

PERSPECTIVES AND POSITIONS

By James F. Dykstal, CFA, Portfolio Manager, February 2022

This is a summary of our current views on the economy and markets.

Economy

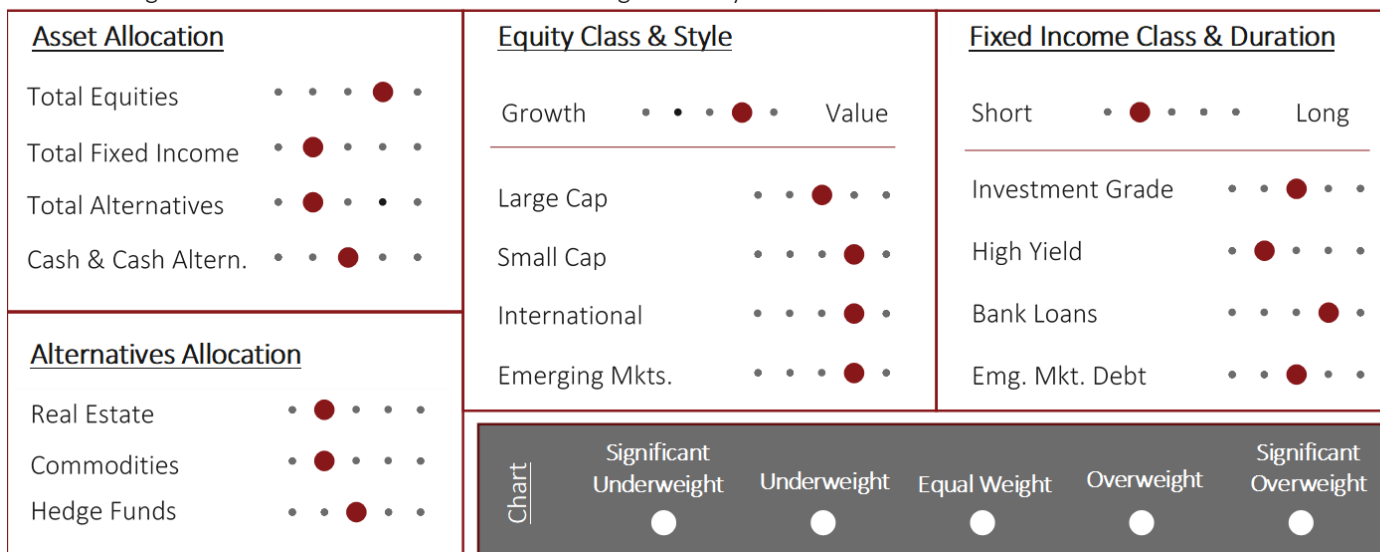
- U.S. GDP Growth - We expect to see economic growth in 2022 but cooling from the 5.5% rate of 2021. The great corporate earnings growth rebound for 2021 will also slow as a result of the slowing economy. We expect to see increases in interest rates in the first half of the year that will be a headwind to equity market returns.
- Inflation – Headline inflation (including energy) increased 7.0% in December 2021 and 7.5% in January 2022. The reopening of the economy has created a mismatch of supply and demand. We believe that the increases in inflation will moderate during 2022 but inflation should be about 1% higher for the next few years than it has been prior to the pandemic.
- Employment/Wages – Unemployment has improved albeit with fits and starts. Wage growth is increasing but at a slightly decreasing rate. Tightness in the labor market is leading to higher wage growth.
- Interest rates – We expect the Federal Reserve to increase interest rates in 2022, beginning in March. The market expects to see four increases (possibly 100-125 basis points) and is pricing rate increases into the short maturity end of the interest rate curve.

Markets

- Fixed Income – The yield curve is pricing in interest rate increases. The yield on the ten year Treasury closed December at 1.51%. In February it is up over 2%. The increase in rates will negatively impact bond returns this year.
- Equities – We expect GDP to continue to grow in 2022, but at a slowing pace. We expected equity markets to post single digit gains through 2022, but with volatility as inflation and interest rate increases provide headwinds to valuations.
- Alternatives – Private real estate, retail, office, and apartment sectors have not kept pace with torrid industrial sector. Hedge funds have kept pace with real estate in the past year and provide diversification benefits to equity/fixed income markets. Commodities have delivered strong results recently but face supply/demand imbalances and volatility.

TACTICAL POSITIONS

The following is our current Model Portfolio Positioning Summary:



¹ Provided by our affiliate, Discretionary Management Services (DMS), LLC