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QUARTERLY REVIEW – Q4 2021

Jason Ray, President
Chelsea Ransom-Cooper, Sr. Financial Planner

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Quarter Recap

Capital Market Update

Throughout the year the S&P 500 has been repeatedly reaching new all-time highs and the start of the fourth quarter was no different with the S&P 500 surging 7%. Volatility returned in the latter half of November and through December, though US markets were fairly resilient in the face of economic uncertainty. Bond markets also remained stable despite a tightening Fed and continued inflationary concerns.

End of Year Volatility Barely Touches Strong Performance

- Short-term volatility expectations, measured by the VIX Index, surged from the mid-teens in October to over 30 by December 1st, following the post-Thanksgiving Omicron announcement.
- Through the spike in volatility the S&P 500 retraced nearly 4% of its October gains while ending the year up 28.68%.

Market Total Returns[1]	Oct	Nov	Dec	Q4
US Stocks	7.0%	-0.7%	4.5%	11.0%
US Bonds	0.0%	0.3%	-0.3%	0.0%
Global Stocks	5.1%	-2.4%	4.0%	6.7%
Global Bonds	-0.2%	-0.3%	-0.1%	-0.7%

Economic News and Developments

In many ways, the fourth quarter had a similar story to the third quarter, both were driven by news of inflation, Fed policy, COVID-19 variants, and supply chain woes. While inflation appeared to be slowing at the end of Q3, it turned out to be ahead fake and rose further, enough to prompt to Fed to adjust its course on tapering. Omicron fears also disrupted the recovery with Europe restricting travel.

The Fed's Acceleration

- Faced with persistent inflation, the Fed announced they were speeding up the tapering program, doubling the monthly reductions in support to the bond market, a signaled an increased willingness for more rate increases in 2022.
- Economists Dampen Expectations for Next Year
- Despite some tempering of growth outlooks surrounding the prospects of the Build Back Better Act, a Bloomberg survey of economists still think the US economy will finish the year expanding 5.6% and grow at 3.9% in 2022[2].

Key Figures

1.25%
Top Projected Fed Funds Rate in 2022
(Dec. FOMC Dot Plot)

4.9%
Core CPI year-over-year change
(November 2021)

4.2%
US Unemployment Rate
(November 2021)

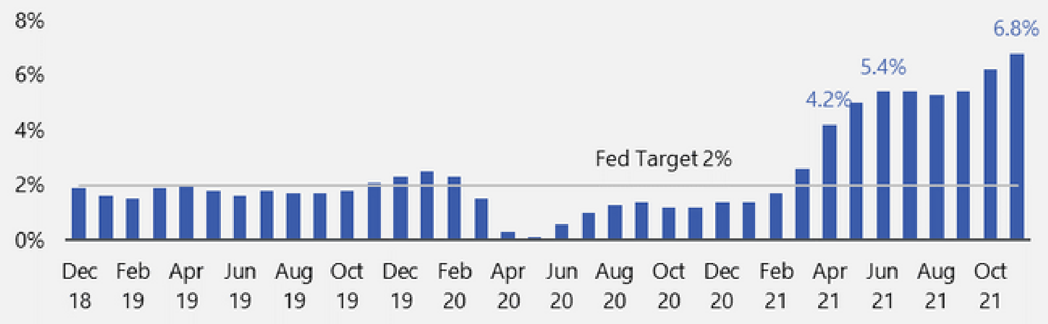
1. US Stocks represented by the S&P 500 Index; US Bonds by the Bloomberg Barclays US Aggregate Bond Index; Global Stocks by the MSCI ACWI; Global Bonds by the Bloomberg Barclays Global Aggregate Index.
All data latest as of 12/31/21 2. Median response based on the latest results as of 12/21/2021.
Source: Bloomberg, Federal Reserve, US Bureau of Labor Statistics, Federal Reserve, Helios Quantitative Research

Inflation Worsens, Pressuring the Fed

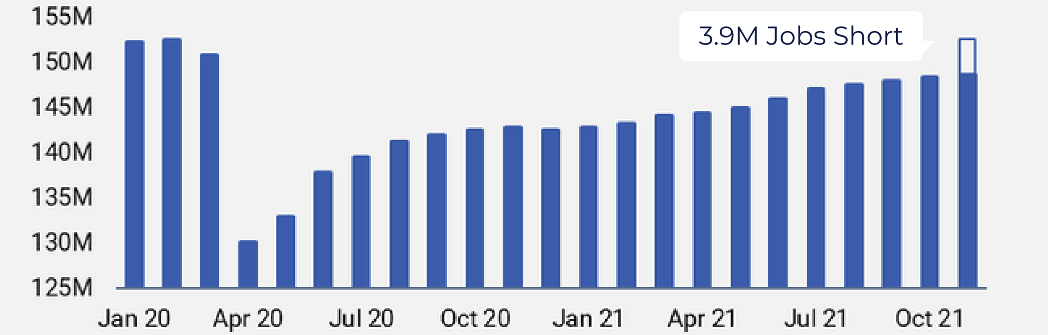
FED ATTEMPTS TO BALANCE ITS DUAL MANDATE

- Inflation continues to be top of mind for investors as the Consumer Price Index (CPI) remains significantly above long-term averages and accelerated across October and November.
- The Fed began removing stimulative asset purchases, which help control interest rates, in an effort known as tapering during the quarter and based on continuing concerns, announced they doubled the speed of the program in December.
- The Fed is in a difficult spot trying to balance its dual mandate of stable prices and maximum employment, considering the economy has nearly 4 million fewer jobs than February 2020, while simultaneously facing significant inflationary pressures, in part fueled by the ongoing supply chain issues.

Inflation Pressures Continued to Increase
Year-over-Year CPI, December 2018 to November 2021



Job Growth Continues, Remains Below Pre-COVID Levels
Total Nonfarm Payrolls, January 2020 to November 2021



All data latest as of 12/31/21
Source: Bloomberg, US Bureau of Labor Statistics, Helios Quantitative Research

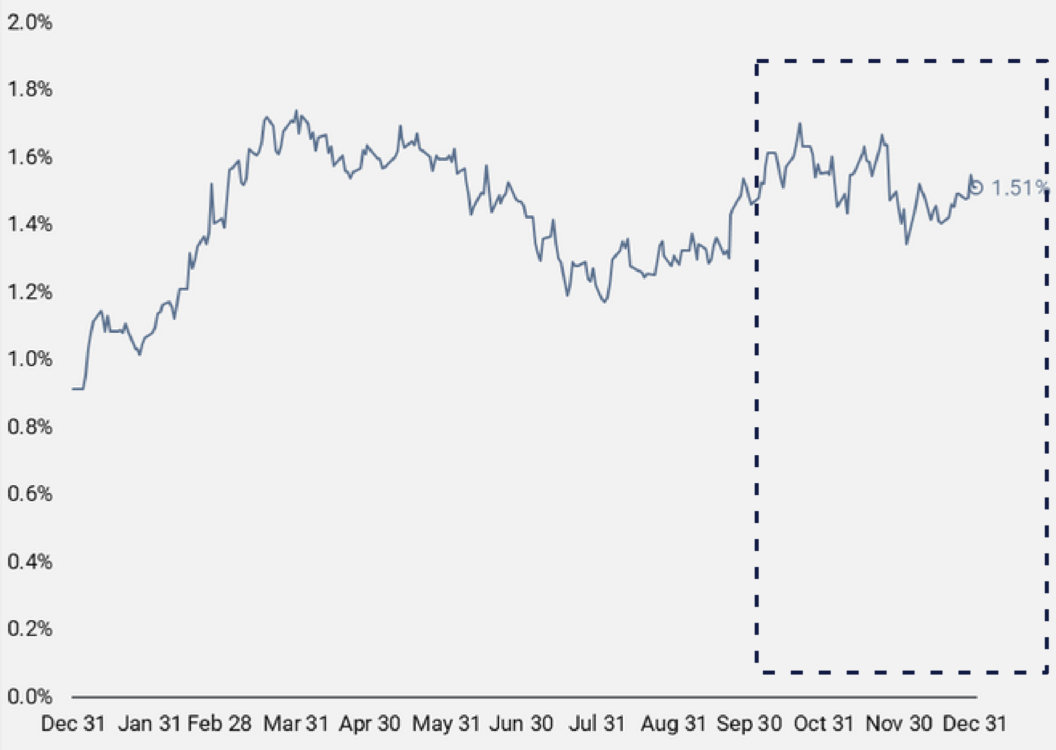
Q4 Leaves Bond Market Confused

A VOLATILE QUARTER FOR YIELDS

- With eyes turned to the Fed and inflation, the bond market struggled to find a direction amid the competing stories and, despite a volatile, roller coaster of a quarter, ended the fourth quarter just about where it began. From September 30 to December 31 yields on 10-year government bonds rose just 2 basis points.
- The small overall change in yield masks a relatively bumpy ride in the normally boring bond market. Prior to the fourth quarter, yields trended in a single direction. While those trends slowly changed over the year, in the fourth quarter the 10-year yield ranged between 1.34% and 1.70%.
- Driving that volatility was competing stories of sustained inflation and an increasingly more hawkish Federal Reserve, who came out in December telegraphing three interest rate hikes in 2022.

Yields Rise in 2021 but Struggle to Find a Direction in Q4

US Government 10-Year Yield, December 31, 2020 to December 31, 2021



All data latest as of 12/31/21

Source: Bloomberg, Helios Quantitative Research

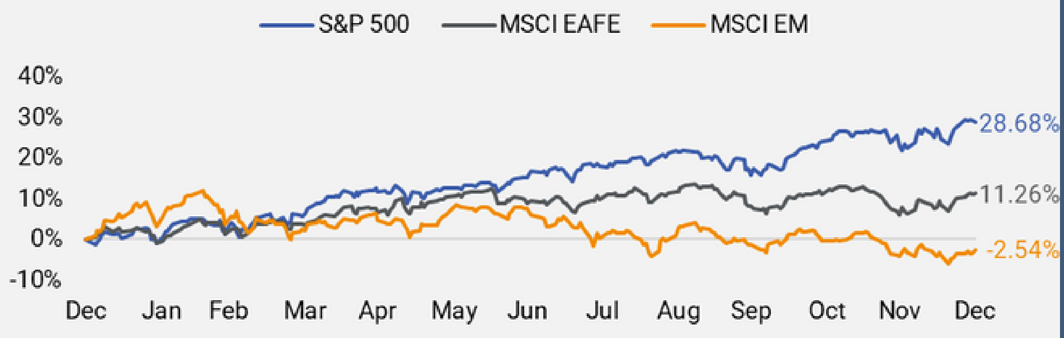
2021 Capital Market Review

EARNINGS COMPETE WITH INFLATION AND COVID

- US markets handily outperformed their developed and emerging market peers with the S&P 500 gaining 28.68% for the year, which was the third-best year since 2000.
- Emerging markets, which started the year strong, struggled after the first two months of the year, facing longer-lasting COVID damage as well as currency concerns through the remainder of the year and underperformed the S&P 500 by 31.15%.
- While 2021 was marked with periods of volatility, there were no major pullbacks during the year and the largest pullback in the year amounted to the 2nd smallest since 2000.
- Despite the headwinds facing companies, each quarter of reported results earnings per share (EPS) growth has been significant among the companies in the S&P 500, and as of Q3 earnings season were over 18% above Q4 2019 levels.

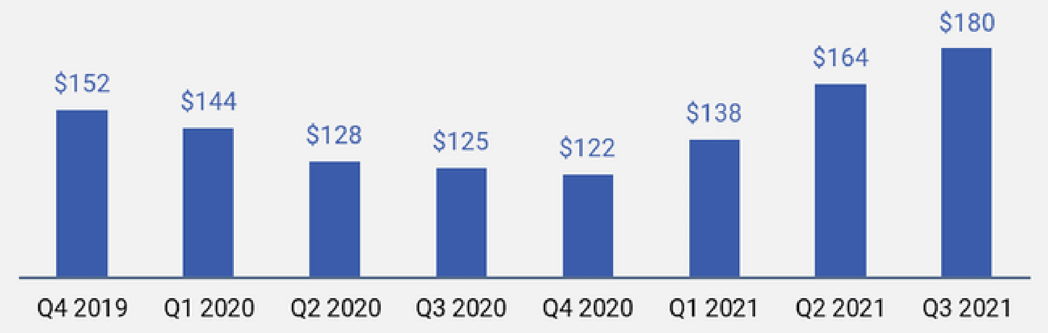
Despite Periods of Volatility, US Markets Surged

Cumulative Total Returns December 31, 2020 to December 31, 2021



Corporate Earnings are Well Above Pre-COVID Levels

S&P 500 Trailing 1-Year EPS, Q4 2019 to Q3 2020



All data latest as of 12/31/21
Source: Bloomberg, Helios Quantitative Research

Notable Mentions

OTHER EVENTS DURING THE QUARTER

Omicron

Omicron dominated COVID-19 worries and talk following its discovery in November. The variant quickly raced to become the predominant concern amid it quickly spreading across the globe and countries reinstituting travel restrictions. The talk of restrictions threatened the speed and direction of the recovery and injected volatility into capital markets as investors attempted to figure out what the damage might be.

The New York Times

France bans nonessential travel to Britain over the Omicron surge.

Volatility

While the concerns investors have had throughout the second half of the year have not changed much, the uncertainty around inflation and COVID helped fuel the equity market volatility that returned in late November and through December.

The implications of Omicron, persistently elevated inflation, and the acceleration of tapering by the Fed, all amid a supply chain that remains strained, made investors a bit more jittery as the year ended.

THE WALL STREET JOURNAL.

Dow Falls More Than 400 Points as Omicron Fuels Volatility

BBB

In mid-December, the prospects of the Biden Administration's Build Back Better Act fell considerably, potentially to zero, after Sen. Machin said he would not support the bill. In an evenly divided Senate, Machin held the bill's prospects in his hands and the decision sets back the administration, though there are still rumors of ongoing negotiations. Assuming the bill's demise, Goldman Sachs cut its Q1 economic growth forecast from 3% to a 2% annualized growth rate.

CNBC WATCH

POLITICS

Sen. Joe Manchin says he won't vote for Biden's Build Back Better Act, potentially killing the social and climate bill

All data latest as of 12/31/21
Source: The New York Times, The Wall Street Journal, CNBC

Next Steps

While broad investing conditions have been volatile as markets anticipate interest rate increases from the US Federal Reserve, there are positive indicators like falling unemployment and wage increases.

We're looking ahead to quarters of changing economic and investment conditions for our portfolios. Let's schedule time to discuss your investment plan.

Disclosures

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