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QUARTERLY MARKET INSIGHTS
4TH QUARTER 2021



BIPARTISAN INFRASTRUCTURE BILL

On November 15, following months of legislative limbo, President Biden signed into law the roughly \$1.2 trillion Infrastructure Investment and Jobs Act (IIJA). The bill, which contains an estimated \$550 billion of new spending over ten years, passed with the support of 19 Republican senators and 13 Republican members of the House of Representatives. Congressional Democrats originally planned for the IIJA to be paired with a much larger and sweeping social policy spending bill coined the Build Back Better plan. That strategy changed, however, when party leaders convinced progressive House Democrats to approve IIJA before moderate Democratic senators approved the larger bill.

Of its \$550 billion of new spending, IIJA allocates roughly \$270 billion for what most Americans would consider traditional transportation infrastructure. This includes \$110 billion for roads and bridges and \$66 billion for passenger and freight rail (most of which will go to Amtrak's Northeast Corridor). It also earmarks \$39 billion to modernize and make public transportation more accessible to more Americans, \$25 billion for airports and \$17 billion for ports.

Outside of transportation infrastructure, approximately \$185 billion is allocated to upgrading public utilities. This includes \$65 billion for power infrastructure and \$65 billion for broadband to improve high-speed internet access for rural and low-income areas. There is also \$55 billion for water management, with \$15 billion allocated to replace lead pipes and \$10 billion to remediate wastewater contamination. Further afield from what most Americans view as traditional infrastructure, IIJA dedicates nearly \$50 billion of funding to "resiliency" projects intended to strengthen the nation's infrastructure against extreme weather and cyberattacks. The bill also contains a combined \$15 billion to fund a nationwide charging network of electric vehicles and fleets of low-emission or zero-emission buses and ferries. A portion of the new spending will be funded by a reallocation of unspent COVID-19 relief funds. According to the nonpartisan Congressional Budget Office (CBO), however, the IIJA will add roughly \$250 billion to the federal budget deficit over the ten-year period spanning 2022 through 2031.

ECONOMIC AND MARKET IMPACT

According to the Brookings Institution, a public policy think-tank, federal infrastructure spending will rise from

0.8% of annual Gross Domestic Product (GDP) in 2022 to 1.3% in 2026. The IIJA will very likely increase overall demand for input materials including various steel products, cement and lumber. Depending on the timing and sequencing of projects, this could create additional upward price pressure for certain raw materials at a time when many global supply chains have been strained due to pandemic-related disruptions.

Advocates of increased infrastructure investment contend that these outlays have a large multiplier effect on economic growth. Most economists generally agree that federal spending on infrastructure typically increases a country's productivity due in large part to improved worker mobility and more efficient transportation of goods. For instance, improving the durability and efficiency of major roads and bridges could result in the development of nearby business districts and eventually reduce transportation costs for companies. Similarly, making significant improvements to the scale and efficiency of an airport could drive higher volumes of airline traffic in future years and create economic benefits for surrounding communities. Ellen Zentner, an economist at Morgan Stanley, estimates that every additional \$100 billion per year spent on infrastructure could increase annual GDP growth by 0.1% after projects begin in earnest.

Critics of the IIJA point to the potential for federal spending to crowd out private capital or that the federal government should not spend more money when economic growth and inflation are running hot. Other critics observe that American infrastructure projects are notorious for eye-watering cost overruns. According to researchers at Transit Costs Project, America is among the most expensive developed nations in which to build and enhance rail lines.

A relatively small group of industries should directly benefit from incremental revenue driven by IIJA-related projects. Those include manufacturers of equipment used for construction and maintenance, as well as companies that produce construction aggregates like sand, gravel and cement. Companies that provide engineering and consulting services for large-scale infrastructure projects also stand to benefit. In fixed income markets, federal funding of major projects to upgrade municipal infrastructure networks will likely lead to increased issuance of municipal bonds related to financing such projects. IIJA-related funding could also help bolster city and state balance sheets and thus potentially improve the creditworthiness of some issuers.

ABOVE-TREND GROWTH AND INFLATION

The U.S. economy hit a snag in the third quarter amid surging inflation and a wave of COVID-19 cases driven by the Delta variant. Most economists and investors do not expect the recent surge in cases brought about by the more transmissible but less virulent Omicron variant to impair what is widely projected to be strong growth in the fourth quarter. According to a recent Bloomberg survey of 60 economists, U.S. real gross domestic product (GDP) is estimated to rebound to an annualized rate of 6.0% in the final quarter of 2021, up from a lackluster 2.3% growth rate during the third quarter. Despite a third quarter soft patch, recent full-year estimates for GDP growth rate stand at 5.6%, which would be the fastest annual growth rate since 1984. Supported by fiscal stimulus and an improving labor market, consumers showcased their spending resiliency throughout the year despite the Delta and Omicron variants. The latter threatens to weaken first quarter GDP growth as daily case counts have exceeded even the worst periods of the winter 2020 surge. Yet, many economic commentators view rising prices as a more concerning potential drag on consumer spending and overall economic growth in coming months. The Consumer Price Index excluding food and energy rose 4.9% over the last 12 months through November, the largest yearly increase since 1991. Headline CPI, which includes energy and food prices, are up 33.3% and 6.1%, respectively; prices were up 6.8% from the same period a year ago. Robust demand and ongoing supply chain bottlenecks have been major drivers of higher prices.

On the monetary policy front, minutes from the December 14-15 Federal Open Market Committee (FOMC) meeting showed Fed officials have embraced a much less dovish tone in recent months (see Fixed

ECONOMIC INDICATORS	LATEST	3MO PRIOR	CHANGE*
REAL GDP (QoQ ANNUALIZED)	2.3%	6.7%	▼
TRADE BALANCE	-80.2	-73.2	▼
UNEMPLOYMENT RATE	3.9%	4.7%	▲
NON-FARM PAYROLLS	199K	379K	▼
ISM MANUFACTURING	58.7	61.1	▼
ISM NON-MANUFACTURING	62.0	61.9	▲
RETAIL SALES (LESS AUTOS)	-2.5%	0.3%	▼
INDUSTRIAL PRODUCTION	-0.1%	-1.0%	▲
HOUSING STARTS	1679M	1573M	▲
CONSUMER PRICE INDEX (YoY)	7.0%	5.4%	▼
CONSUMER CONFIDENCE	115.8	109.8	▲
EXISTING HOME SALES	6.46M	5.88M	▲
CONSUMER CREDIT	39.99B	11.74B	▲
CRUDE OIL PRICE	\$ 76.99	\$ 73.47	▼

Source: Bloomberg. Data as of 12/31/21. Past performance does not guarantee future results. *The change arrow is indicative of a positive or negative change in the economic nature of the data series. For example, a downward-pointing change arrow assigned to the crude oil price field will correspond with an increase in the actual price of crude oil over the last three months. This is because a short-term increase in the price of crude oil has historically been detrimental to aggregate U.S. consumer spending.

Income section). With the labor market nearing full employment, the Fed has turned its sights to price stability, which has historically been the more elusive of its two mandates. As seen in chart 1, the Fed's preferred inflation measure, the year-over-year core Personal Consumption Expenditures index (PCE), spiked to 4.7% in November. This reading is well above both the Fed's 2.0% target and the long-term trend. The FOMC's December summary projections indicated the median member projected three, quarter-point rate hikes in 2022, up from a median projection of just one quarter-point hike at the September meeting.

ECONOMY CONTINUED

EMPLOYMENT AND MANUFACTURING

The U.S. labor market posted a twelfth consecutive month of job growth in December, with a gain of 199,000 jobs. Although the number of jobs created in December was less than economists' consensus expectations of over 400,000, a combined 141,000 of upward revisions were made to October and November payrolls. A total of 1,096,000 jobs were added to domestic payrolls in the fourth quarter compared to 638,000 in the final quarter of 2020. The unemployment rate improved to a lower-than-expected 3.9%, the best level since February 2020's 50-year low of 3.5%. The labor force participation rate was upwardly revised for November to 61.9% and held at this level in December. The civilian labor force remained more than two million fewer than pre-pandemic levels, as a significant portion of Americans either retired during the pandemic or lost their job and have not returned to the labor market.

Economic activity in the manufacturing sector grew at a slower rate in December, from November, according to the Institute for Supply Management (ISM). The latest Manufacturing ISM Report on Business shows the Purchasing Managers' Index (PMI) was down 2.4 percentage points to 58.7% in December, from November, and the overall economy expanded for the 19th consecutive month. A PMI reading above 50% indicates the manufacturing economy is expanding.

HOUSING

Sales of new homes increased 12.4% in November to an annualized rate of 744,000, following a downwardly revised 662,000 homes in October. New housing demand appears to remain strong in the current environment of low borrowing costs and desire for more space in response to the pandemic.

Sales of previously occupied U.S. homes rose in November for the third straight month, reflecting strong demand, low mortgage rates and competition for a

relatively low number of properties on the market. According to the National Association of Realtors, existing home sales rose 1.9% in November from October to a seasonally adjusted annual rate of 6.46 million units. This was the fastest pace since January 2021, but below the median estimate of 6.53 million units, from a Bloomberg survey of economists. Continued job growth, a stock market near all-time highs, rising rents and expectations that mortgage rates will move higher next year have been driving home sales. At the end of November, the inventory of unsold homes stood at just 1.11 million homes for sale, down 9.8% from October and down 13% from a year ago.

CHART 1
CORE PERSONAL CONSUMPTION EXPENDITURES



Source: Bloomberg. Data as of 12/31/21. Past performance does not guarantee future results

EQUITY

CHOPPY RISE TO RECORD HIGHS

The fourth quarter began with stocks rebounding sharply in October and early November following moderate declines in September. The rebound was driven by strong third quarter corporate earnings outweighing investors' concerns about supply chain disruptions and rising inflation. The stock market lost momentum in mid-November amid building concerns from investors about higher inflation and the prospect of a more hawkish Federal Reserve. Stocks treaded water for the next couple of weeks until the emergence of the COVID-19 Omicron variant triggered a sell-off in late November. Stocks recovered quickly in early December, however, and rose to fresh record highs after data from multiple countries suggested the new variant is causing milder symptoms than initially feared. The S&P 500 finished the year on a strong note as its 3.20% gain in the final two weeks of the year propelled the index to an 11.03% return in the quarter.

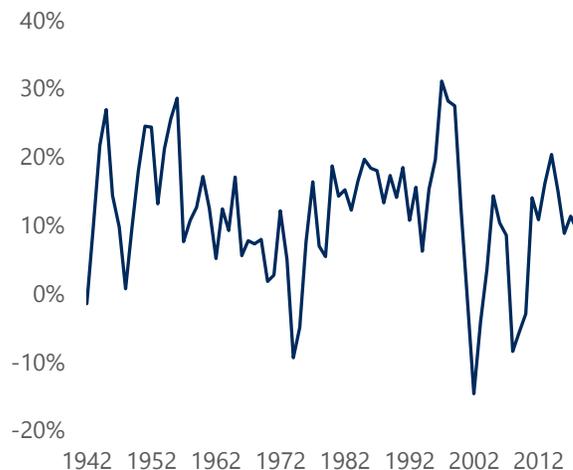
Most cyclical sectors including energy, financials, and industrials underperformed the broad market in the quarter as November's market drawdown hit them harder. The initial uncertainty regarding the Omicron variant and its potential economic impact weighed on bond yields and oil prices. Real estate was the top performing sector in the quarter, largely due to industrial REITs Duke Realty (DRE) and Prologis (PLD) rising over 30%. Technology was also among the sector leaders in the fourth quarter. Strong third quarter earnings reports provided fuel for stocks in the S&P 500 semiconductor industry index, which gained 25.94% in the quarter.

The S&P 500 index finished 2021 near a record high and its 28.71% annual return was the third consecutive year with a double-digit gain. Over the past three years, the S&P 500 rose 100.37% (26.07% annualized), its strongest three-year period since the late 1990s tech bubble and fourth best since the 1940s. Historically large amounts

of fiscal and monetary stimulus, robust corporate earnings growth, and strong economic activity helped stocks weather periodic bouts of volatility in 2021 driven by the pandemic's variants, rising inflation, and the Fed's hawkish pivot.

Stock market performance broadened across all sectors in 2021 compared to 2020 which was heavily driven by the technology sector and other mega capitalization stocks such as Amazon (AMZN), Alphabet (GOOGL), and Meta Platforms (FB). All eleven S&P 500 sectors recorded double-digit annual returns for the third time on record going back to 1990. The other occurrences were in 2016 and 1995. Improved market breadth enabled the S&P 500 index to

CHART 2
S&P 500 3-YEAR RETURN ANNUALIZED



Source: Morningstar. Data as of 12/31/21. Past performance does not guarantee future results

EQUITY CONTINUED

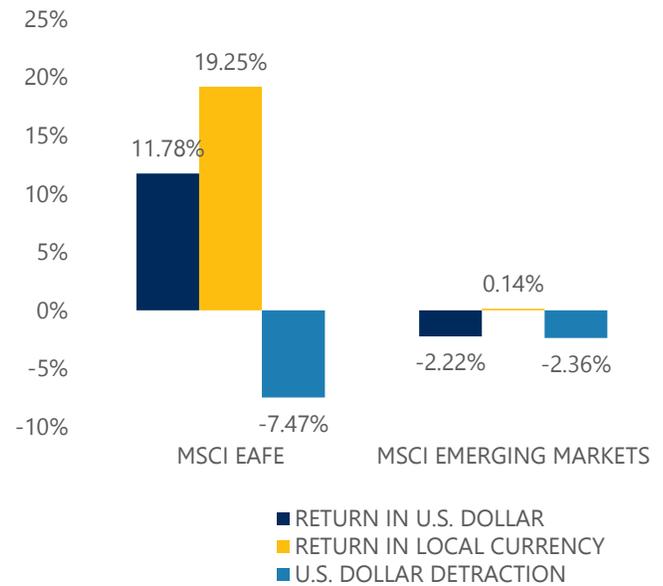
outperform the technology-heavy Nasdaq Composite for only the second year in the last decade. The economic recovery enabled the hardest hit sectors in 2020 including energy, real estate, and financials, to be among the top performing sectors in 2021. Energy led all S&P 500 sectors with a 54.64% annual return, reversing a three-year trend as the weakest performing sector. Energy stocks surged higher in 2021 amid the recovery in oil prices from below \$50 per barrel at the start of the year to a peak around \$85 in October. The real estate sector benefitted from the economy reopening, especially the retail real estate industry which gained 64.72% in the year. Consumer staples and utilities were the only sectors with annual returns below 20%. Underperformance of those two defensive sectors highlights investors' risk-on positioning in 2021.

After swapping leadership positions multiple times throughout the year, growth stocks finished the year ahead of value stocks for the seventh time over the last decade. The S&P 500 Growth index gained over 30% for a third consecutive year and outperformed the S&P 500 Value index's 24.90% annual return by over 7%. Value stocks' 2021 gains were heavily concentrated in the first quarter while the reflationary trade took hold. They then lost some of their luster in the late summer as the Delta variant slowed the economy's momentum and investors returned to the 2020 playbook of favoring growth and large capitalization stocks. Similar to value stocks, small capitalization stocks led in the first quarter, but lost momentum as the reflationary trade faded. The Russell 2000's 14.82% return in 2021 was only a little more than half the S&P 500's performance.

Foreign developed stocks posted more modest returns than U.S. stocks in 2021 with the MSCI EAFE index rising 11.78% in the year. The stronger U.S. dollar was a large headwind for foreign stocks' performance in 2021 and detracted 7.47% from MSCI EAFE's annual return in U.S. dollar terms. The MSCI Emerging Markets index started the year strong, but peaked in February and ended the year down 2.22%. Emerging markets' main sources of

weakness were China and Brazil. Chinese stocks contended with a bombardment of negative news in the second half of the year, including the government's regulatory tightening in the internet and private tutoring industries. Additionally, China's largest property developer, Evergrande Group, experienced acute financial troubles due to massive amounts of debt. Brazilian stocks fell in part due to concerns the country's president will try to breach the country's fiscal spending limit to increase social aid ahead of next year's election.

CHART 3
U.S. DOLLAR WEIGHS ON FOREIGN STOCKS



Source: Morningstar. Data as of 12/31/21. Past performance does not guarantee future results

THE FIRST STEPS TO NEUTRAL

The overarching storyline across domestic bond markets in the fourth quarter was Federal Reserve policymakers' shift in tone and messaging from emergency-era accommodation to a much more neutral policy stance. This pivot occurred as it became increasingly evident that inflationary pressures were more persistent and less transitory than most policymakers and market participants expected. Throughout the summer, Fed Chairman Jerome Powell and most of his Federal Open Market Committee (FOMC) colleagues argued that broad-based inflationary pressures were likely to prove temporary given their expectations for pandemic-driven supply-demand imbalances to ease. The FOMC was forced to change its view by a steady drumbeat of data suggesting generationally high inflation was not subsiding. As noted in the Economy section, the year-over-year U.S. core personal consumption expenditures (PCE) index, the Fed's preferred inflation gauge, rose 4.2% in October and 4.7% in November, its highest level since 1989. From 1994 through 2019, U.S. core PCE averaged 1.75% and only eclipsed 2.5% for several months in 2006. As seen in chart 7, the U.S. 5-year TIPS breakeven inflation rate climbed from 2.53% on September 30 to a 19-year high of 3.21% on November 16 before declining to 2.91% on December 31. Breakeven inflation rates measure market-imputed expectations for average annual inflation over a certain time horizon. In congressional testimony on November 30, Federal Reserve Chairman Jerome Powell acknowledged that elevated inflation had been more persistent and widespread than he and most of his fellow policymakers previously anticipated. Powell told lawmakers "...it's probably a good time to retire that word (transitory) and try to explain more clearly what we mean."

At its December 14-15 policy-setting meeting, the FOMC voted to double the pace of tapering its asset purchases from a reduction of \$15 billion per month to \$30 billion.

The new pace put the central bank on track to conclude its balance sheet expansion in March compared to June, as previously planned. By the end of the quarter, market-based expectations derived from fed funds futures markets projected three 0.25% rate hikes by the end of 2022. Three months ago, market-based expectations were for only one rate hike in 2022. Minutes from the FOMC's December meeting revealed that policymakers are considering quantitative tightening (i.e., shrinking the central bank's balance sheet) soon after an initial rate hike in the first half of 2022. Amid this shift in tone from the Fed, the U.S. Treasury yield curve flattened significantly in the fourth quarter, as yields on the two-year note sharply climbed from 0.28% to 0.73% in the final three months of the year.

CHART 4
MARKET-BASED INFLATION EXPECTATIONS



Source: Bloomberg. Data as of 12/31/21. Past performance does not guarantee future results

FIXED INCOME CONTINUED

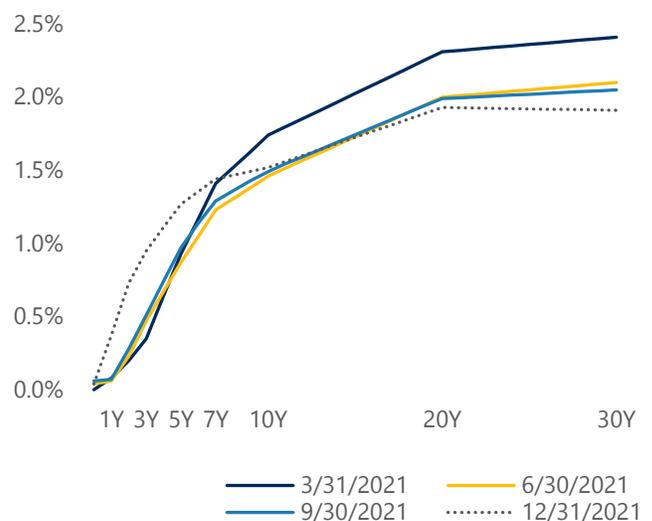
In the fourth quarter, the Bloomberg Intermediate Government/Credit Index recorded a 0.57% loss, composed of a 1.04% price decline and 0.47% of coupon income. Although high yield bonds had a challenging November, the Bloomberg U.S. Corporate High Yield Bond Index still posted a 0.71% quarterly return driven by 1.36% of coupon income counteracting a 0.65% price decline. For the second consecutive quarter, high yield credit spreads modestly widened, as the difference in yield-to-worst between the Bloomberg U.S. Corporate High Yield Index and the 10-year U.S. Treasury bond climbed from 2.56% on September 30 to 2.70% on December 31. Speculative grade bond spreads remain relatively low compared to a weekly average of 4.31% from 2011 through 2020.

Looking forward, we believe investors will be well served to focus on labor market indicators that suggest the U.S. economy is approaching the Fed's definition of "maximum employment." Fed Chair Powell has recently noted that the U.S. economy is making "rapid progress" toward this goal. Trends in labor force growth and the labor force participation rate should be useful indicators to gauge the pace and magnitude of the forthcoming rate hike cycle. According to the U.S. Bureau of Labor Statistics, the domestic labor force participation rate was unchanged at 61.9% in December 2021, which remains 1.5% lower than in February 2020 before the onset of the pandemic. According to BCA Research, if the labor force participation rate holds steady, average monthly payroll growth of 224,000 would push down the unemployment rate to its pre-pandemic low of 3.5% by June.

In our view, fixed income portfolios will benefit from keeping duration below benchmark levels in 2022. This is based on our expectation for inflation to remain elevated and for the Federal Reserve to embark upon the first phases of a rate hike cycle. A modest allocation to Treasury Inflation-Protected Securities (TIPS) should

continue to help buttress fixed income portfolios against upside inflation surprises. Tight credit spreads notwithstanding, we think a favorable economic backdrop and a general coupon advantage warrants an overweight allocation to corporate credit with a bias toward higher quality areas of the market. In tax-exempt municipal bond markets, a potential increase in issuance and improving credit fundamentals boosted by the large-scale stimulus of the last two years should create a favorable backdrop for investors in the first half of the year.

CHART 5
U.S. TREASURY YIELD CURVE MOVEMENTS



Source: Bloomberg. Data as of 12/31/21. Past performance does not guarantee future results

OUTLOOK

THE EVOLUTION OF MARKET RISKS

Last quarter we wrote that a scenario in which 1970s-style runaway inflation spurred an aggressive campaign of U.S. Federal Reserve rate hikes appeared unlikely to occur. While this remains our baseline view, investors should acknowledge that there has been a clear shift in monetary and fiscal policy away from survival mode to a more normal approach. The landscape is strikingly different from a year ago, with a U.S. Federal Reserve that has begun to withdraw emergency-era support and prospects for additional congressional spending following enactment of the bipartisan infrastructure bill (see Spotlight section) looking increasingly dim. In our view, this is a sign of a relatively healthy transition from an early-cycle recovery phase to a mid-cycle environment. The picture is not perfect, however, as elevated inflation and a potential growth slowdown driven by the COVID-19 Omicron variant could end up being flies in the ointment. As such, they deserve to be closely monitored over the coming weeks and months.

The last 20 months of policy support on an unprecedented scale built a bridge for the U.S. economy to cross from the pandemic lockdown-induced recession to a more normal environment. The 0.50% – 1.00% of Fed rate hikes and opening salvos of a balance sheet reduction we are likely to get over the next twelve months represent an end to emergency-era policy, but they do not represent an end to conditions in which the economic expansion can continue. As Doug Peta, Chief U.S. Investment Strategist at BCA Research observed in a recent report, “Even if the FOMC initiates a rate hike campaign in March, its effects may not begin to be felt until September or next March...and the fed funds rate is miles away from being restrictive.”

In our view, the COVID-19 Omicron variant is unlikely to significantly disrupt this transition to a healthier economy that is less dependent on the training wheels of policy support. The speed with which the strain has spread through most countries and its propensity to cause significantly milder symptoms probably means it will dent but not destroy economic growth. Inflation, however, increasingly looks like the most serious source of potential market risk over the next 12 to 18 months.

More specifically, an extended period of cost-push inflation (driven by the supply components of an economy) could prove particularly challenging. Cost-push inflation is generally considered more difficult to tame for central banks than demand-pull inflation because increasing the policy rate cannot directly address an undersupply of workers, raw materials or finished goods. In 2022 and beyond, re-shoring and reorganization of global supply chains, increases in the collective bargaining power of labor and an acceleration in the transition from fossil fuels to renewables could all put upward pressure on prices from the supply side.

We think a useful way to monitor the risk of cost-push inflation (and the Fed’s potential reaction) is to look closely at trends in domestic wages and the labor participation rate. These are areas Federal Reserve policymakers will likely use to gauge the extent of slack in the labor market. As seen in chart 6, the year-over-year growth rate of average hourly

CHART 6
LABOR MARKET INDICATORS



Source: Bloomberg. Data as of 12/31/21. Past performance does not guarantee future results

OUTLOOK CONTINUED

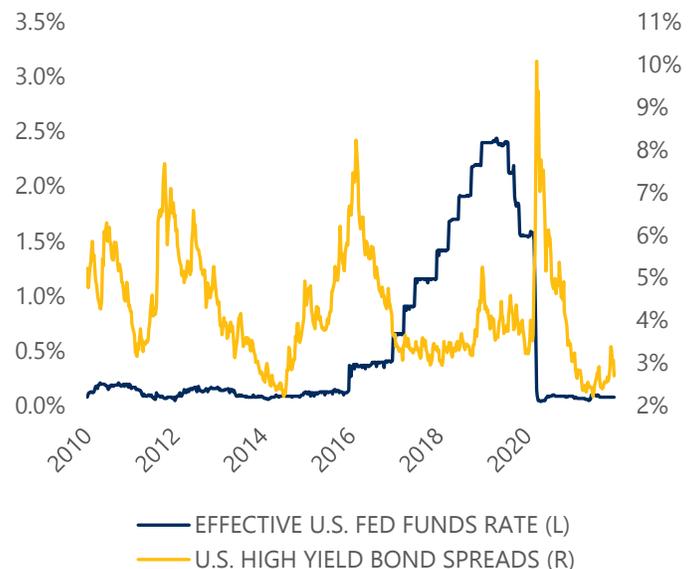
wages has recently approached 5.0%, twice the 2.5% rate of growth seen between 2007 and 2019. Meanwhile, the labor force participation rate was 61.9% in December, 1.5% lower than its immediate pre-pandemic peak of 63.4% in February 2020.

We also believe it will be important to monitor high yield credit spreads as a signal that investors perceive an impending Fed policy mistake. In recent years, there have been several examples of environments in which high yield bond market participants viewed short-term interest rates as too high for the economy to handle. As seen in chart 7, the spread between the BarCap U.S. Corporate High Yield yield-to-worst and the 10-year U.S. Treasury yield spiked from 3.66% on June 3, 2015 to 8.40% on February 11, 2016. This occurred as the Federal Reserve under Janet Yellen enacted the initial rate hike of the previous cycle in December 2015 - a time when market participants were scared of deflation and viewed the economy as too fragile to digest higher rates. A less dramatic widening of high yield credit spreads also occurred in the fourth quarter of 2018. This period coincided with an escalation of the U.S.-China trade war and the final two quarter-percentage-point Fed rate hikes in the 2015-2018 rate hike cycle which topped out at a policy rate range of 2.25% - 2.50%.

From a positioning perspective, we recommend client portfolios remain overweight equities and credit relative to U.S. Treasuries and cash. This is based on our expectations for healthy consumer spending, solid corporate earnings growth, a peak in inflation and a Federal Reserve unlikely to hike interest rates at a speed which could impair economic growth. In equity allocations, we expect a reflationary environment in which Federal Reserve policy shifts to neutral will support areas of the market most closely tied to economic growth. These areas will most likely include small capitalization

stocks and parts of the financials, industrials, energy and materials sectors. Areas of the equity market viewed as defensive, and those which exhibit overly elevated valuations, could struggle with higher U.S. Treasury yields. In fixed income allocations, we think investors will be well served by limiting exposure to long-dated U.S. Treasuries and focusing on generating income without taking too much duration risk or credit risk.

CHART 7
FED POLICY RATE AND CREDIT SPREADS



Source: Bloomberg. Data as of 12/31/21. Past performance does not guarantee future results

ECONOMIC OUTLOOK AND INVESTMENT POLICY

ECONOMIC FACTORS CURRENT OUTLOOK

U.S. GDP Growth	The median estimates for real U.S. GDP growth in 2021 and 2022 from a recent Bloomberg survey of economists are 5.6% and 3.9%, respectively.
Federal Funds Rate	According to Fed Funds Futures data, investors are pricing in a 91% chance of an initial 0.25% Fed rate hike at the March 2022 FOMC meeting and at least three hikes this year.
Inflation	Expectations for average annual inflation over the next five years derived from U.S. TIPS breakevens surged to 3.21% in November, but have since retreated to under 2.85%.
Employment	According to December NFIB data, a net 28% of U.S. small business owners reported plans to fill open positions in coming months compared to 17% a year ago.
Consumer Confidence	U.S. consumer sentiment improved slightly in December compared to recent months as job opportunities became increasingly plentiful.
Oil	OPEC and its allies' commitment to only modest production increases should be a tailwind for crude oil prices absent significant demand destruction from the Omicron wave.
Housing	Limited supply of existing homes and elevated prices could partially offset the trend of strong housing demand, which has been in place since the summer of 2020.
International Economies	The euro zone and Chinese economies are expected to grow in 2022 at clips of 4.2% and 5.2%, respectively, based on a recent Bloomberg survey of economists.

FIXED INCOME CURRENT OUTLOOK

	MINIMUM	NEUTRAL	MAXIMUM	
Core Bonds		●		We believe an underweight to fixed income in multi-asset class portfolios remains appropriate based on our expectations for above-trend economic growth and elevated, but declining, inflation in 2022. The total return prospects of U.S. Treasury bonds are likely to be capped by a Federal Reserve that has signaled its intention to increase its policy rate by up to 0.75% over the next 12 months. A moderate duration underweight relative to fixed income benchmarks should benefit portfolios in 2022. An allocation to Treasury Inflation-Protected Securities (TIPS) should continue to help dampen inflation-driven volatility likely to be experienced by fixed income allocations. Outside of core, investment-grade fixed income segments, we believe high yield bonds and preferred stocks will continue to benefit from a coupon advantage and a generally benign credit environment.
TIPS			●	
Non-Investment Grade			●	
International	●			

EQUITIES CURRENT OUTLOOK

	MINIMUM	NEUTRAL	MAXIMUM	
Large Cap			●	We recommend maintaining an overweight to equities relative to bonds and cash despite recent growth slowdown concerns related to the COVID-19 Omicron variant. Encouragingly, the labor market continues to show signs of strength, while the balance sheets of both U.S. consumers and corporations remain healthy. As such, we expect the labor market recovery will regain speed after a summer pause. Consensus expectations are for the S&P 500 to achieve high single-digit profit growth in 2022 following upwards of 40% profit growth in 2021. Within equity allocations, industries and companies best able to navigate higher costs and take advantage of above-trend GDP growth in a reopening economy should generate disproportionately strong revenue and earnings growth in 2022. As such, we continue to recommend an overweight to GDP-sensitive areas of the equity market including domestic mid cap, small cap, industrials and financials. Key risks to our view include an extended acceleration in wage gains that leads to aggressive messaging from the Fed and any signs of a protracted slowdown in the Chinese economy.
Mid Cap			●	
Small Cap			●	
Developed International		●		
Emerging Markets		●		

ALTERNATIVES* CURRENT OUTLOOK

	CAP PRES	IWSG	BAL	GWSI	GROWTH	
Global Real Estate						We believe an allocation to alternative asset classes and strategies can be an effective portfolio diversification tool. In our view, an allocation to gold should help most client portfolios better navigate potential inflation-driven volatility in coming quarters. This is largely based on our observation of gold's tendency to behave as a safe-haven asset in periods of market stress and the potential for it to benefit from U.S. dollar weakness and negative real (inflation-adjusted) interest rates. Our diversified alternatives portfolios, as seen in the table to the left, are designed to decrease the overall risk profile of our five investment objective-based portfolios (CAP PRES, IWSG, BAL, GWSI, and GROWTH).
Global Infrastructure						
Gold		●	●	●		
Hedged Equity	●	●	●	●	●	
Arbitrage	●	●	●			

The above minimum/neutral/maximum recommendations represent MainStreet Advisors' current positions relative to our Strategic Asset Allocation ranges. Views expressed have a 6-12 month horizon and are those of the MSA Investment Committee.

*Cap Pres: Capital Preservation, IWSG: Income with some growth, Bal: Balanced, GWSI: Growth with some income

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