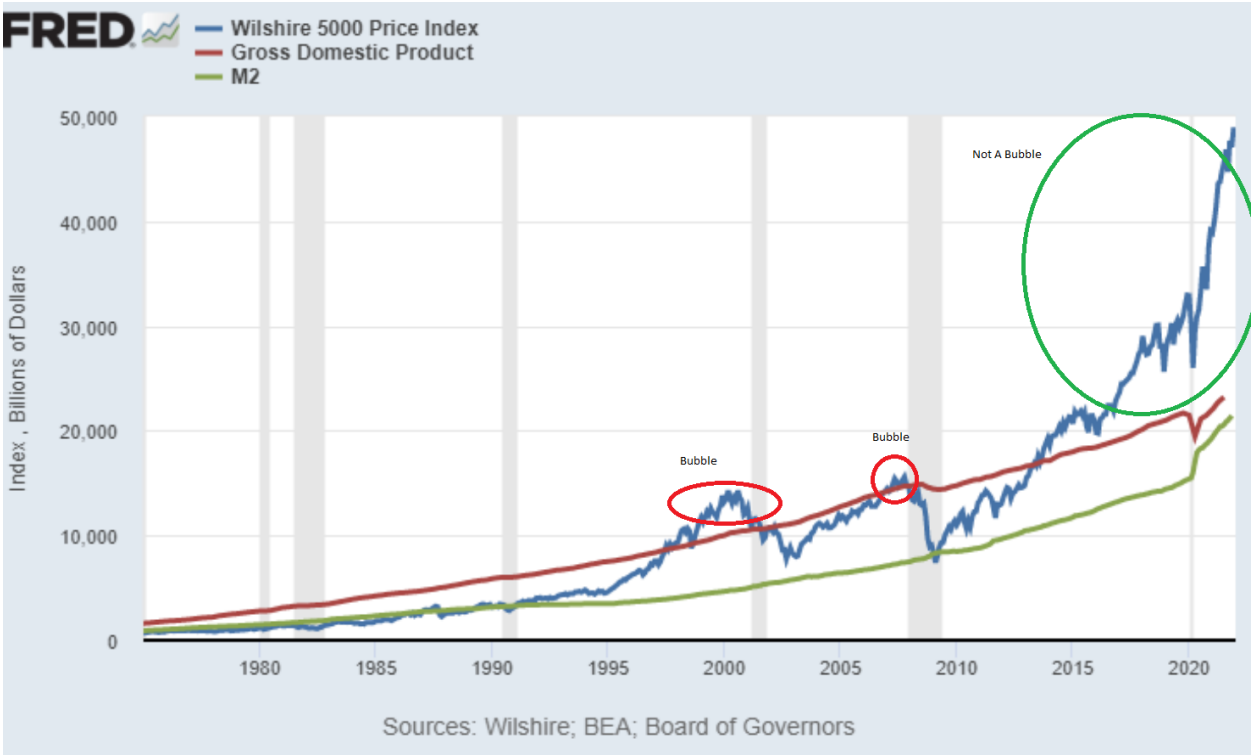
EverGuide
FINANCIAL GROUP

100 Connell Drive, 2nd Floor
Berkeley Heights, NJ 07922
P (908) 376-3041 M (215) 203-6673 F (908) 264-0723

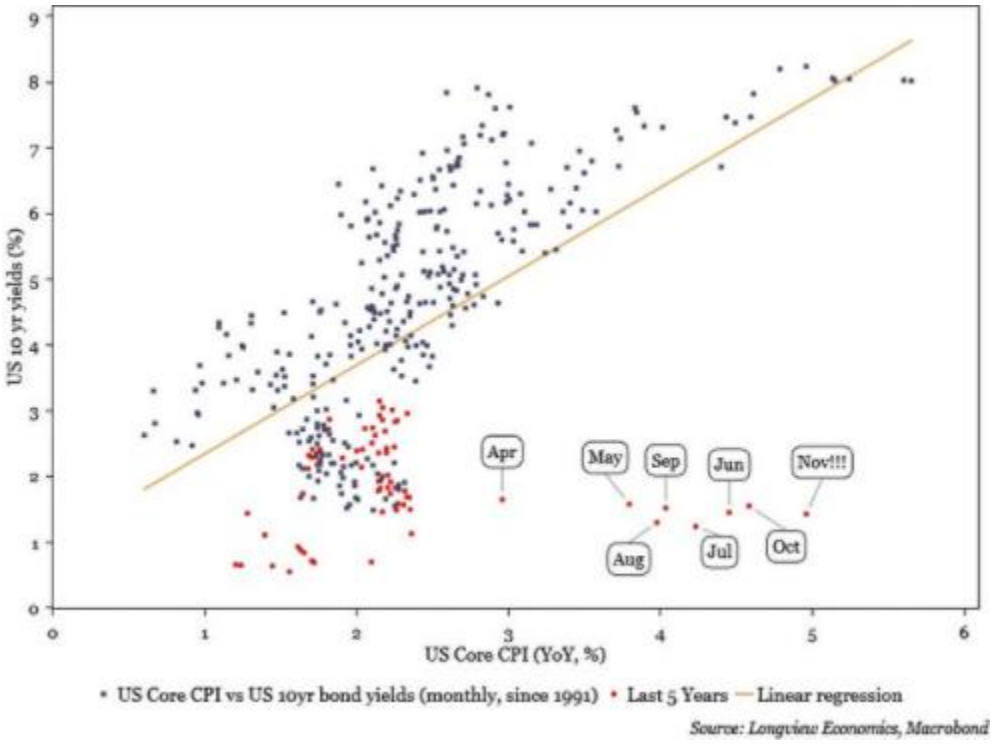
January 3, 2022
Investor Update

December was another wild ride for markets that saw a lot of the big cap winners gain steam into the end of the year while a lot of the losers continue to lose. What was interesting is that towards the end of the month there was a noticeable shift into defensive assets. For those that have scheduled a zoom call and walked through our vast amount of charts, this was the last indicator we were looking for to gain steam and will be very important to watch as we move into 2022.

One thing that is going to be interesting for 2022 is what happens with the Federal Reserve. We have been talking for months about how they have removed price discovery and have basically not allowed a traditional business cycle to run its course (recessions are a good and healthy party of the cycle). As the Federal Reserve begins the process of stepping back this year it will be interesting to see if markets recouple with reality. The below chart speaks for itself which compares the broadest measure of US stocks in blue, to GDP in red, and Federal Reserve printing in green. We annotated the 2 previous bubbles and what many are proclaiming is not a bubble currently.



There are also still many people that think the Federal Reserve has not distorted markets or price discovery. The below chart regresses CPI (inflation) vs 10 yr bond yields since 1991. Notice the yellow line shows a positive upward slope and makes sense intuitively. If inflation is higher, investors demand more interest from their bonds. The last 5 years are marked with red dots and represent all of the outliers as the Federal Reserve has continued to run the wrong policy. Last year really takes the cake as inflation soared and they did nothing. While the previous 5 years policy was misplaced it still does not stand out the way 2021 does. While it is hard to predict what will happen with inflation going forward because a lot of the problems have been pandemic related, just remember the Fed is pulling back this year and natural market forces will have a larger effect on rates. What would the economy look like if 10 year rates normalized in the 4-5% range (currently 1.7%)?



Going forward, we think that 2022 is going to be a transition year to one of a more normal economy (less Fed and fiscal stimulus) and this will create much larger swings in asset prices as investors try and assess what the real underlying trend is. There will be many surprises this year, which we put out a piece highlighting the surprises 10 Surprises For 2022. We continue to favor boring value companies as they offer strong yields and attractive valuations.

If you have any questions or would like to talk in greater detail, please send an email to markpainter@everguidefinancial.com and we can schedule a call.

Sincerely,

Mark R. Painter, CFA, CEPA