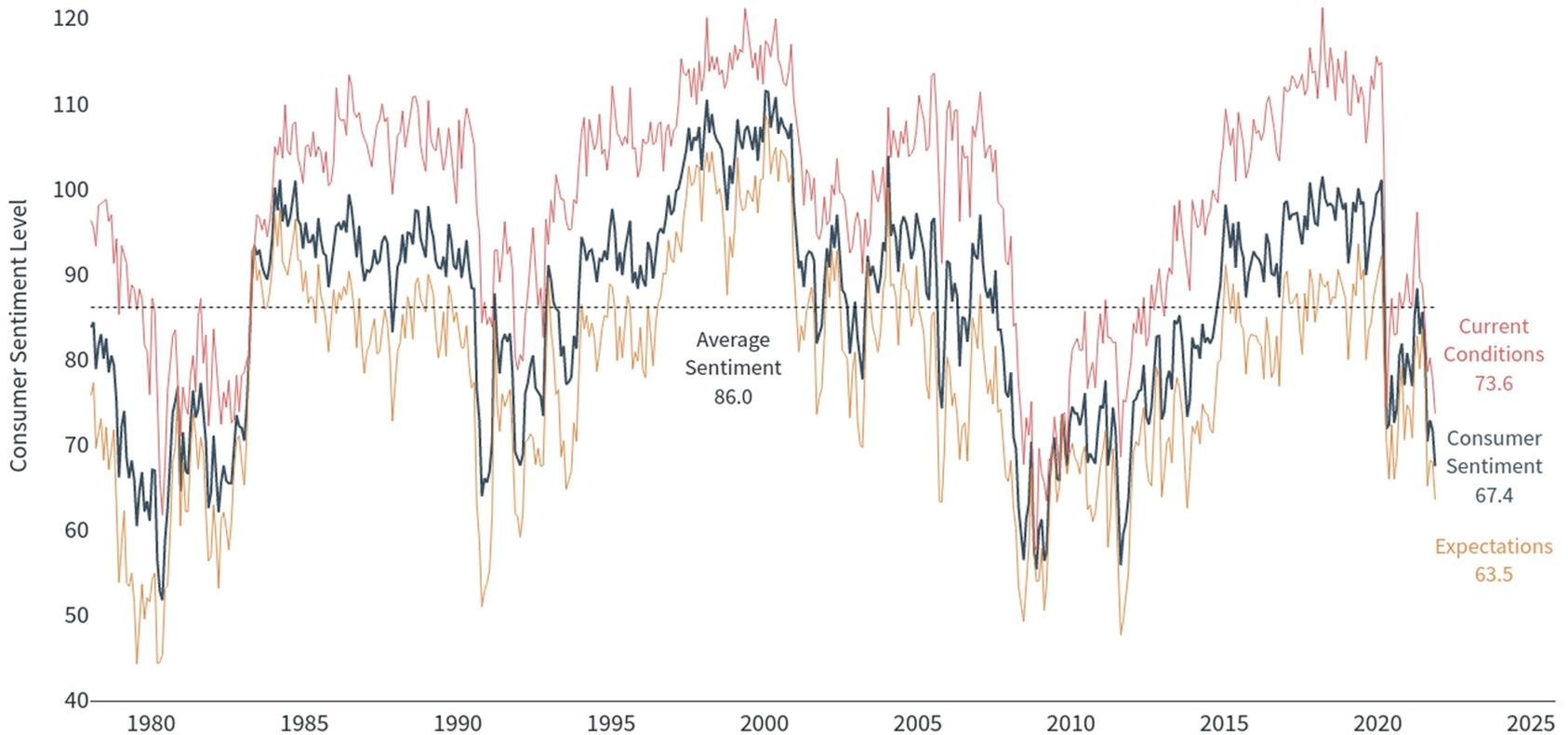


# Fed Rate Hikes Vs. Speed of Hikes



# Consumer Sentiment

*University of Michigan Surveys of Consumers - Consumer Sentiment, Current Economic Conditions and Consumer Expectations*



*Latest data point is Nov 2021*

Source: University of Michigan

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# Bitcoin and the Stock Market

*The price of Bitcoin and the S&P 500 price index*



Latest data point is Dec 8, 2021

Source: Cleonomics, Bloomberg

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# Q & A

# Stock Market Performance

*S&P 500 Index, recent period*



*Latest data point is Dec 8, 2021*

- The stock market has rallied significantly since the pandemic recovery began.
- Despite reaching many new all-time highs, markets have been uncertain due to new variants and inflation.
- For long-term investors, it is important to maintain the proper perspective and look past short-term volatility.

Source: Standard & Poor's

# Developed Market Recent Performance

MSCI EAFE Index (USD)



Latest data point is Dec 8, 2021

- Developed markets have trailed U.S. markets since the recovery began.
- However, they continue to make gains despite uncertainties around variants, currencies and more.
- Many countries, especially those in Europe, continue to face challenges with vaccine rollouts.

Source: MSCI

# Emerging Market Recent Performance

MSCI EM Index (USD)

Emerging Markets



Latest data point is Dec 8, 2021

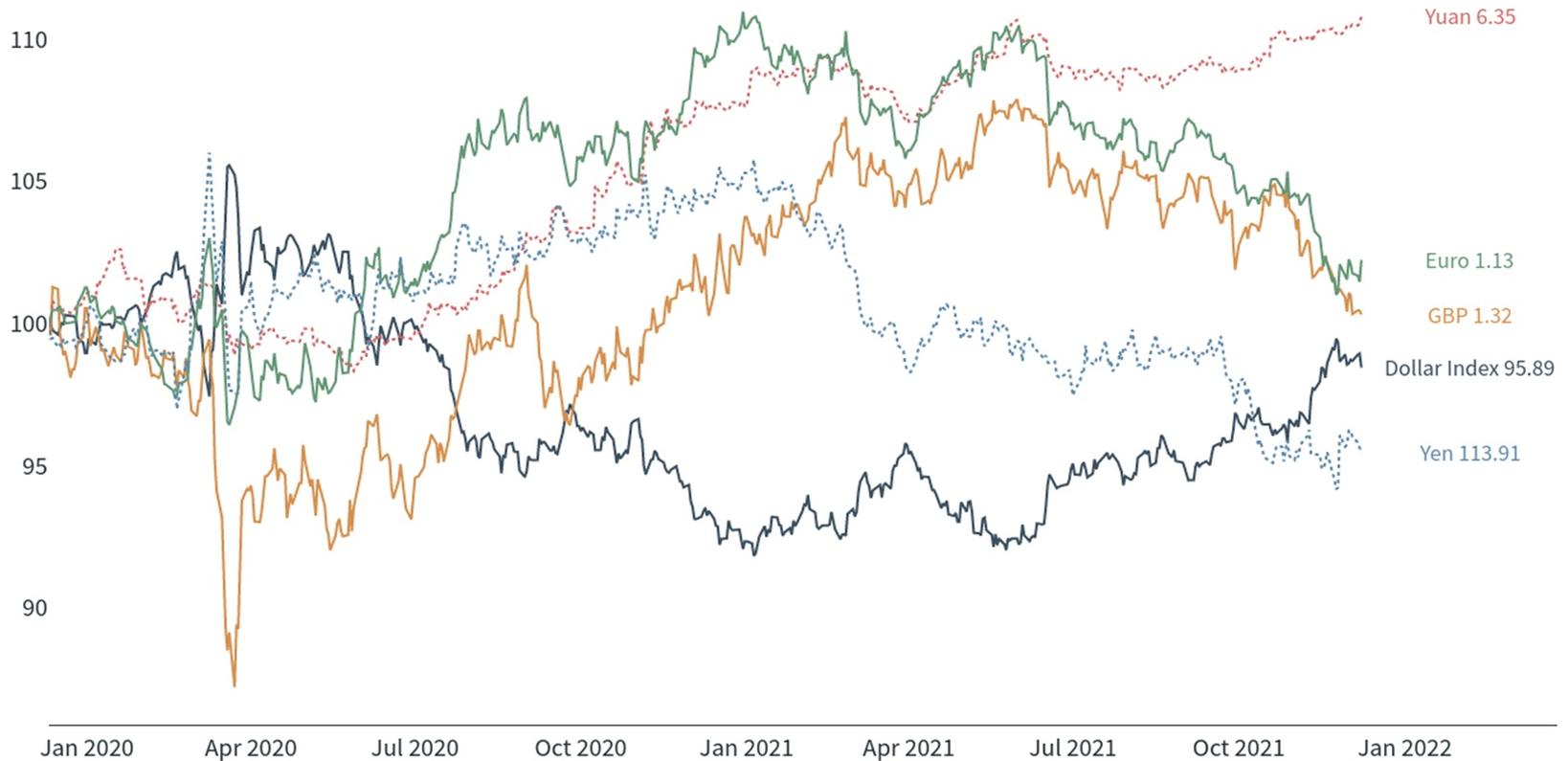
- Emerging markets have faced renewed uncertainty as the pandemic rages on.
- Even before the pandemic, the asset class had been volatile over the past decade due to growth concerns.
- Longer term, emerging markets still play a very important role in portfolio diversification despite recent uncertainty.

Source: MSCI

# Major Currencies

Relative change over the past 24 months

Currencies



Latest data point is Dec 8, 2021

- Major global currencies have been extremely volatile over the past few years.
- The dollar has strengthened in value as the U.S. economy recovers.

Source: Refinitiv

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# Sector Returns – Year-to-Date

*S&P 500 sector year-to-date, peak and trough returns*



*Latest data point is Dec 8, 2021*

- Stock market sector leadership has shifted multiple times throughout the early phases of the bull market.
- Technology-driven sectors initially led the pack but commodity-sensitive, consumer and rate-sensitive sectors have risen more recently.
- Most investors should continue to benefit from broad diversification across sectors and industries.

Source: Clearnomics,  
Standard & Poor's,  
Refinitiv  
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# Definitions and Methodology

The **S&P 500** is a market capitalization-weighted index of large cap U.S. stocks. U.S. **mid cap** and **small cap** are the S&P 400 and S&P 600, respectively. **Value** and **growth** are the corresponding Standard and Poor's value and growth indices.

**MSCI EM** is an index of emerging market stocks. **MSCI EAFE** is an index of developed market stocks. **MSCI ACWI** is an index of global stocks.

The **forward P/E** is a ratio of the current market price of an index divided by an estimate of earnings over the next twelve months. The **Shiller P/E** is based on Robert Shiller's cyclically adjusted price-to-earnings ratio.

The **AAll Investor Sentiment** index is based on a weekly survey conducted by AAll.

Unless stated otherwise, **earnings** and **valuations** data are from Refinitiv indices.

The **LEI**, or Leading Economic Index, is produced monthly by the Conference Board.

**Consumer sentiment** indices are based on surveys conducted by the University of Michigan Surveys of Consumers.

## **Asset Class Performance and Asset Classes Relative to U.S.**

**Stocks charts:** The EM, EAFE, Small Cap, Fixed Income and Commodities are these indices, respectively: MSCI EM, MSCI EAFE, Russell 2000, iShares Core U.S. Bond Aggregate, Bloomberg Commodity Index.

**Fixed Income Performance:** All sectors are represented by the Bloomberg Barclays bond indices except for EMD USD and Local which are the JPMorgan EMBIG Diversified Index and JPMorgan GBI-EM Core Index, respectively.

The Balanced Portfolio is a hypothetical 60/40 portfolio consisting of 40% U.S. Large Cap, 5% Small Cap, 10% International Developed Equities, 5% Emerging Market Equities, 35% U.S. Bonds, and 5% Commodities.

The **Bloomberg Commodity Index** is a broadly diversified basket of physical commodities futures contracts.

The **DXY** is a U.S. dollar index based on a basket of currencies, including the Euro, Yen, Pound, Canadian Dollar, Swedish Krona and Swiss Franc.

**Portfolio Risk/Reward and Portfolio Drift Since 2009** charts: stocks and bonds are the S&P 500 and iShares Core U.S. Bond Aggregate, respectively. Each portfolio represents a hypothetical stock/bond asset allocation.

The **MSCI Factor** indices are created and maintained by MSCI to capture factor returns. They cover various factors including Quality, Size, Momentum, Volatility, Value and Yield. The Multi-Factor index tracks the performance of Value, Momentum, Quality and Size.

The **MSCI USA** index tracks large and mid cap U.S. stocks.

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