

PERSPECTIVES & OUTLOOK

December 2021



Inflation is Transitory No More

Stubbornly high inflation has forced Federal Reserve Chairman Jerome Powell to retire the word "transitory." The latest Consumer Price Index showed inflation of 6.2% from a year earlier. The Fed has already begun adjusting its policy accordingly.



Don't Be Scared by All-Time Highs

Buying stocks at all-time highs is not as problematic as you may think. In the last 65 years, the S&P 500 has risen 7.7% per year on average in the 12 months following an all-time high. Positive momentum can make up for higher equity valuations.



COVID Will Not Drive Market Returns in '22

The post-Thanksgiving selloff related to COVID variant Omicron is a reminder the pandemic is not over, but the impact of COVID on financial markets will be muted in 2022. Widespread shutdowns will not occur in the US, and consumers' comfort level has adapted.



Corporate Earnings Remain Solid

Second-quarter earnings for S&P 500 companies grew nearly 90% from last year's pandemic lows. Both Q3 earnings and Q4 projections show annual growth above 20%. Favorable conditions and cheap access to capital support continued strength in earnings.



Fed Will Taper Now, Raise Rates Later

Powell and the Fed have articulated plans to steadily reduce bond-buying (i.e. "stimulus") thru June 2022. They prefer to avoid raising the Fed Funds rate until tapering is complete, though Powell has acknowledged rising inflation may spur the Fed to act sooner.



Labor Shortage is a Hurdle

The latest employment data shows roughly 3.6 million more job openings in America than available workers. In addition to hurting productivity, the labor shortage also contributes to inflation since employers must pay higher wages to fill open positions.



Leading Indicators Support Market Strength

Leading economic indicators still paint a positive picture for equities. The US economy is certainly on a more moderate growth trajectory than at the start of 2021, but leading indicators suggest conditions are still improving.



Supply Chains Getting Better, Not Worse

Data suggests the worst bottlenecks for disrupted supply chains are likely behind us. Supply/demand imbalances will persist in 2022, but become a much smaller challenge compared to what we experienced in recent months.