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January 5, 2022 Dow Jones Industrial Avg: 36,407

New Year…New You…New Market???

The thing about a new year is that you can take a good look at what you accomplished (or did not) in the past year. So, let us take a quick look at the 2021 performance of the various indexes, and hopefully it will give us direction at where we go in 2022. Here is a collection of the various indexes [1]:

S&P	FROM 01/01/21
S&P Mid Cap 400	23.21%
S&P 500 Growth	31.04%
S&P 500 Value	22.20%
S&P Small Cap 600	25.27%

INDEX	FROM 01/01/21
DJ 30 Industrials Average	18.73%
NASDAQ Composite	21.39%
S&P 500	26.89%
Russell 2000	13.70%

Sectors	FROM 01/01/21
S&P 500 / Health Care - SEC	24.16%
S&P 500 / Consumer Discretionary - SEC	23.66%
S&P 500 / Energy - SEC	47.74%
S&P 500 / Information Technology - SEC	33.35%
S&P 500 / Consumer Staples -SEC	15.55%
S&P 500 / Industrials - SEC	19.40%
S&P 500 / Financials - SEC	32.55%
S&P 500 / Materials - SEC	25.00%
S&P 500 / Utilities - SEC	13.99%
S&P 500 / Communications Services - SEC	20.53%
S&P 500 / Real Estate - SEC	42.50%

Russell	FROM 01/01/21
Russell 2000 Value	26.26%
Russell 3000 Value	22.92%
Russell 3000	24.00%
Russell 1000	24.76%
Russell 1000 Value	22.68%
Russell 1000 Growth	26.66%
Russell 3000 Growth	24.95%
Russell 2000 Growth	2.43%

Dow Jones	FROM 01/01/21
DJ 20 Transportation Average	31.75%
DJ 65 Composite Average	21.35%
DJ 15 Utility Average	13.43%

Other	FROM 01/01/21
NYSE Composite	18.17%
NASDAQ-100	26.63%
NYSE American Composite	45.17%
PHLX Semiconductor	41.16%

FactSet

Plainly, 2021 was a strong year in the markets, simply by looking at the numbers. But, the thing that stands out to me is the relatively low performance of the Russell 2000 Growth: **+2.43%.** This next chart illustrates how the seven largest companies in the S&P 500 accounted for almost 30% of the return :

TICKER	MKT CAP (BILLIONS)	2021 RETURN
AAPL	$ 2,913,284,000,000	34.6%
MSFT	$ 2,525,084,000,000	52.5%
GOOGL	$ 1,922,952,000,000	65.3%
AMZN	$ 1,691,004,000,000	2.4%
TSLA	$ 1,061,282,000,000	49.8%
FB	$ 935,645,500,000	23.1%
NVDA	$ 735,275,000,000	125.5%
AVERAGE	**$ 1,683,503,785,714**	**50.5%**

"The seven largest stocks have a market cap of almost $12 trillion vs. a market cap of roughly $41 trillion for the entire S&P 500. That means seven (1.4%) of 500 stocks account for almost 30% of the cap-weighted index."[1]

[1] https://navellier.com/1-4-22-time-heals-all-wounds-and-makes-some-bad-years-good/

Interesting factoid:

> **LONG-TERM** - The S&P 500 has gained an average of **+11.1% per year** (total return) over the **last 50 years** (i.e., 1972-2021). The index has been positive in **17 of the last 19 years**. Over the long-term, the S&P 500 has been up during **40 of the last 50 years**, i.e., 80% of the time (source: BTN Research). [2]

In keeping with the historical average of 10%+ return, many investment firms are calling for another good year in 2022. The S&P 500 Index closed at 4700.58, on 1/5/2022.

Brokerage Firms	**S&P 500 Index Target for 12/31/22**[3]		
Goldman Sachs	5100	Credit Suisse	5200
RBC	5050	Bank of Montreal	5300
Wells Fargo	5200	JP Morgan	5050
Morgan Stanley	4400	Jeffries	5000
Bank of America	4600	UBS	4850

The fun thing that investment firms like to do is make predictions about the next year: they dust off their crystal balls and pray that there is not a crack in their methodology. So, I will give you the Top 10 Predictions of Wells Fargo, and then I will give you my six-month outlook (not predictions!).

"We [Wells Fargo] present our 10 predictions for 2022, incorporating some themes from our 2022 Outlook. Separately, we self-grade our year-ago 2021 predictions and come up with a 75% (75/100) score. Our 2022 predictions follow:

(1) 10% correction by summertime. We expect the SPX to break its 2021 pattern of routinely and quickly bouncing off its 50DMA to a new record high.

(2) A midterm Red wave helps the equity market recover into year-end. The GOP will gain control of Congress, adding perhaps two Senate seats and 25-30 House seats.

(3) Peak pricing power. Gradual but consistent supply chain improvements, combined with the fulfillment of pent-up demand, begins to erode corporate pricing power.

(4) Labor costs accelerate as retirements accelerate and white-collar workers capitalize on the relatively low friction associated with working from home for another employer.

(5) Multiple compression: Earnings continue to move higher, but multiples do not.

(6) Fed avoids policy error, and stagflation risk subsides.

(7) "Growth at any price" keeps underperforming in 1H22 due to an upward bias in real rates, a hawkish Fed, and inflation expectations coming off the boil.

(8) With about one-quarter of US household assets invested in equities and the Fed retiring the transitory phrase, the Fed's implied put is lower while the equity market's economic real impact is higher.

(9) Real rates become the main driver of nominal rates as the Fed reduces monetary accommodation, weighing on break-even rates.

(10) "Normalization" becomes the operative word in 2022 when describing consumer spending, growth, and investors' risk appetite."[4]

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[2] By the Numbers, (#2). **Jackson National**. January 4, 2022

[3] https://www.reuters.com/business/wall-street-analysts-2022-outlook-sp-500-2021-11-16/
https://www.businessinsider.com/stock-market-outlook-sp-500-predictions-2022-price-targets-recommendations-2021-12

[4] Investment Solutions. Wells Fargo Advisors. January 5, 2022

Time for Jeff Patterson's Outlook:
I tend to only give six-month outlooks- it feels like a fool's errand trying to predict the market in general!

I am reminded of a strategist's outlook from a few years ago (before the pandemic), he said that he thought the market would make +10%, but that investors would need a drink by the end of the year because he expected a lot of volatility along the way. And, I would say that if last year is any indication of the amount of volatility that is in the market system, I would expect the same this year- if not more.

In 2021:

- we saw a pullback in mid-March
- a pullback in September
- a pullback over Thanksgiving
- after the holidays, we have seen NASDAQ pullback roughly 5%

My personal feeling is that a lot of this selling tends to come from algorithm, computer-trading programs that run the market down and then runs the market back-up. So, the long-term individual investor just gets whipped-around, but (in real terms) does not need to worry about the short-term volatility, because the trading is simply white noise and can be tuned out.

One of the push-and-pulls in the market this year will continue to be the economy getting back to pre-pandemic levels, the Delta and Omicron variants keep pushing back the timeline of the 100% return to normalcy- although corporate America and the consumer keeps moving forward. The consumer plainly is moving forward given the online holiday shopping season, which increased 11% from last year.[5]

The two stand-out concerns that are in the market this year are the following:

(1) Federal Reserve taking action to taper their bond buying and raising interest rates
(2) Mid-term Elections

A third concern would have been the passing of the "Build Back Better" legislation, due to the increase of corporate, capital gains, and personal tax rates. **But, it looks like this piece of legislation is not going anywhere.**

The Federal Reserve Chairman has demonstrated his resolve to move very slowly when it comes to monetary policy. If you remember the CONSTANT badgering that he took from President Trump to lower interest rates- he (seemingly) is not a man that is motivated to be swayed by pressure. There are lots of opinions that the Federal Reserve will aggressively raise rates, in addition to the bond taper, **I do not see that happening**.

> One of the reasons that President Trump pressured the Federal Reserve Chairman was that they were doing the taper and raising rates at the same time…and it was having a "double effect" of slowing the economy. The Chairman eventually reversed course all together. I think you may see a slow and steady Chairman this time.

Unfortunately, with any upward movement in interest rates, the NASDAQ market gets sold off in favor of the more defensive sector. *What will be interesting to watch is if international buyers continue to step in and buy US bonds, which neutralizes the Feds raising of rates. [In a recent podcast of Louis Navellier, he quoted the statistic of 69% of the buyers at a recent US Treasury auction of 10 Yr. bonds were international investors].*

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[5] https://navellier.com/1-4-22-what-the-10-year-yield-says-about-a-fair-p-e-ratio/

Regarding the Mid-Term Elections, there are two schools of thought: the second year of a presidency is typically the weakest (in terms of market performance), which would point to a choppy market. However, (and I am not being political) as indicated in the Wells Fargo prediction, it looks as though the Republicans may have good odds of taking back the House and strengthening their position in the Senate…if that indeed comes to pass, I think you will see the market respond positively. Simply from the point of view that tax rates may not be moving higher anytime soon, along with the idea that the market likes political gridlock.

Lastly, I mentioned a six-month outlook: the 4th Quarter earnings are going to be excellent, and they are going to be released in a roughly 10 days. So, the selling of the stocks, over the last few days, seems silly to me.

I expect the following:

- The stock market should trade back to the highs on good corporate earnings.
- This is Jeff Patterson's opinion: I would caution investors over the summer, [very similar to last September] the market likes to sell-off when there is no catalyst to move it forward. So, during times when we are in-between corporate earnings, be prepared for stock market volatility.
- Politics may smooth out some of the volatility this year. However, I try to not put much faith in politicians…

It is my sincere hope that you have a great 2022, and I hope that I can play a role in your success this year. Please do not hesitate to contact me with any questions that you may have, or if I can assist in any way. Happy New Year!

Jeffrey S. Patterson
Investment Account Manager