



FULLEN FINANCIAL GROUP

Quarterly Market Summary – Q4 2021

Market Results as of the Fourth Quarter of 2021

Selected Index Results for Q4 – 2021

<u>Index⁽¹⁾</u>	<u>%Growth For FY 2020</u>	<u>%Growth For FY 2021</u>	<u>%Growth For Q4 2021</u>
DJIA	7.25%	18.73%	7.37%
Core U.S. Aggregate Bond Index (U.S. multi-sector bond)	5.18%	-3.48%	-0.65%
S&P 500 (large cap)	16.26%	26.89%	10.65%
S&P 400 (mid cap)	11.81%	23.21%	7.63%
Russell 2000 (small cap)	18.36%	13.69%	1.86%
MSCI EAFE Index (developed international)	5.07%	7.84%	0.86%
iShares MSCI Emerging Market Index	15.15%	-5.46%	-3.04%
iShares Dow Jones US Home Construction	25.62%	48.60%	25.29%
MSCI US REIT Index	-11.11%	38.61%	15.33%
Amex Oil Index	-37.63%	48.67%	6.80%
Barclays Global Agg ex-US Corp Bond Index	10.95%	-8.73%	-2.04%

(1) These results do not include reinvestment of dividends.

Q4 Quick Summary

- The U.S. economy performed well in the fourth quarter, growing at an annualized pace of 7.0%. Economic growth for the year is estimated to be strong as well at 5.7%.
- The labor market continues to tighten, with an unemployment reading of 3.9% in December. Labor force participation continues to lag, however, resulting in some dislocation between open positions and available workers. The unemployment rate is expected to decrease further throughout 2022.
- Inflation has risen to a level not seen in decades, with 7.0% year-over-year growth in the Consumer Price Index in December. Much of the increase is associated with supply chain issues or shortages due to reopening the economy; however, the tight labor market is likely to keep inflation at elevated levels in 2022.
- The U.S. Federal Reserve has signaled that it will end its Quantitative Easing (QE) program by March 2022, opening the door for rate hikes starting in June 2022. Current estimates lean toward three quarter-point increases in the Fed Funds Rate by the end of 2022.

Covid Continues

Covid-19 cases are rising rapidly again across the globe with the emergence of the Omicron variant. While this has prompted most governments to reimpose mitigation measures, the prevalence of vaccines and treatment therapies has allowed most economies to stay open. This combined with indications that the Omicron variant is a less virulent strain should result in far less impact on economic growth than previous



waves of the virus; however, the large number of unvaccinated around the world means variants could still evolve; so a continued Covid risk cannot be dismissed. In particular, we could see slowing growth of high-contact services in regions with elevated Covid levels, as well as pandemic-related supply chain disruptions likely continuing well into 2022. China, a key link in the global supply chain, remains committed to a zero-Covid policy, which has been among the many factors contributing to global supply chain issues. With the 20th National Congress set for next year, it remains to be seen how China will balance its public health objectives with the need to support continued economic growth.

It's estimated that global GDP growth was 5.8% for 2021, with estimates of 5.7% growth for the U.S. and 5.1% for the Euro zone. The outlook for 2022 continues to be strong relative to pre-Covid growth levels but is heavily dependent on continued recovery from the pandemic. Supply constraints are showing more staying power than anticipated and much of the pandemic-related government stimulus has been withdrawn. In addition, a higher trajectory of inflation in the first half of 2022 will impact real disposable incomes in the U.S. and globally, although this is mitigated somewhat by high levels of personal savings (estimated at \$2.5 trillion above pre-pandemic levels). GDP growth is estimated to be 4.1% in 2022 (still robust by historical measures but reduced due to Omicron), with global growth projected at 4.4%.

Demand for Labor Remains High

The U.S. unemployment rate declined further in Q4, to 3.9%, as gaps between the rate of job openings and new hires remains near a record high. The pandemic has rapidly shuffled the deck on which sectors and regions of the economy are growing most rapidly, and it will take time for workers to relocate and shift to different industries. Many employees are simply leaving consumer-facing occupations and going into other areas that are less exposed to Covid. This should not impact overall employment but may create some distortion as they retool their skills.

Another challenge for employers is that labor supply growth has not kept pace with economic growth, as evidenced by a stalled labor force participation rate. There are several reasons for this, including an ongoing wave of Baby Boomer retirements, transitions to self-employment, a sharp reduction of women ages 25 – 29 in the workforce relative to their male peers, and a decline in the number of people holding multiple jobs. At a macro level, the United States needs more workers, as slow population growth and ongoing retirements prevent the labor pool from keeping pace with economic growth. Add to this the fact that there are about two million fewer working-age immigrants in the U.S. than there would have been if pre-pandemic trends had continued. Their absence hurts high-skill and low-skill industries alike.

Labor market frictions will not resolve overnight, and history supports the notion that those who leave the work force may stay out for a significant period of time before they are enticed to rejoin (if they can be). Current higher wages and inflation may hasten the timeline relative to history, but it is also likely that demand will remain healthy. This dynamic will contribute to continued wage increases especially, but not exclusively, for workers at the low end of the skill and education spectrum.



Inflation Is Up, But Expected to Moderate

The combination of supply chain issues and a tight labor market has contributed to consumer price increases not seen in decades. While much of the acceleration in 2021 is associated with the reopening of the economy, supply-side pressures are proving more resilient than anticipated. The autumn months saw energy join the list of impediments impacting the global economy. An energy supply crunch in China and Europe sent natural gas and coal prices soaring, with ripple effects to North American natural gas and world oil prices. At the same time, inventory-to-sales ratios are at historic lows, and purchasing manager surveys show an increasing share of businesses are passing higher input costs on to the end consumer.

As supply chain bottlenecks are resolved, more service businesses start to reopen, and governments pull back from pandemic-related stimulus, it is likely that year-over-year inflation rates will start to decline in 2022. Nevertheless, it is reasonable to expect the inflation environment will remain higher relative to the pre-crisis period.

Central Banks React

With inflation becoming the chief worry among central bankers, a movement is underway toward tighter monetary policy. The Fed has taken a first step by tapering its QE program and has signaled a rate hiking cycle will start later this year. The Fed Funds rate was effectively reduced to 0% at the onset of the pandemic and remains at that level today. A number of central banks have already started to hike interest rates, citing the strength of the economic recovery, and others, including the Bank of England, are gearing up as well. Even the European Central Bank, which has pursued an accommodative monetary policy for the last ten years, is advising that a change is coming now that the end of the pandemic appears to be in sight.

As the Fed signals interest rate increases in the second half of this year, market participants speculate about the pace and extent of tightening. At the time of this writing, consensus estimates call for three quarter-point increases by the end of 2022, with additional tightening expected in 2023 as the Fed tries to restore equilibrium in monetary policy. Over the past several years, the Fed's economic projections have indicated that it sees the longer-run Federal Funds Rate, the "terminal rate," at 2.5%.

Not surprisingly, the Fed's tightening signals have triggered a flattening of the yield curve, as short-term interest rates continue to move higher but longer-term yields have failed to rise significantly. Consequently, while yields for most maturities are higher than at the start of the year, the slope of the yield curve is much flatter. A flattening yield curve is not unusual in a tightening cycle, but it is notable that this is happening against a backdrop of the highest inflation readings in decades and the Fed's decision to also taper its bond purchases. If longer-term interest rates remain low, the Fed may not have as much scope to raise short-term rates as its forecasts suggest.

Conclusions

As we think through the dominant issues facing investors today, a consistent theme emerges: the range of outcomes on each of these issues is wider than we normally see. Along with the ongoing pandemic, which continues to disrupt lives and the economy, uncertainties abound with the global supply chain, labor dislocations and high levels of inflation. Government policy responses can also vary significantly from market expectations, as the Fed reacts to a changing economic climate and fiscal policy faces the realities of a mid-term election year. As we have said previously, the one constant is likely to be market volatility.



While the Covid threat to the economy still lingers: the recent surge in cases related to the Omicron variant, the moderating rate of vaccination and the possibility of additional variants are causes for concern – and make projection of future economic and stock market performance very difficult. Projecting stock market direction is always rife with problems, doing so in such an environment can quickly make even the most thoughtful projections irrelevant. In a rapidly growing economy with rising inflation, assets with exposure to high nominal growth rates, including value stocks and commodities, may hold up well, whereas bonds could struggle. As economic reopening progresses, relative performance patterns may be influenced by the trajectories of policy, inflation, and real interest rates.

Fundamentally, stock valuations are based on long-term expectations for dividend payments and price appreciation. Assuming continued success in combatting the virus and returning the economy to more “normal” levels of activity, the long-term impact on economic growth and equity values should not be significant. However, as we have stated previously, the ongoing and unprecedented level of government stimulus, both fiscal and monetary, continues to raise concerns about deficit spending and the corresponding growth in national debt. While such stimulus may be critical in times of stress, the long-term implications for economic growth are likely to be negative. In the near term, uncertainties around these policies (among other developments) will likely result in continued high levels of market volatility.

In periods of higher market volatility, maintaining investment discipline will be more difficult emotionally. However, we need to remember that market timing as an investment strategy has never worked consistently (and results in lower longer-term yields). Trying to time markets has a high probability of creating permanent losses.

As always – stay with a consistent and disciplined investment strategy – it is the only course of action with any track record of success (in any investment environment). There is no reason to believe, even with the changing economic dynamics, that the disciplined approach to investments will be less effective than in the past at delivering the best possible relative returns.

At the most fundamental level, match your investment time horizon to your spending timeline – if you have short term cash needs then those funds should be in short term investments. These are simple asset/liability matching principles practiced by the most sophisticated investment managers every day (but far too complex to explain in sound bites and not conducive to selling products). Additionally, don’t try to solve short-term financial problems with long-term equity exposure. If you try to chase returns, you may get lucky sometimes but, if pursued long enough, it always ends in extreme frustration and often with serious financial losses. The reality is that no one has ever consistently predicted investment markets and they never will - and there is always a consequence to continued unsound financial behavior.

As always, if your personal or family situation has changed (or is likely to), a discussion with us as to how this may impact your financial plan and your overall asset allocation is warranted. Or, if you simply feel a need to discuss any aspect of your portfolio and/or financial plan, or you haven’t had a planning update within the last 12 months, please contact us to review your financial plan and investments.

Risks

Investors should be aware of the risks associated with all portfolio strategies and variable market conditions. Monetary policy changes, military activity abroad, the level and change in market interest rates, corporate earnings, domestic and foreign governmental policies, global economic data, vaccine



missteps, other geopolitical events can have a substantial effect on portfolio performance and the effectiveness of strategic and tactical portfolio approaches.

Your financial plan is the most important financial document that you possess! Keep it updated and use it.

Please note that you are entitled to receive Fullen Financials' Form ADV whenever you would like to. This document outlines many details of who Fullen Financial is, their investment methodologies and their advisor's education and experience. You may do so by contacting Paula Miller (paula@fullenfinancial.com) and requesting such. Alternatively, you can go to the Fullen Financial website at www.fullenfinancial.com and click on "Resources" in the top menu bar, and then on "Client Forms."

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Appendix: Economic Indicators and Outlook

Economic Indicators: G7 & Europe					Global Economic Outlook				
	2020	2021F	2022F	2023F	Annual Per Cent Change Unless Otherwise Indicated				
Real GDP (annual per cent change)					2019 Share*		Forecast		
G7 (30.1%)*	-5.0	5.0	3.9	2.2	Real GDP	(%)	2021	2022	2023
U.S.	-3.4	5.7	4.1	2.6	World	100.0	5.8	4.4	3.6
Japan	-4.5	1.8	2.6	1.3	North America	19.2	5.5	4.0	2.7
Euro Area	-6.5	5.1	4.1	1.9	United States	15.8	5.7	4.1	2.6
Germany	-4.9	2.6	3.7	2.1	Canada	1.4	4.5	4.4	3.1
France	-8.0	6.7	3.8	1.9	Mexico	1.9	5.3	3.0	3.0
Italy	-9.0	6.3	4.2	1.4	European Union (EU-28)	15.4	5.1	4.1	2.0
United Kingdom	-9.7	6.9	4.7	2.0	Euro Area (EU-19)	12.5	5.1	4.1	1.9
Canada	-5.2	4.5	4.4	3.1	Germany	3.5	2.6	3.7	2.1
Consumer Price Index (annual per cent change)					France	2.4	6.7	3.8	1.9
G7	0.8	2.0	2.3	1.6	Italy	2.0	6.3	4.2	1.4
U.S.	1.2	4.7	4.0	2.2	United Kingdom	2.4	6.9	4.7	2.0
Japan	0.0	-0.3	0.8	0.7	EU accession members	2.9	4.8	4.4	2.4
Euro Area	0.3	2.6	2.4	1.5	Asia	43.2	6.4	5.1	4.9
Germany	0.4	3.2	2.4	1.6	Japan	4.1	1.8	2.6	1.3
France	0.5	2.0	2.0	1.4	Asian NIC's	3.5	5.0	3.2	2.6
Italy	-0.1	1.9	2.0	1.3	Hong Kong	0.3	6.7	3.9	3.2
United Kingdom	0.9	2.4	4.2	2.1	Korea	1.7	3.9	2.8	2.5
Canada	0.7	3.3	3.6	2.2	Singapore	0.4	6.6	4.5	2.7
Unemployment Rate (per cent annual averages)					Taiwan	0.9	5.9	3.5	2.7
U.S.	8.1	5.4	3.6	3.4	Russia	3.1	4.6	2.4	1.8
Japan	2.8	2.8	2.9	2.5	Australia & New Zealand	1.2	4.1	3.2	3.1
Euro Area	7.9	7.8	7.5	7.4	Emerging Asia	31.4	7.4	6.0	6.0
Germany	5.9	5.7	5.1	5.0	ASEAN-5	5.7	2.8	5.7	5.6
France	8.0	7.9	8.0	7.7	China	17.3	8.1	5.4	5.7
Italy	9.3	9.6	9.1	9.0	India**	7.1	9.3	7.7	7.1
United Kingdom	4.4	5.1	4.6	4.1	Central/South America	5.6	6.9	2.6	2.6
Canada	9.6	7.4	5.6	5.4	Brazil	2.4	4.9	1.5	2.2
*Share of 2019 world gross domestic product (GDP) at PPP. Forecast as at December 2021. Source: National statistics agencies, TD Economics.					Other Emerging Markets	13.0	4.5	3.6	3.3
					Other Advanced	1.1	4.4	3.8	2.2
					*Share of world GDP on a purchasing-power-parity (PPP) basis. Forecast as at December 2021. **Forecast for India refers to fiscal year. Source: IMF, TD Economics.				

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Investors should consult with their investment advisor to determine the appropriate investment strategy and investment vehicle. Investment decisions should be made based on the investor's specific financial needs and objectives, goals, time horizon and risk tolerance.

Except for the historical information contained in this report, certain matters are forward-looking statements or projections that are dependent upon risks and uncertainties, including but not limited to such factors and considerations such as general market volatility, global economic risk, geopolitical risk, currency risk and other country-specific factors, fiscal and monetary policy, the level of interest rates, security-specific risks, and historical market segment or sector performance relationships as they relate to the business and economic cycle.