2022 INVESTMENT STRATEGY OUTLOOK

22 Charts for 2022

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2022 Investment Strategy Outlook

We feel fortunate to be a couple of weeks delayed in translating our thoughts in writing for the year ahead since the investment landscape has changed considerably since the beginning of this year. In some ways the consensus 2022 investment forecasts on Wall Street feels very similar to the last few years in that they became largely irrelevant before we were even through a quarter of the year. In 2018 everyone was bullish, and all global stock markets finished the year with modestly negative returns. In 2019 investors were pleasantly surprised with investment nirvana, as most asset classes booked double digit returns. 2020 was like nothing we could make up in our wildest imagination, and finally 2021 was a year where many investment strategist ratcheted their targets higher throughout the course of the year.

The consensus amongst strategists this year was to be "cautiously optimistic" but expect "more volatility" than we had last year. It goes without saying that most strategists were not forecasting the treacherous start to the year which we have experienced thus far.

We feel fortunate that we are not in the business of "forecasting" markets. This year we did our best to follow the guidance from my kids – less reading and more pictures, although there is some inevitable commentary along side the charts as well. Thus, we have compiled 22 ideas for investors to consider, which will hopefully offer additional perspective and help to better navigate the markets in the year ahead.

We believe that financial media are often incredibly creative in finding reasons to explain daily market fluctuations in hindsight. When in fact there are plenty of times where nobody really has a great idea as to "why" markets have moved in a given fashion. Thus, we rarely hold a strong opinion regarding the explanation of shorter-term movements across capital markets.

Having said this, we do believe the message from Mr. Market today is very clear. And it is that investors are rapidly recalibrating what the proper "multiple" is to pay for U.S. equity markets. This is never an exact science and is always a fluid dynamic, but the current environment seems to have a confluence of rapidly changing variables which are forcing investors to reevaluate the landscape moving forward. For context, from 2002 - 2019 the S&P 500 traded between roughly 9x forward earnings (market bottom in 2009) and 19x forward earnings (pre COVID market top in early 2020).

2022 Investment Strategy Outlook

The S&P 500 first (since the tech bubble) traded above 19x forward earnings again in April 2020 (weeks after the COVID bottom) and eventually went to 24x forward earnings in early September 2020. The forward P/E ratio has gently contracted (until recently) since September 2020 but stayed steadily elevated around 21x – 23x forward earnings though 2021.

In many senses we have completed a “round trip” with regards to the valuation discussion over the last 25 years. The most fundamentally expensive stock market the United States has ever witnessed was the TMT bubble in the late 1990’s and early 2000’s. The justification for the lofty valuations at that point in time was that “the internet was going to change the world.” Which ended up being correct!! But even so, technology stock prices had been bid up well beyond any possible rational reasoning.

Many investors, including ourselves, thought we would never see TMT bubble-like valuations again. Thus, it was a surprise to most investors, including Stanley Druckenmiller and David Tepper, to see very high equity market valuation levels coincide with depressionary economic data during April and May 2020. Having said this, Mr. Market was more “correct” than most people could have imagined in the spring of 2020, as the economic and earnings recovery from that point forward ended up being superior to even the most optimistic expectations.

At the same time, for one reason or another, investors also began to rationalize paying historically high valuations for U.S. equities again, which was especially obscene in certain, more speculative corners of the market (small cap growth stocks). And just like 20 years earlier, a lot of the motivations for owning stocks (and being less sensitive to valuations) were completely valid. Since COVID, bond yields have been close to 0%, which we had seen a various times over the last several years, but this time with inflation accelerating as well. In addition, many investors believe that all else equal, the S&P 500 should trade at higher valuation metrics today vs. 50 years ago given the great technology businesses that make up a large portion of our stock market today, which is contrasting to any point in history aside from the last couple of decades. And finally, stocks remain attractive relative to bonds today, which was absolutely not the case during the TMT bubble.

All these ideas seem to hold some merit to them, but we also remain cognizant that investors must weigh these factors against the teachings of Sir John Templeton who reminds us ‘the four most dangerous words in investing are, “it’s different this time.”’

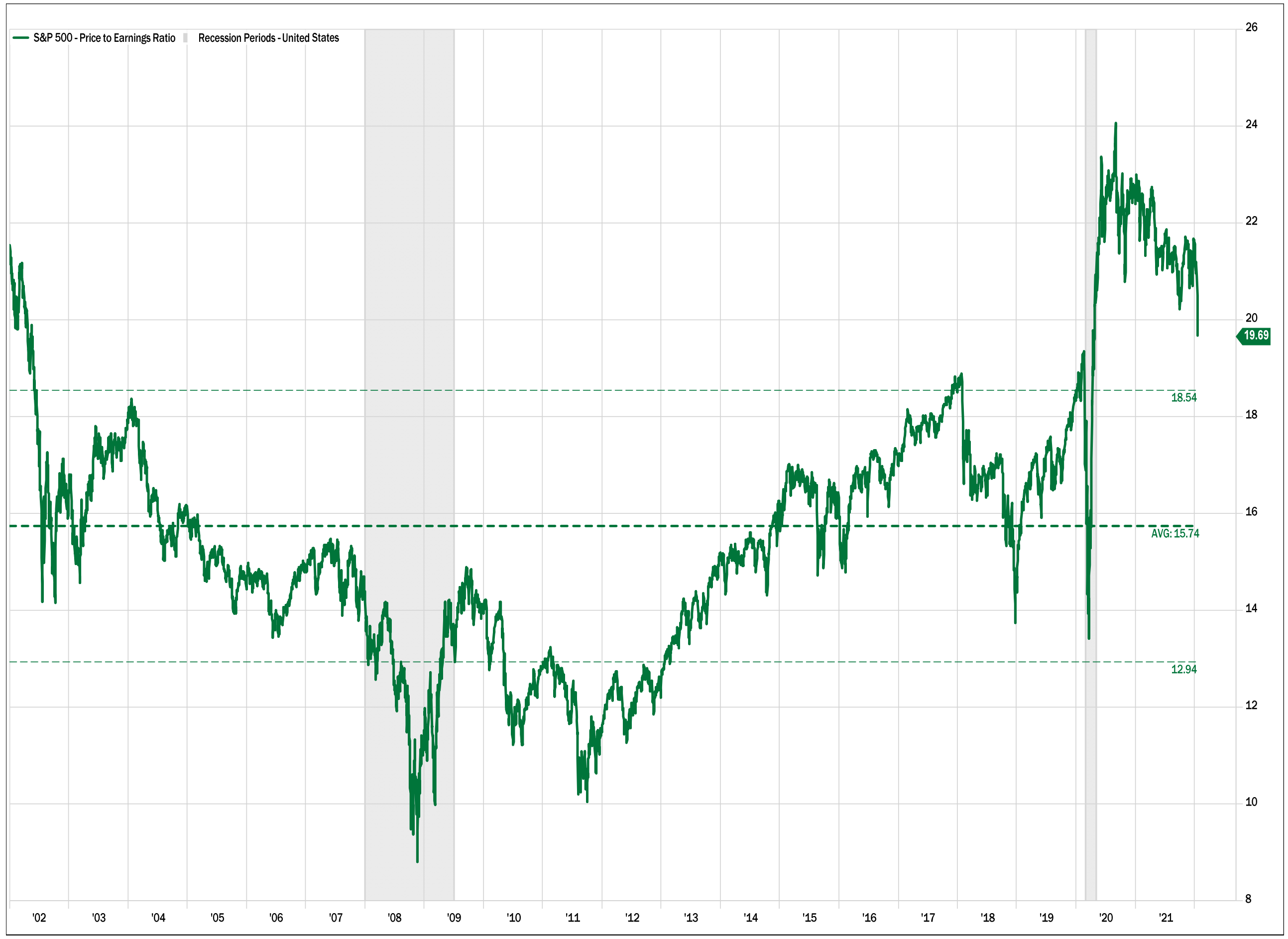
S&P 500 Forward Price to Earnings Ratio

Investors are clearly flustered and confused in striving to reassess the potential for a new, post- COVID valuation regime.

Every year, there are pages of ink spilled hypothecating about financial markets. We can simply paraphrase some of those forecasts down to the following:

- The most bearish investment forecasts that exist (50% crashes, etc.) hold the belief that valuation metrics for U.S. equities will return to long-term, multi-decade averages or below.
- The most bullish investment forecasts we are aware of, believe 20x – 22x earnings can be maintained, at least so long as interest rates stay low relative to historical levels.

As of Friday 1/21/22, the S&P 500 trades below 20x forward EPS for the first time since April 2020.



Source: MBL Advisors & FactSet

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Rolling 12 Month Flows To Equities

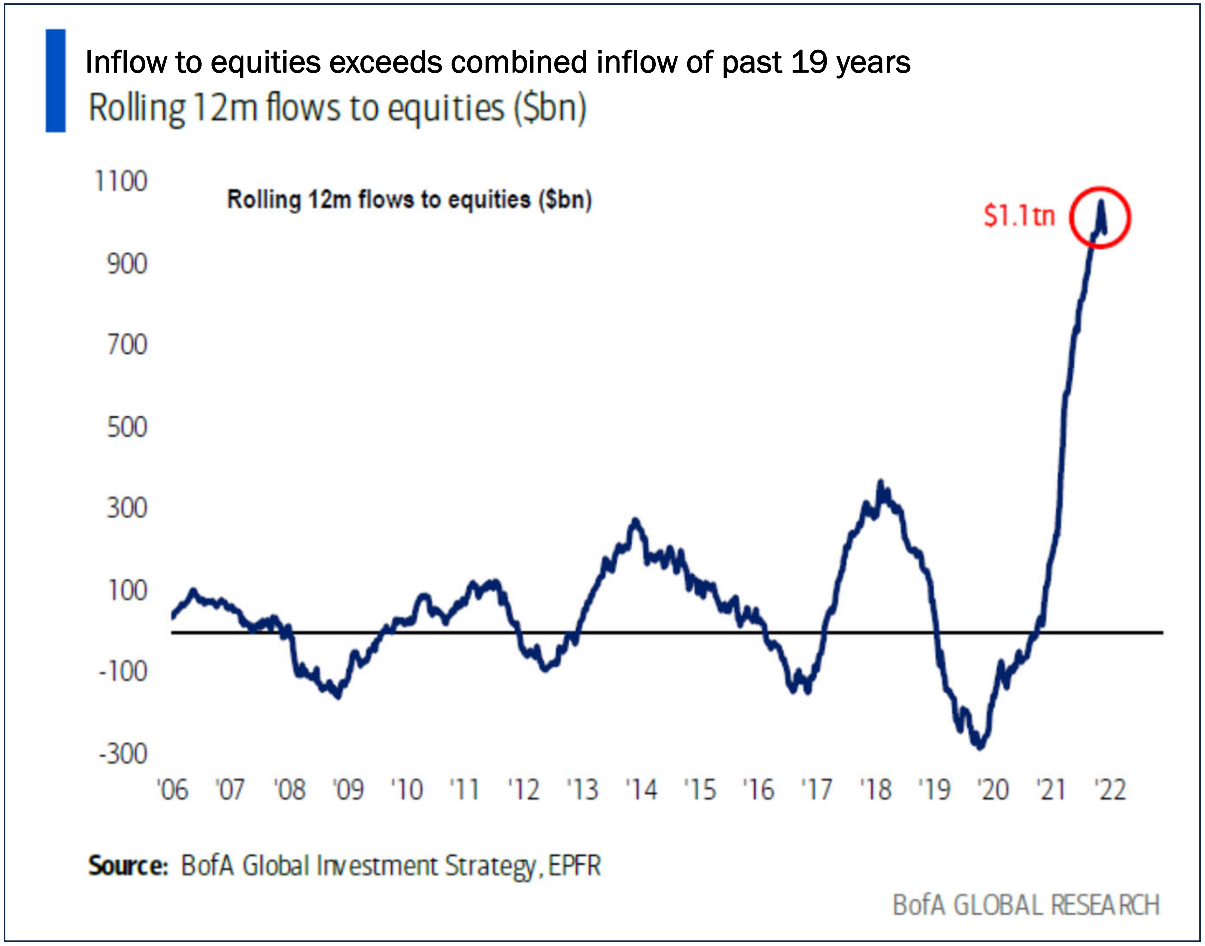
Michael Hartnett from BofA Global Research believes that equity inflows in 2021 were larger than the previous 19 years of inflows combined. This is an astonishing statistic to say the least.

We have seen other fund flow data which does not suggest the case is as extreme.

Regardless, Chris Verrone from Strategas Research Partners has also pointed out that rolling 65-day flows into some large cap equity ETFs were in the 99th percentile to start this year.

This may mean that overly bullish short-term positioning by investors could continue to exacerbate downside risks to equity markets in the first half of 2022.

Having said this, context is always key when interpreting data. It is true that equity inflows in 2021 were historically strong. But it is also true is that equity inflows from 2008 – 2020 were historically benign and massively exceeded by inflows into fixed income assets.



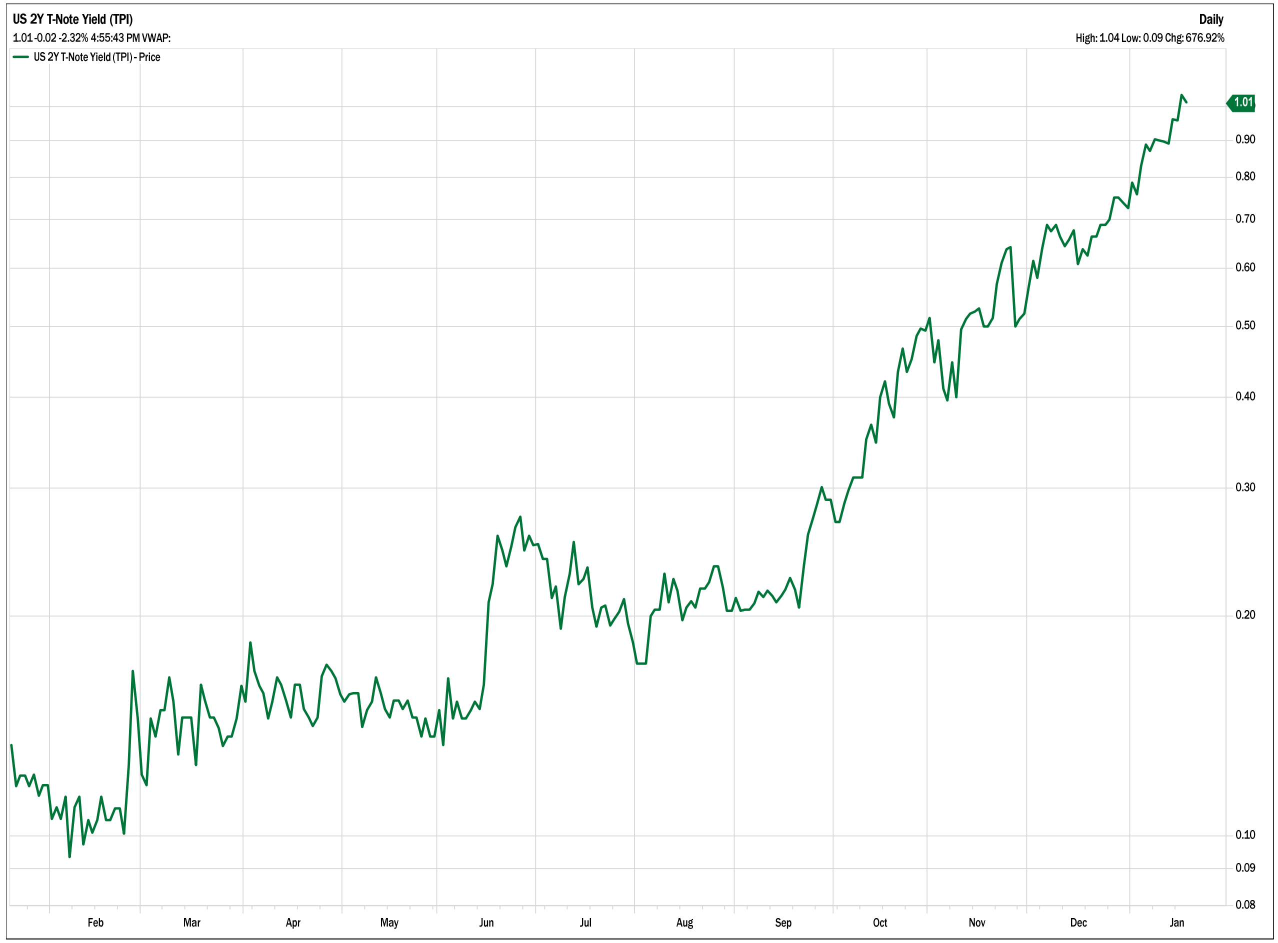
Source: BofA Global Research: Michael Hartnett; The Flow Show

U.S. Treasury 2 Year Yields are over 1%

Capital markets are always interconnected, and the reevaluation of the current investment environment is being driven by several forces including:

- Decelerating earnings growth (still positive though).
- Decelerating economic growth (still positive though).
- Higher interest rates (still very low by historical standards).
- 40-year high inflation readings which haven't shown signs of moderating yet.

2-year treasury yields have moved from roughly 0.20% to over 1% in the last 4 months. More simply, the bond market has priced in 3 – 4 Fed rate hikes this year. 4 months ago, the bond market believed there would be zero rate hikes in 2022, in line with what most Fed officials were stating.



Source: MBL Advisors & FactSet

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10 Year Treasury Yields (green) vs. Year over Year % Change in Inflation (CPI) (blue)

Along with one brief occurrence in the 1970's, we have never seen the rate of inflation (7% +/-) so far above 10-year treasury yields (less than 2%) in the post WWII era.

The Fed recently changed their tune and now acknowledge they believe inflation is more "sticky" than they previously thought.

History strongly suggests that the rate of inflation and bond yields will converge at some point.

Equity markets are trying to figure out where a more reasonable balance will eventually exist, (inflation settling out at 3% or 4% or 5%? Bond yields going to 2% or 2.5% or 3%+?) and could remain jittery until we get more clarity around this dynamic.

Source: MBL Advisors & FactSet

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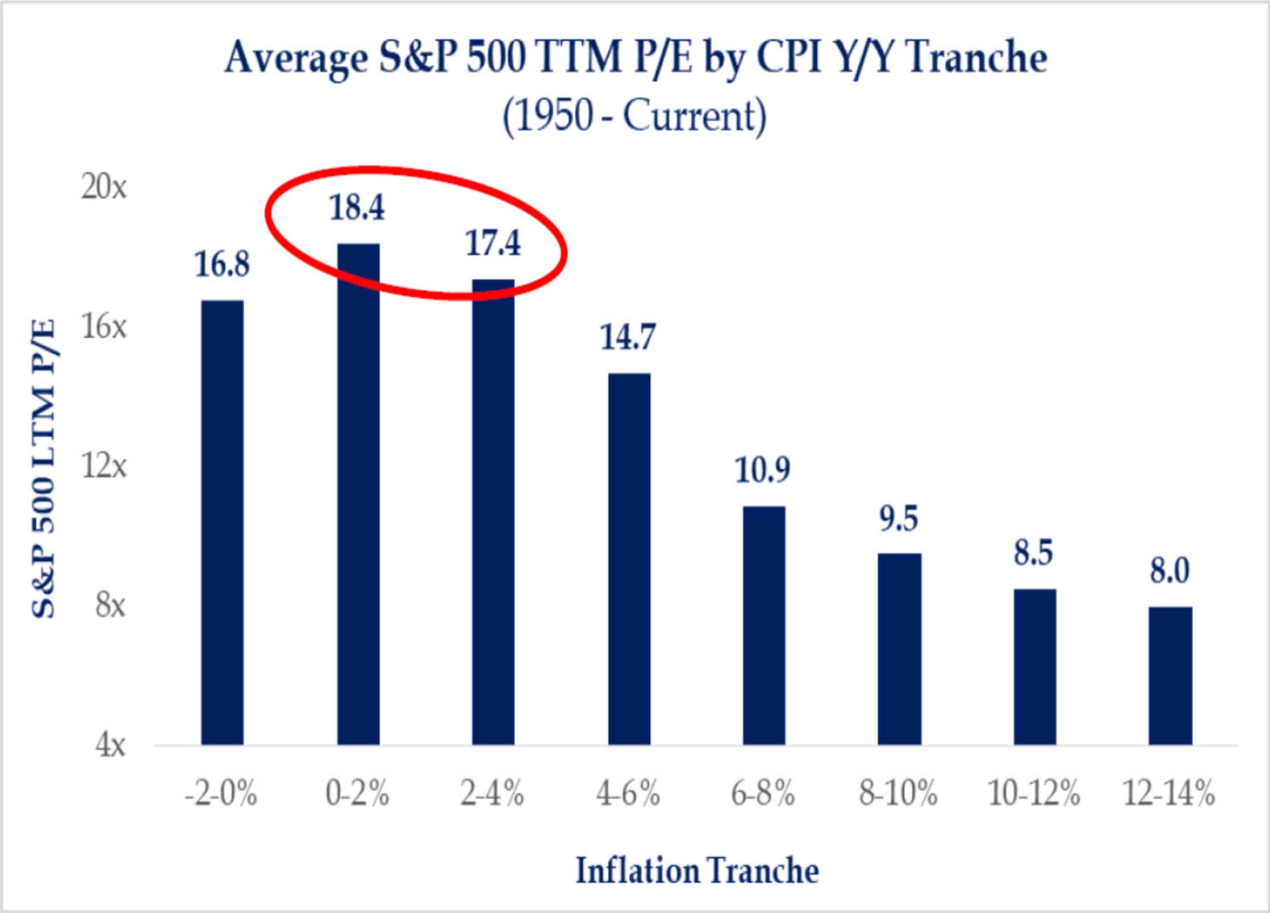
Average Trailing Twelve Month S&P 500 P/E Ratio vs. Inflation Rate

Strong earnings growth coupled with low levels of inflation and interest rates is the ultimate goldilocks environment for equity investors.

Higher levels of inflation can be okay for corporate earnings as they tend to be correlated to nominal growth rates in the economy.

The issue for equity markets is that inflation usually begins to dent equity valuations when CPI readings are above 4%. Equity markets gave investors the benefit of the doubt in 2021 with inflation readings consistently above 4%.

Our interpretation is that high valuations and high inflation readings were able to coexist for the last couple of years thanks to the Fed's "transitory" inflation forecast. Although inflation readings above 4% are not ideal for investors, the Fed fighting inflation becomes the bigger issue than inflation itself.



Source: Strategas Research Partners

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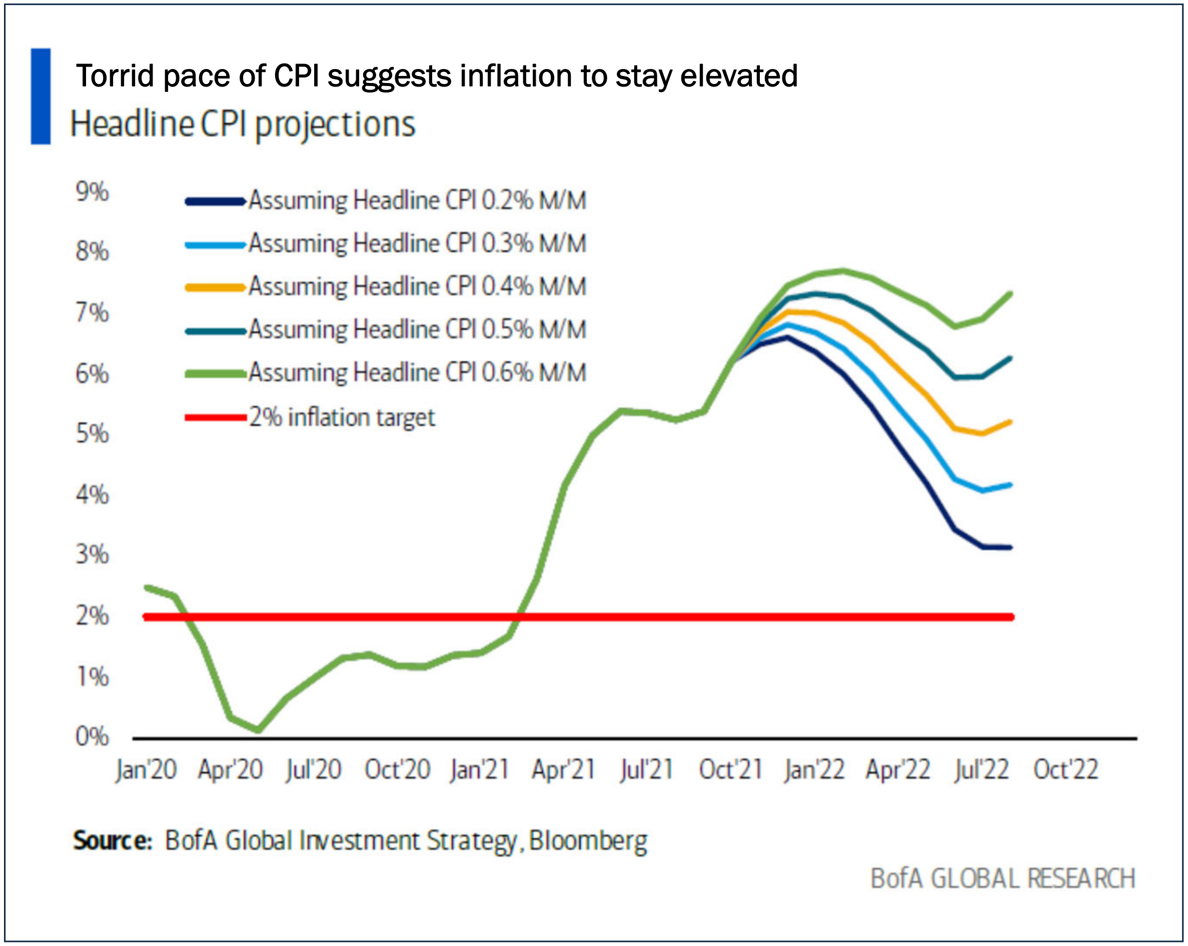
U.S. Inflation Projections
It Seems Unlikely That We Will Revert To The Fed's 2% Inflation Target in 2022.

Last week former Fed Chairwomen and current U.S. Treasury Secretary Janet Yellen stated she "continues to forecast inflation falling close to 2% by the end of 2022."

For perspective, the month over month CPI inflation readings ranged between 0.3% to 0.9% during 2021. If month over month inflation readings averaged 0.2% for all of 2022, we would still have inflation above the Fed's 2% target.

We agree with the viewpoint that inflation is likely peaking right now around 7% +/-.

Having said this, we also believe there are elements of inflation which are less transitory and more secular / sticky, which will cause inflation to stay elevated relative to the last twenty years.



Source: BofA Global Research: Michael Hartnett; The Flow Show

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Federal Reserve Balance Sheet vs. Market Cap of Apple, Amazon, Google, Facebook, Microsoft, Netflix & Tesla

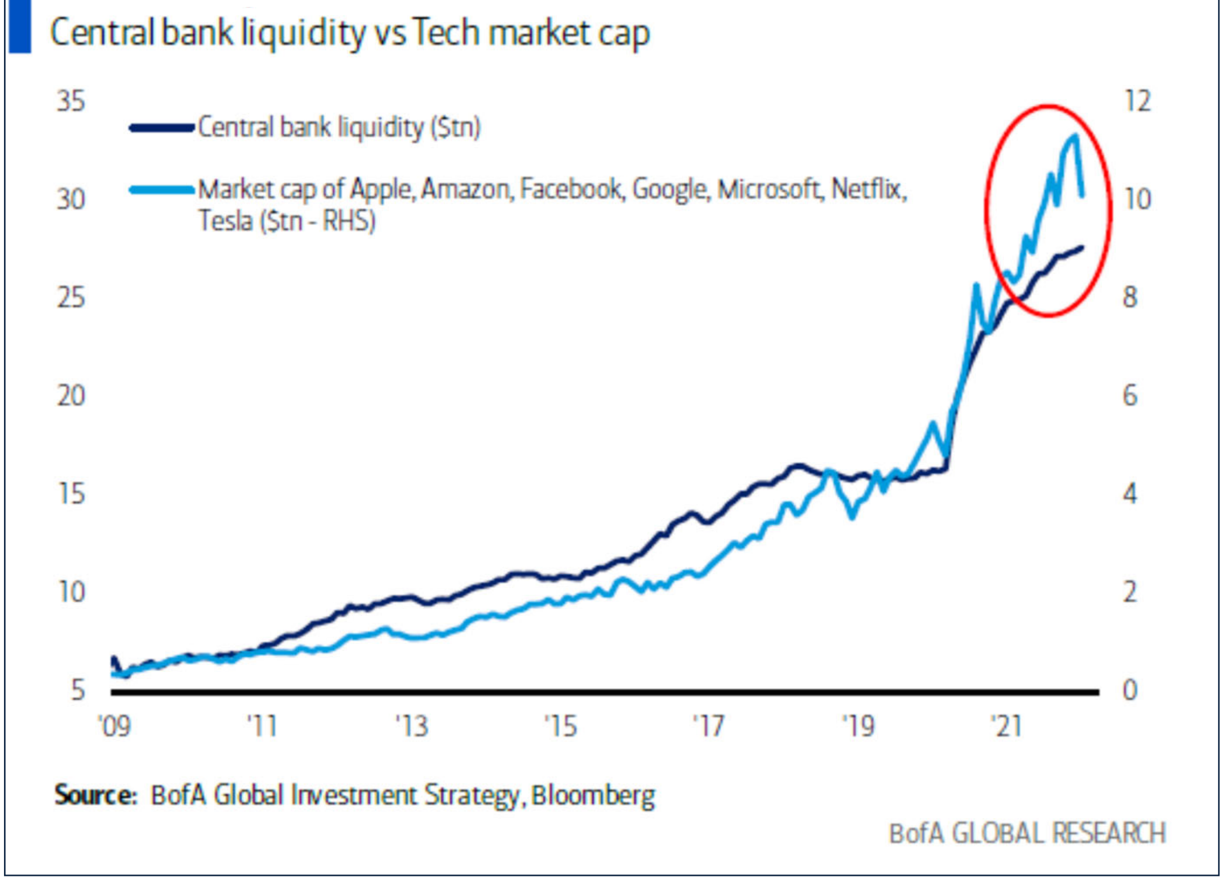
Thus far we have discussed broad relationships between equity market valuations, interest rates and inflation rates.

In addition, historical leadership within various asset classes drastically changes with high inflation & interest rates vs. low inflation & interest rates.

A "leadership shift" is exactly what we have seen year to date. Three weeks is a blip on the radar in the context of twelve years.

But other asset classes such as "old economy" stocks, non-U.S. equities and commodities may hold their own in the years ahead after a decade of ultra-accommodative monetary policy and dominance by large cap technology stocks.

Impossible to reduce Main St inflation when there's Wall St. inflation



Source: BofA Global Research: Michael Hartnett; The Flow Show

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Forward P/E Ratios for U.S. Equities: MegaCap, LargeCap, MidCap & SmallCap

As of 1/21/22 P/E Ratios for U.S. equity markets are as follows:

MegaCap = Google, Amazon, Facebook, Mircosoft, Netflix, Nvidia & Tesla = 29.8x

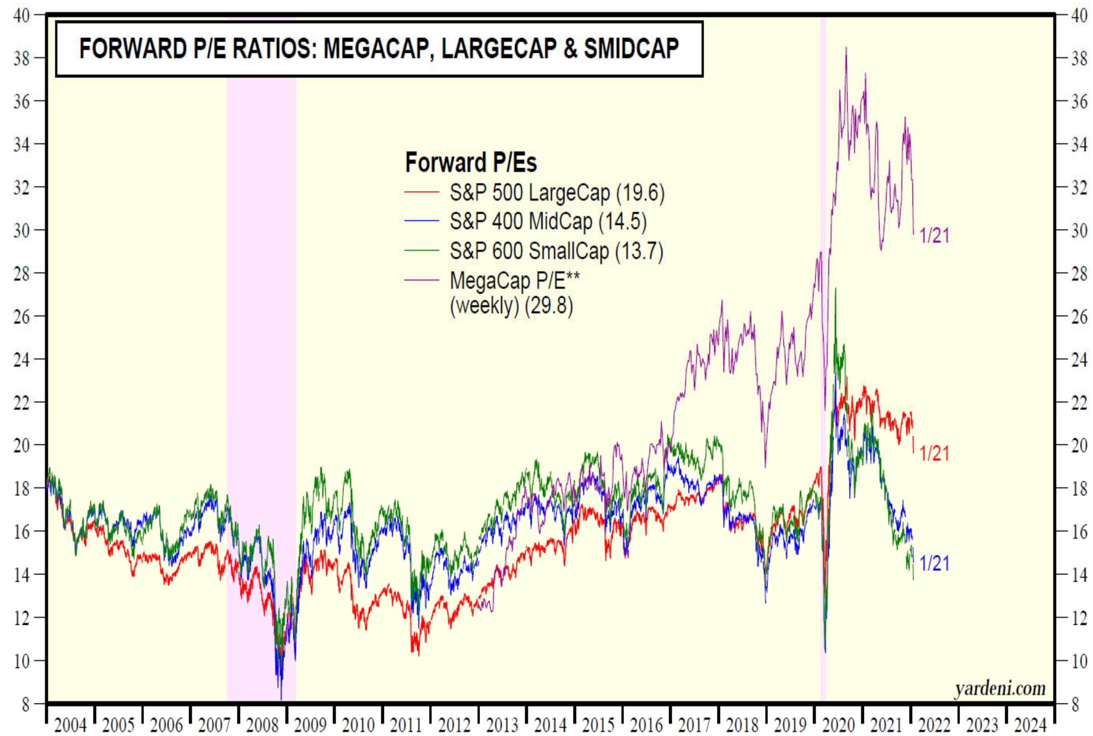
LargeCap S&P 500 = 19.6x; 20-year average = 15.72x

MidCap S&P 400 = 14.5x; 20-year average = 14.34x

SmallCap S&P 600 = 13.7x; 20-year average = 15.57x

Regression analysis shows that valuations are a terrible timing tool and have little correlation to 1 year forward returns. Conversely, regression analysis shows starting valuations have a meaningful impact on longer term returns.

It goes without saying, many of the most expensive stocks are found within the large cap technology sector, as investors have bid up prices for the best businesses in the world.



* Daily stock price index divided by 52-week forward consensus expected operating earnings per share.
** MegaCap-8 stocks include Alphabet (Google), Amazon, Apple, Meta (Facebook), Microsoft, Netflix, NVIDIA, and Tesla. Both classes of Alphabet are included.
Note: Shaded red areas are S&P 500 bear market declines of 20% or more. Yellow areas show bull markets.
Source: I/B/E/S data by Refinitiv and Standard & Poor's.

Source: Yardeni Research & Dr. Ed Yardeni. MBL Advisors & FactSet

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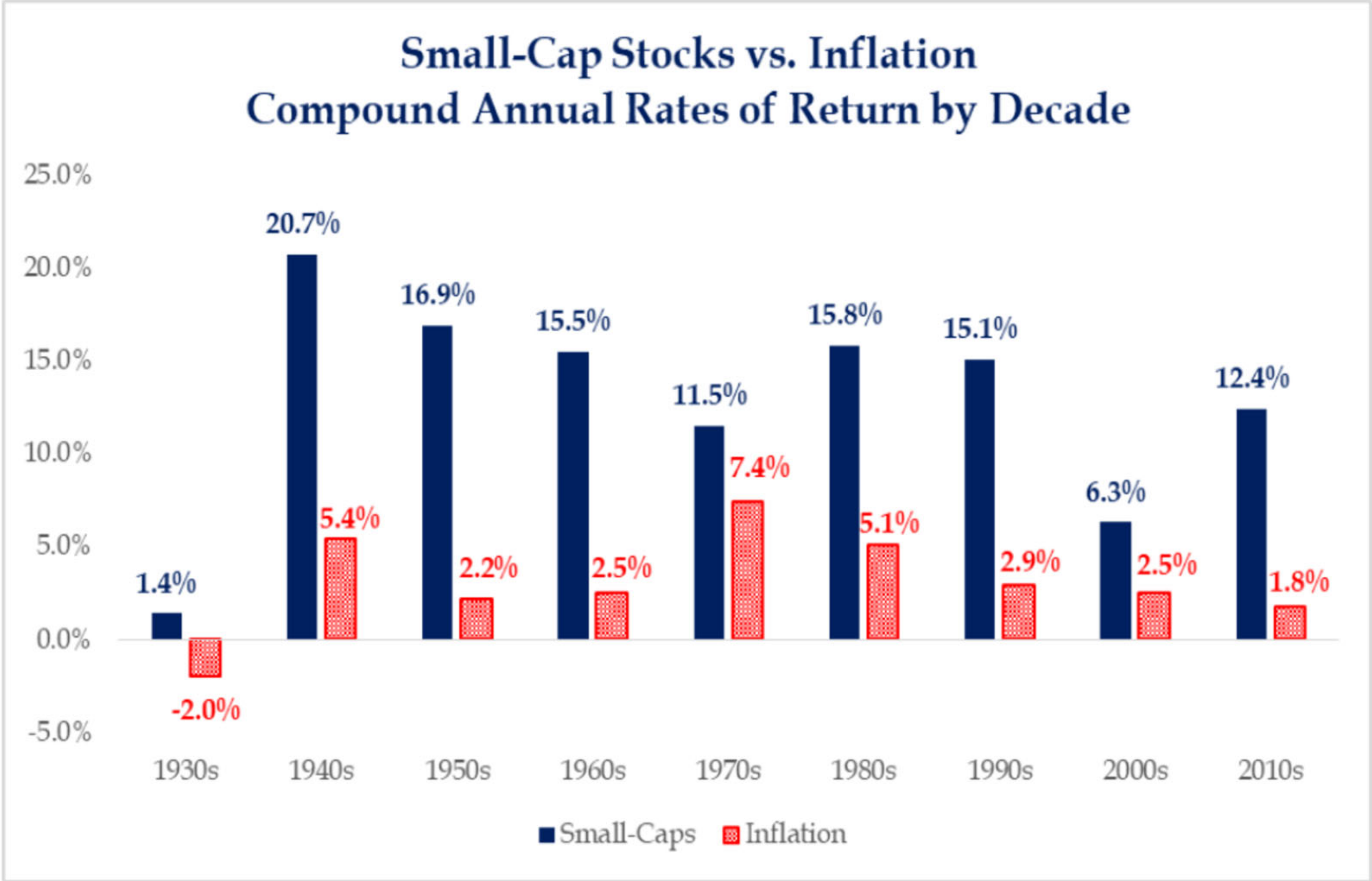
U.S. Small Cap Average Annual Returns vs Average Inflation Rate By Decade

U.S. small cap stocks are the only asset class that has beaten inflation every decade going back to the 1930's.

On a forward P/E basis, U.S. small cap stocks are as cheap as they have been vs. U.S. large cap stocks in multiple decades. The only other time small cap equities were this cheap relative to large cap equities was at the top of the TMT bubble. Small caps went on to meaningfully outperform large cap stocks over the following 5 – 10 years.

Having said this, small cap equities have a much higher concentration of "non-earners" than mid cap or large cap equities do.

Rightfully so, high valuation, unprofitable companies have been the epicenter of the recent sell off, which actually began 11 months ago for companies with these general characteristics.



Source: Strategas Research Partners

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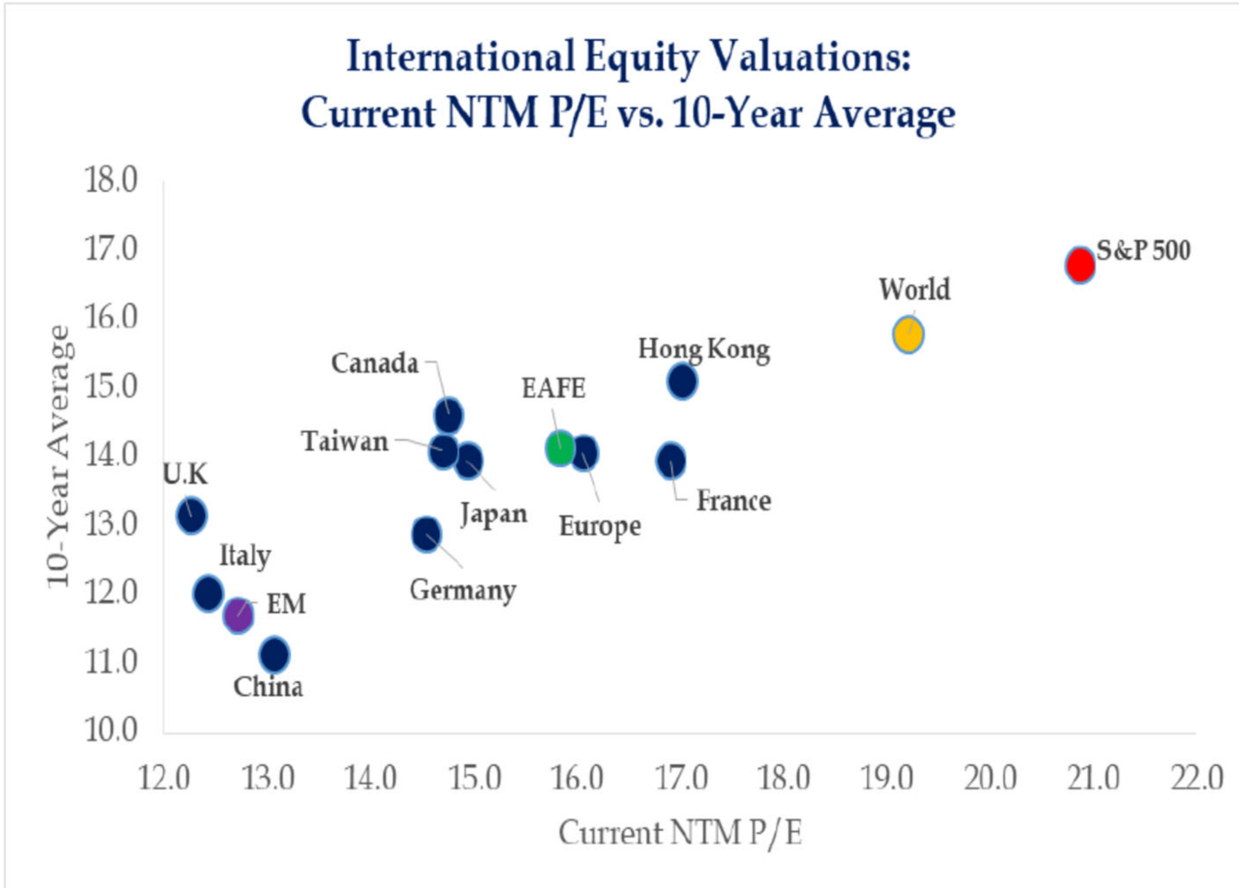
Global Equity Market Forward P/E Ratio vs. 10 Year Average

U.S. large cap stocks are more expensive markets over most other alternatives than any other sizeable stock market in the world. Once again, there are obvious reasons to prefer U.S. equity.

The question investors must evaluate is if prices have been bid up beyond reason.

Inflation moderating and a less hawkish Fed may prove to be the catalyst investors need for growth stocks to lead the market again.



Source: Strategas Research Partners

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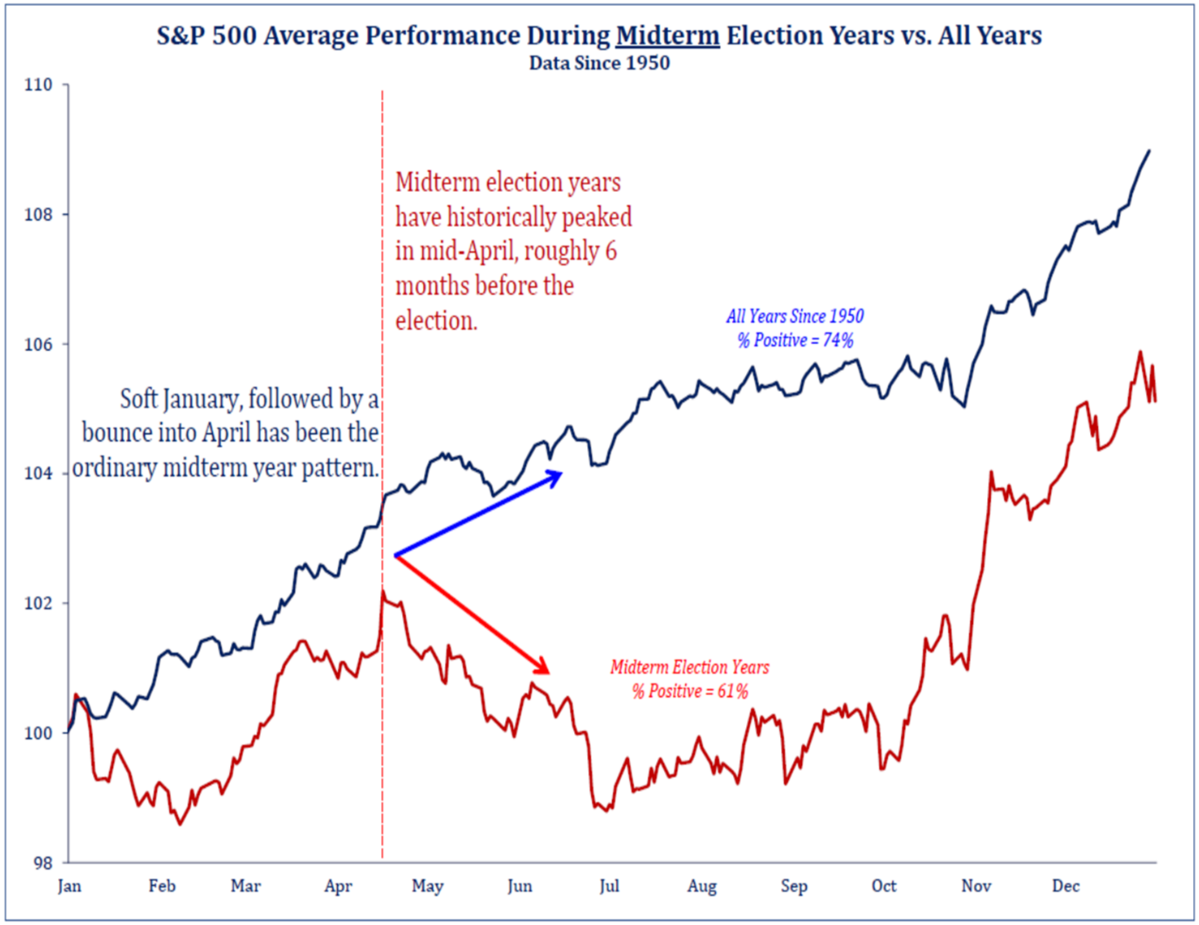
Midterm Election Years Have Lower Average Returns & Hit Rates

Since 1950, the second and third quarters tend to be a difficult environment for risk assets during a midterm election year. On average, almost of the gains in a midterm election year occur in the last three months of the year.



Source: Strategas Research Partners & Chris Verrone

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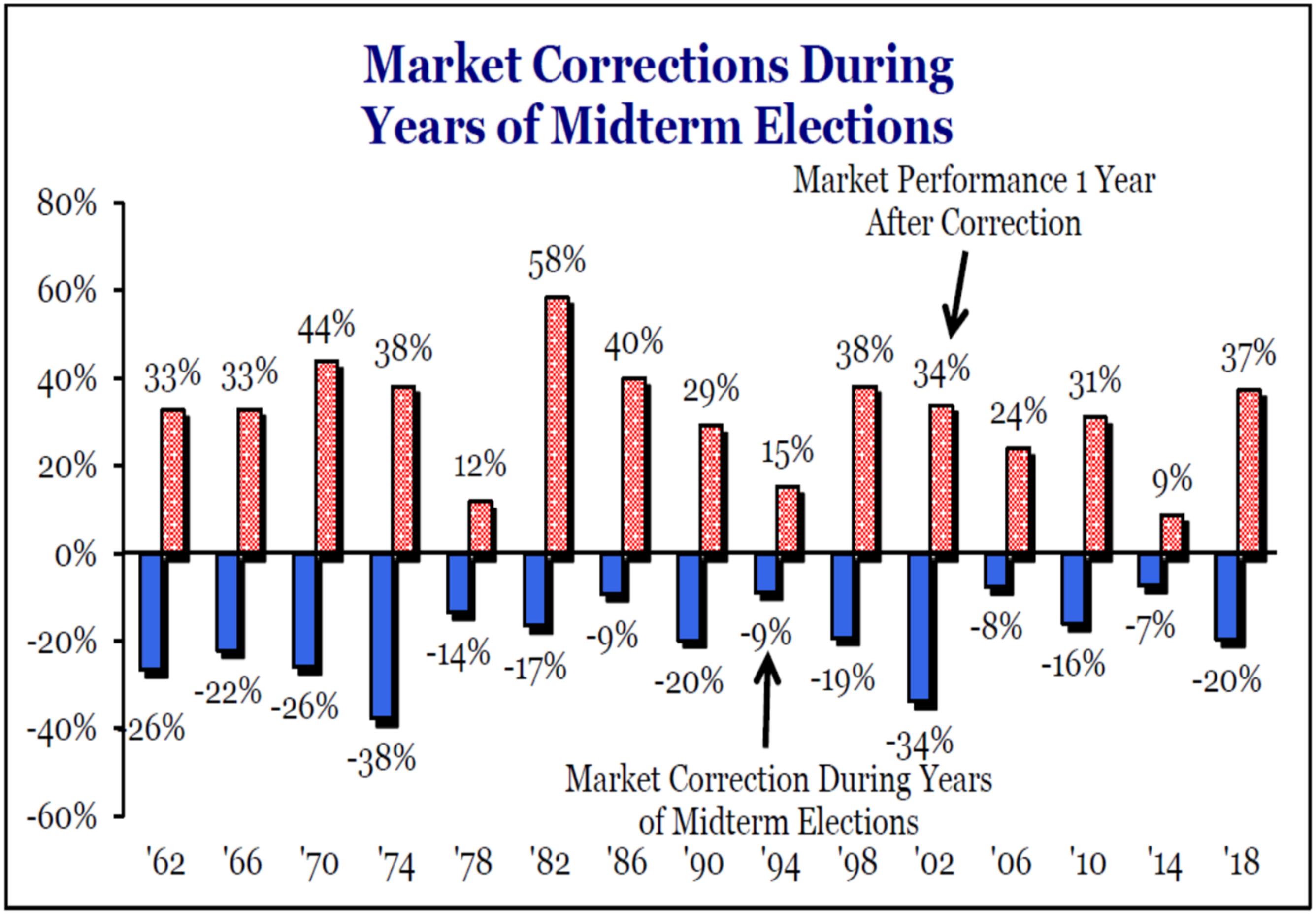
Midterm Election Years Tend To Experience the largest Drawdowns Within the 4 Year Election Cycle

According to Dan Clifton of Strategas Research Partners, the average S&P 500 correction during a midterm election year is 19% compared to roughly 13% on average for years 1, 3 & 4 in the presidential election cycle. The positive news is that corrections during midterm election years have been buyable over the last over the last 70 years.

Clifton also notes that average gains 1 year after the correction low are more than 31% and average gains 1 year after the midterm election date are roughly 15%. The S&P 500 has not been lower 1 year after the midterm election date since 1946.



Source: Strategas Research Partners & Dan Clifton

Asset Class Returns In "Aggressive Fed Years"

Asset class returns tend to be flat and volatile in years when the Fed becomes "aggressive."

Clearly the Fed has become more aggressive relative to their historically easy policy stance of 2020 and 2021.

But whether they become outright aggressive or not is yet to be determined and ultimately will depend on how seriously they decide to take their price stability mandate – which they have essentially ignored in favor of their full employment mandate since the beginning of COVID.

It is also important to note that inflation has become a political issue again, for the first time in nearly 40 years. Even to the point that some of the same politicians who were pounding the table for endless stimulus checks six months ago are now taking inflation "very seriously" in preparation for November.

Markets and aggressive Fed

Returns in "aggressive Fed years"

	1969	1979	1980	1994	2018
Wall St Total Returns*	-8.3%	-4.6%	14.9%	-2.3%	-4.6%
Equities	-8.5%	-4.9%	32.5%	1.3%	-4.4%
Bonds	-8.1%	-4.2%	-2.8%	-5.8%	-4.7%
Yield curve (bps)	-48	-7	27	-143	-31
Large minus small return	16.5%	-24.9%	-7.4%	-1.8%	4.1%
Growth minus value return	9.2%	1.8%	24.7%	0.8%	9.7%
Pharma	21.5%	10.6%	20.3%	12.5%	5.2%
Tech	15.6%	-6.9%	6.2%	28.3%	0.0%
Utilities	-19.5%	3.7%	4.4%	-17.2%	0.5%
Telecoms	-10.4%	-11.5%	-8.3%	-10.0%	-11.9%
Staples	-3.2%	2.7%	10.9%	6.8%	-11.2%
Discretionary	-3.2%	2.7%	10.9%	-9.9%	-0.5%
Industrials	-7.1%	11.1%	26.2%	-4.8%	-15.0%
Banks	-15.5%	7.0%	11.1%	-8.7%	-18.4%
Energy	-27.6%	39.3%	56.0%	0.6%	-17.2%

Source: BofA Glboal Investment Strategy, Ibbotson, GFD, Bloomberg

Note: Wall St. total return is a 50%/50% portfolio of stocks and bonds; yield curve is 2s10s

BofA GLOBAL RESEARCH

Source: BofA Global Research: Michael Hartnett; The Flow Show

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U.S. Debt Maturity Schedule

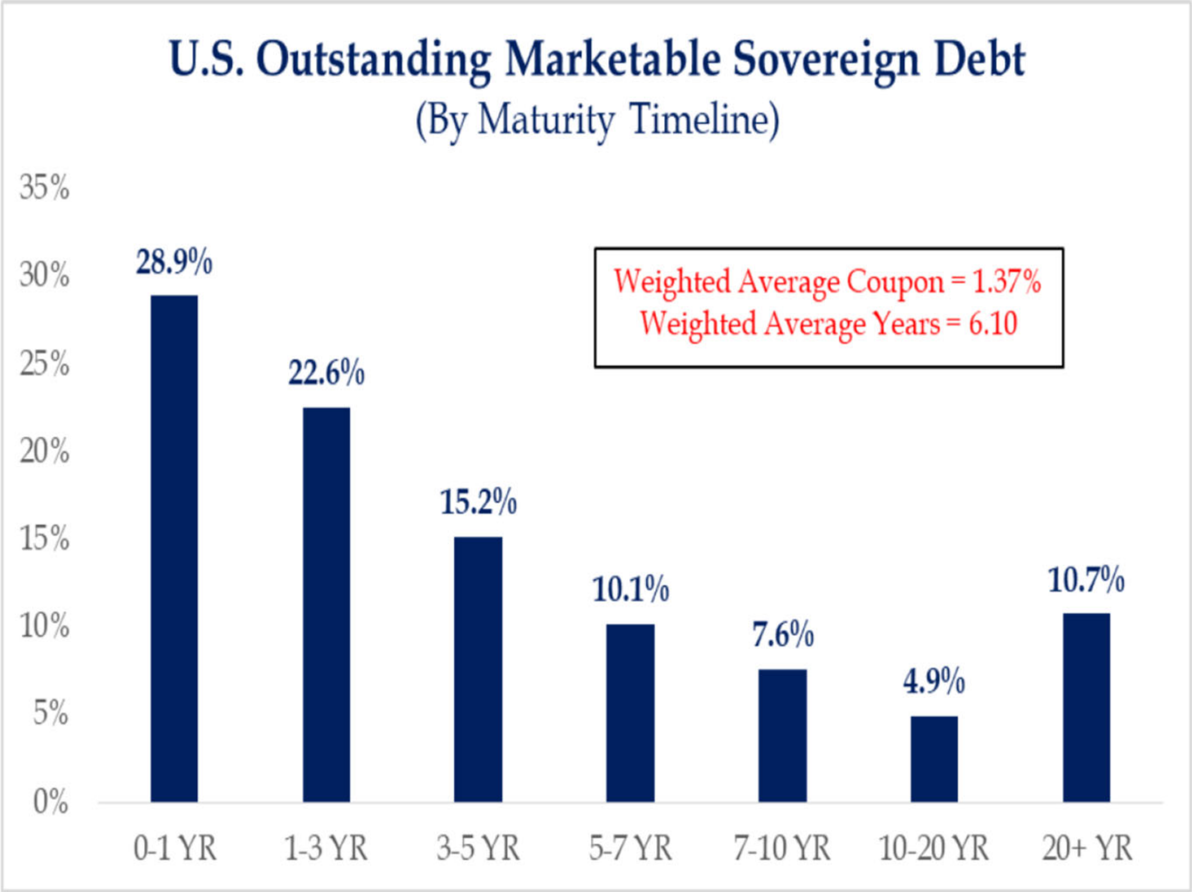
One of the most compelling arguments against meaningfully higher interest rates is the maturity schedule of the outstanding national debt.

The United States is approaching $30TN of national debt as you can see here: https://www.usdebtclock.org/

The current weighted average cost of capital on this debt is 1.37%. 51.5% of this debt comes due in the next three years, which will need to be refinanced at then- current market interest rates.

The Fed is plenty aware of this situation and the mathematical realities of what a significant increase in interest expense would do to our annual budget deficits.

Thus, the Fed is likely very pleased with the reality that financial conditions are tightening in 2022 even though they yet to begin raising interest rates.



Source: Strategas Research Partners

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Fed Tightening Cycles & "FinancialEvents"

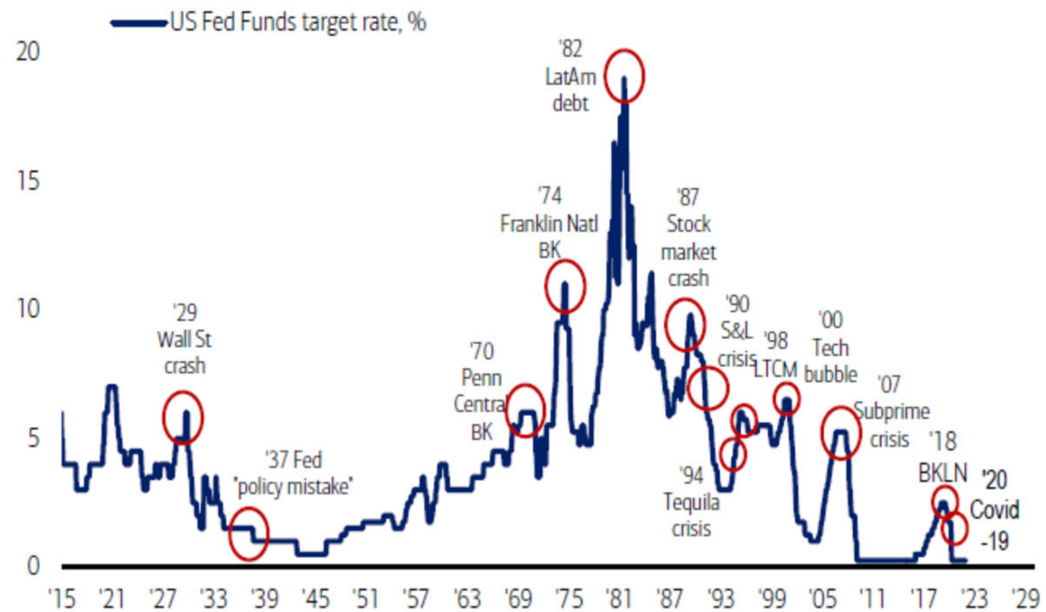
We believe that recessions are caused by one or more of three factors:

1. Exogenous events such as COVID, 9/11 or Oil Shocks. These are basically impossible to predict.
2. Policy errors. One could argue that 40-year highs in inflation readings mean a policy error has already occurred. Policy refers to monetary, fiscal, regulatory and trade. The 1930's had errors in all facets simultaneously.
3. Inflation and the Fed's actions to fight it which eventually causes overly tight financial conditions. This is by far the most common reason for recessions. So yes, most recessions are "caused" by the Fed.

Hence, equity markets are currently a bit sensitive since the Fed's drastic change in rhetoric.

Fed tightening cycles historically end with a financial "event"

US Fed Funds target rate %



Source: BofA Global Investment Strategy, Bloomberg

BofA GLOBAL RESEARCH

Source: Strategas Research Partners

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S&P 500 Gains Following The Initial Fed Rate Hike

The good news about the beginning of Fed rate hiking cycles is that history favors more gains ahead for equity markets.

On average, the stock market peaks more than three years after the initial Fed rate hike (which should be March 2022).

BIG GAINS HISTORICALLY FOLLOWED INITIAL FED RATE HIKES

Date of Initial Fed Rate Hike	Next Bull Market Peak	S&P 500 Gain	Number of Years
9/11/58	12/12/61	49%	3.3
7/1/63	2/9/66	37%	2.6
4/23/71	1/11/73	16%	1.7
7/18/75	11/28/80	51%	5.4
8/22/80	11/28/80	12%	0.3
8/8/83	8/25/87	112%	4.0
3/24/94	3/24/00	229%	6.0
6/30/04	10/9/07	37%	3.3
12/16/15	2/19/20	63%	4.2
	Average	67%	3.4
	Median	49%	3.3

Source: LPL Research, FactSet, Federal Reserve 01/12/22

Past performance is no guarantee of future results.
All indexes are unmanaged and cannot be invested into directly.

Source: LPL Financial: Don't Expect the Fed to End This Bull Anytime Soon

The 50 Worst Days for the S&P 500 In The Last 27 Years

Volatility is a feature, not a bug, of equity markets. January 2022 is a historically bad month for risk assets. Yet we had individual days in 2008 & 2020 which had larger drawdowns than we have experienced this month.

We believe it is imperative to remind ourselves that the entire reason that average equity market returns are 4% +/- above sovereign bond returns is in order to compensate equity market investors for enduring volatility.

If there were no volatility in equity markets, equity prices would be bid up, and future returns would be lower.

50 Worst Days For S&P 500 From January 1, 1995 - November 26, 2021

Rank	Date	S&P 500 Return	Rank	Date	S&P 500 Return	Rank	Date	S&P 500 Return
1	3/16/2020	-12.0%	18	11/5/2008	-5.3%	35	3/12/2001	-4.3%
2	3/12/2020	-9.5%	19	11/12/2008	-5.2%	36	4/20/2009	-4.3%
3	10/15/2008	-9.0%	20	3/18/2020	-5.2%	37	3/5/2009	-4.3%
4	12/1/2008	-8.9%	21	11/6/2008	-5.0%	38	11/14/2008	-4.2%
5	9/29/2008	-8.8%	22	9/17/2001	-4.9%	39	9/3/2002	-4.2%
6	10/9/2008	-7.6%	23	2/10/2009	-4.9%	40	2/5/2018	-4.1%
7	3/9/2020	-7.6%	24	3/11/2020	-4.9%	41	10/2/2008	-4.0%
8	10/27/1997	-6.9%	25	8/4/2011	-4.8%	42	8/24/2015	-3.9%
9	8/31/1998	-6.8%	26	9/15/2008	-4.7%	43	5/20/2010	-3.9%
10	11/20/2008	-6.7%	27	9/17/2008	-4.7%	44	10/6/2008	-3.9%
11	8/8/2011	-6.7%	28	3/2/2009	-4.7%	45	8/27/1998	-3.8%
12	11/19/2008	-6.1%	29	2/17/2009	-4.6%	46	1/4/2000	-3.8%
13	10/22/2008	-6.1%	30	8/18/2011	-4.5%	47	7/19/2002	-3.8%
14	6/11/2020	-5.9%	31	2/27/2020	-4.4%	48	9/22/2008	-3.8%
15	4/14/2000	-5.8%	32	8/10/2011	-4.4%	49	2/8/2018	-3.8%
16	10/7/2008	-5.7%	33	4/1/2020	-4.4%	50	11/9/2011	-3.7%
17	1/20/2009	-5.3%	34	3/20/2020	-4.3%			

Source: Strategas Research Partners

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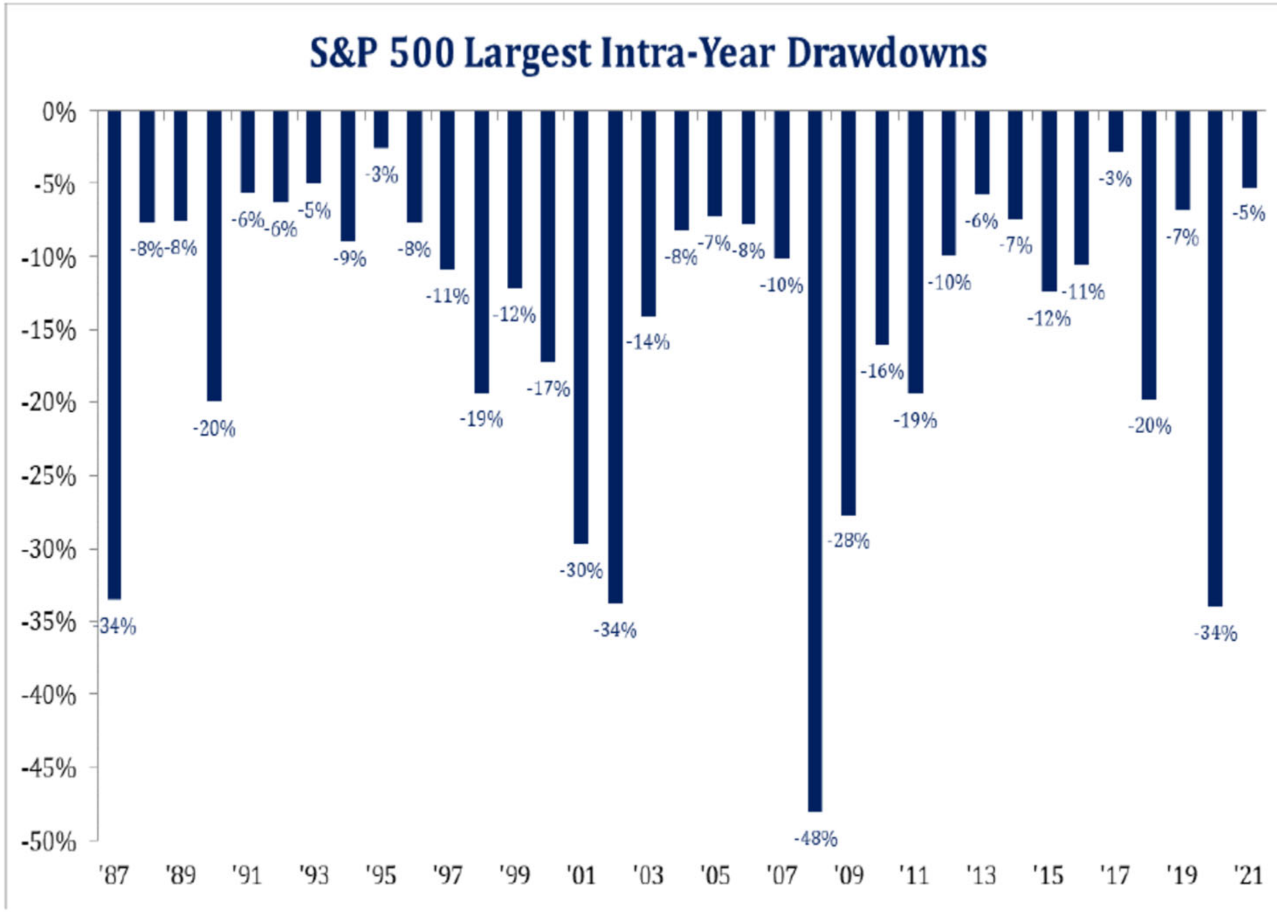
S&P 500 Maximum Calendar Year Drawdown

Three of the four worst calendar year drawdowns since 1987 occurred during recessions and historically terrible bear markets.

But we have also experienced several significant drawdowns outside of recessions – which all ended up being buying opportunities.

Large drawdowns occurred without a recession in 1987, 1998, 2010, 2011, 2015, 2016 & 2018.



Source: Strategas Research Partners

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S&P 500 Corrections Since March 2009

There is ALWAYS something to worry about! But history shows us equity markets are successful in climbing the "wall of worry" over long time horizons.

@CharlieBilello	S&P 500 Corrections >5% since March 2009 Low				
Correction Period	# Days	S&P High	S&P Low	% Decline	"Stocks Fall On..."
2022: Jan 4 - Jan 18	14	4819	4569	-5.2%	Inflation Fears, Rising Rates, Tightening Fed Policy
2021: Nov 22 - Dec 3	11	4744	4495	-5.2%	Covid Omicron Variant, Fed Taper Fears
2021: Sep 2 - Oct 4	32	4546	4279	-5.9%	China Contagion Fears, Fed Taper Fears, Covid Delta Variant
2021: Feb 16 - Mar 4	16	3950	3723	-5.7%	Inflation Fears, Rising Rates
2020: Sep 2 - Sep 24	22	3588	3209	-10.6%	Coronavirus, No New Stimulus Deal, Election Fears
2020: Feb 19 - Mar 23	33	3394	2192	-35.4%	Coronavirus, Global Depression Fears
2019: Jul 26 - Aug 5	10	3028	2822	-6.8%	Trade War, Tariffs, Yuan Devaluation, Recession Fears
2019: May 1 - Jun 3	33	2954	2729	-7.6%	Trade War, Tariffs, Inverted Yield Curve, Global Slowdown/Recession Fears
2018: Sep 21 - Dec 26	96	2941	2347	-20.2%	Rising Rates, China Slowdown, Trade War/Tariffs, Housing Slowdown
2018: Jan 26 - Feb 9	14	2873	2533	-11.8%	Inflation Fears, Rising Rates
2016: Aug 15 - Nov 4	81	2194	2084	-5.0%	Election Fears/Concerns/Jitters
2015/16: May 20 - Feb 11	267	2135	1810	-15.2%	Greece Default, China Stock Crash, EM Currencies, Falling Oil, North Korea
2014/15: Dec 29 - Feb 2	35	2094	1981	-5.4%	Falling Oil, Strong Dollar, Weak Earnings
2014: Dec 5 - Dec 16	11	2079	1973	-5.1%	Falling Oil, Strong Dollar
2014: Sep 19 - Oct 15	26	2019	1821	-9.8%	Ebola, Global Growth Fears, Falling Oil
2014: Jan 15 - Feb 5	21	1851	1738	-6.1%	Fed Taper, European Deflation Fears, EM Currency Turmoil
2013: May 22 - Jun 24	33	1687	1560	-7.5%	Fed Taper Fears
2012: Sep 14 - Nov 16	63	1475	1343	-8.9%	Fiscal Cliff Concerns, Obama's Re-Election
2012: Apr 2 - Jun 4	63	1422	1267	-10.9%	Europe's Debt Crisis
2011: May 2 - Oct 4	155	1371	1075	-21.6%	Europe's Debt Crisis, Double-Dip Recession Fears, US Debt Downgrade
2011: Feb 18 - Mar 16	26	1344	1249	-7.1%	Libyan Civil War, Japan Earthquake/Nuclear Disaster
2010: Apr 26 - Jul 1	66	1220	1011	-17.1%	Europe's Debt Crisis, Flash Crash, Growth Concerns
2010: Jan 19 - Feb 5	17	1150	1045	-9.2%	China's Lending Curbs, Obama Bank Regulation Plan
2009: Oct 21 - Nov 2	12	1101	1029	-6.5%	Worries About The Recovery
2009: Sep 23 - Oct 2	9	1080	1020	-5.6%	Worries About The Recovery
2009: Jun 11 - Jul 7	26	956	869	-9.1%	World Bank Neg Growth Forecast; Fears Market Is Ahead Of Recovery
2009: May 8 - 15	7	930	879	-5.5%	Worries That Market Has Gotten Ahead Of Itself
Median	**26**			**-7.6%**	COMPOUND

Source: Compound Advisors & Charlie Biello

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Annual S&P 500 Returns Since 1926

Despite annual drawdowns of more than -10% being more common than not, annual calendar year returns of -10% or worse have only occurred 11 of the last 96 years or roughly 11.5% of the time.

It is important to note, we don't consider 1 year to be an adequate long term time frame either. Obviously, the statistics only become more favorable when we move this time frame to three years plus.

Distribution of S&P 500 Total Returns Since 1926

<-20%	-20%-10	-10%-0	0-10%	10-20%	>20%
6	5	14	14	21	36
1930	1941	1929	1947	1926	1927
1931	1957	1932	1948	1944	1928
1937	1966	1934	1956	1949	1933
1974	1973	1939	1960	1952	1935
2002	2001	1940	1970	1959	1936
2008		1946	1978	1964	1938
		1953	1984	1965	1942
		1962	1987	1968	1943
		1969	1992	1971	1945
		1977	1994	1972	1950
		1981	2005	1979	1951
		1990	2007	1986	1954
		2000	2011	1988	1955
		2018	2015	1993	1958
				2004	1961
				2006	1963
				2010	1967
				2012	1975
				2014	1976
				2016	1980
				2020	1982
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					1995
					1996
					1997
					1998
					1999
					2003
					2009
					2013
					2017
					2019
					2021

Source: Strategas Research Partners

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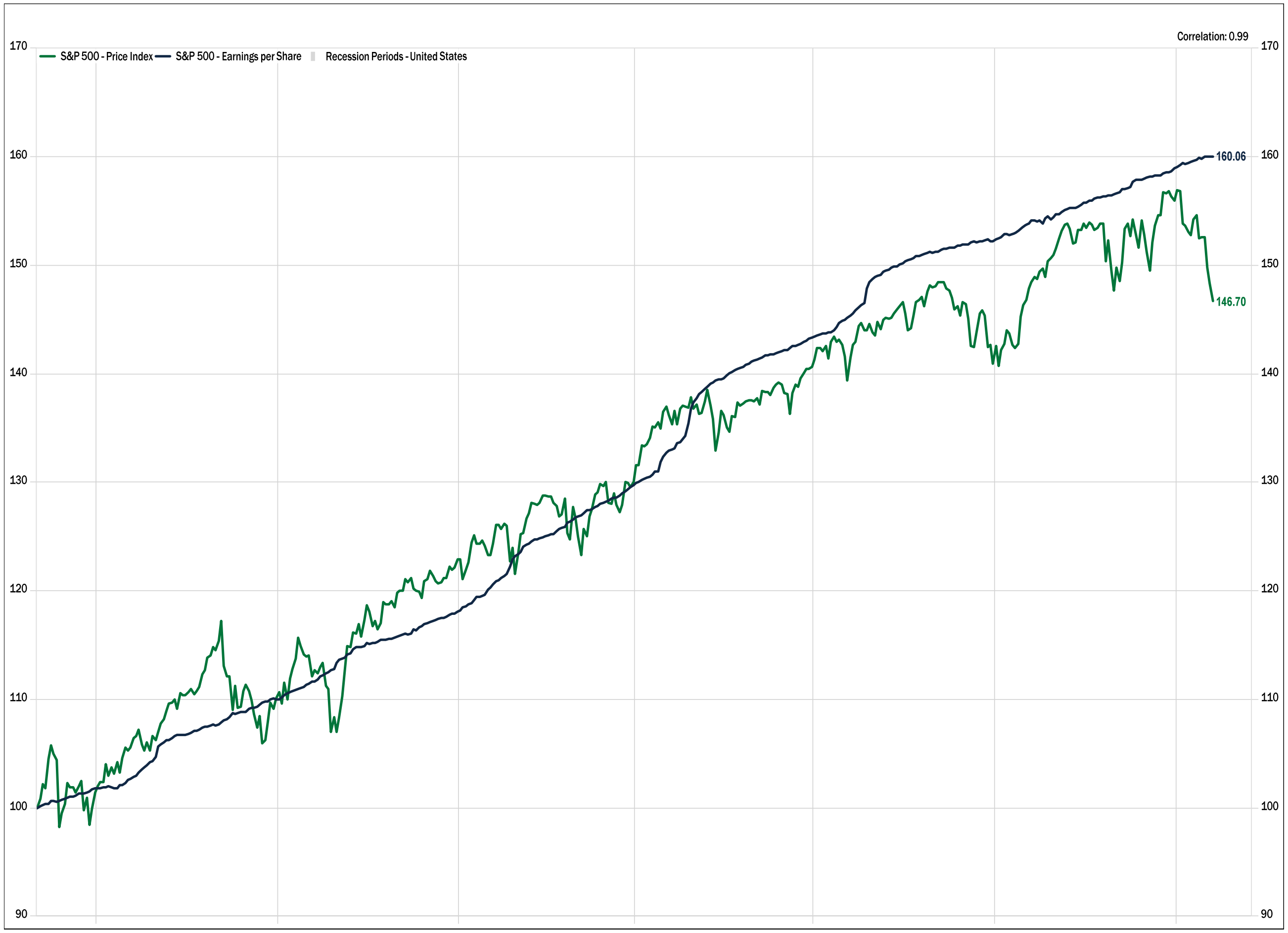
S&P 500 (green) vs. S&P 500 Earnings Per Share (blue) Since 6/1/20

A bearish investment thesis always sounds smarter than a bullish investment outlook despite the reality that historical odds favor the more optimistic scenario roughly 3 out of every 4 years.

As we have already discussed, the market may be expressing its viewpoint that the multiple expansion which occurred after the COVID lows was too extreme.

We believe it is important to note that 100% of the multiple expansion which has occurred since COVID happened in late March, April and May 2020.

Since June 1st, 2020, S&P 500 earnings per share have outpaced S&P 500 gains. Thus, reminding investors that a meaningful portion of the gains we have seen in equity markets over the last two years have been fundamentally driven.



Source: MBL Advisors & FactSet

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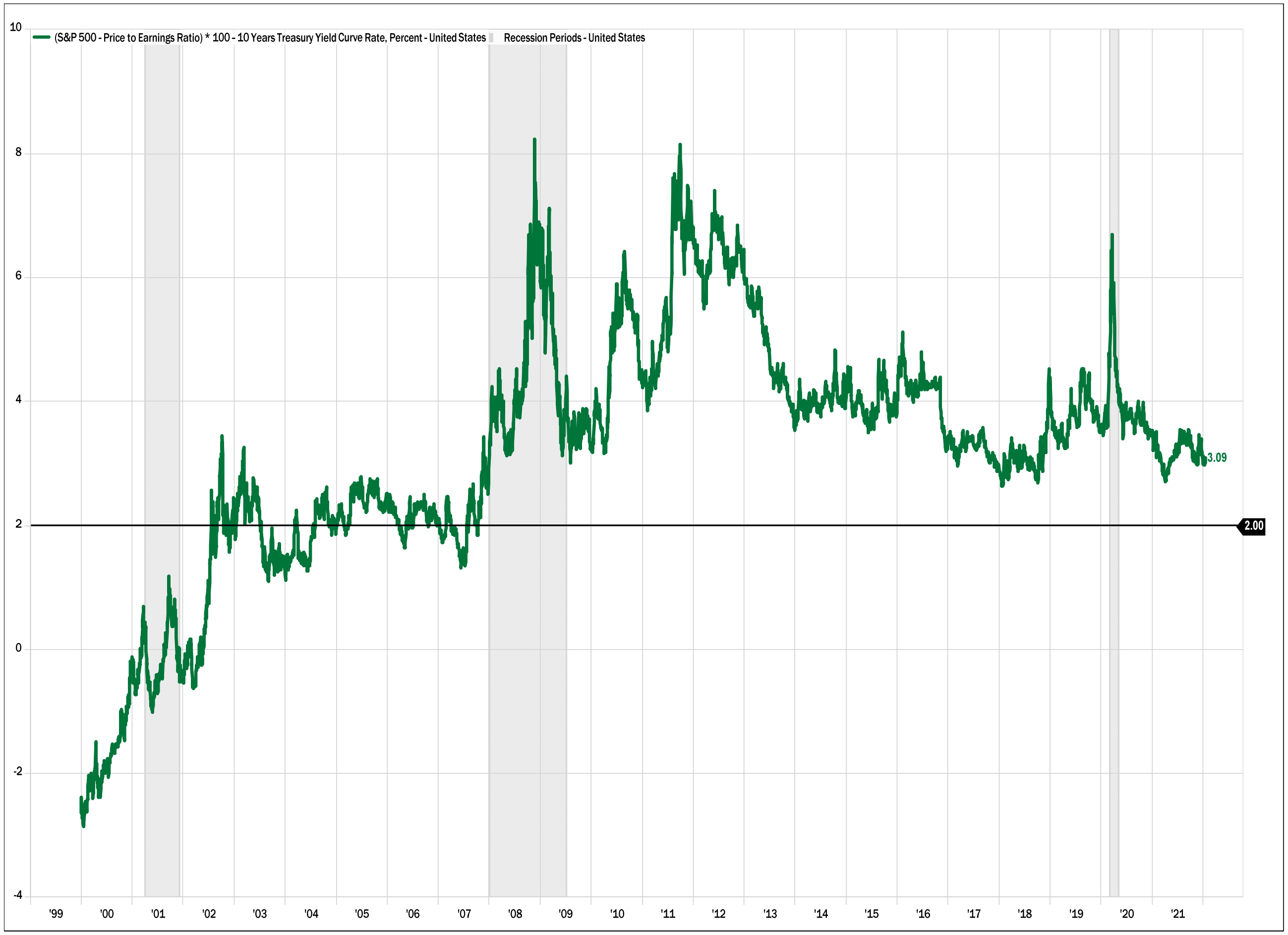
S&P 500 Equity Risk Premium

Equity risk premium is a way to measure relative valuation of stocks vs. bonds and is one of the key metrics which differentiates equity market valuations today from the early 2000's.

Using forward earnings, the equity risk premium on the S&P 500 is just over 3% today.

Equity risk premiums above 2% have historically yielded attractive 1 year forward returns for U.S. large cap equities.



Source: Strategas Research Partners

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2022 Investment Strategy Outlook

It has already become obvious that 2022 is going to be a drastically different investment environment then 2021. A confluence of historical factors are aligning to suggest that we probably haven't seen the low prices in equity markets for 2022. Midterm election years and hawkish Fed pivots have often led to 10% - 20% corrections on their own right. This year we are experiencing them together into the backdrop of an expensive equity market by historical measures. Nonetheless, reintroducing two-way risk back into equity markets should ultimately be a terrific thing for the health and longevity of the current bull market. But that doesn't change the fact that corrections are never much fun, they are always a bit "messy", and they always seem as if they have at least another 10% further to fall.

Conversely, meaningful corrections create terrific opportunities for long term investors, sometimes to the likes of which we dream about. But those situations never seem like an upbeat "dream" when we are living though the given situation in present time.

In closing, we will remind ourselves of two final points. First, historically speaking, very large bear markets have happened when economic growth and corporate earnings are contracting. There is little evidence that suggests either of these are the case today. Second, the legendary investor Bill Miller wrote his final quarterly letter last fall. His final analysis of the current market was brilliantly profound and so simple at the same time.

> *"Over the past decade or so my letters have been focused mostly on saying the same thing: we are in a bull market that began in March of 2009 and continues, accompanied by the typical and inevitable pullbacks and corrections. Its end will come either when stocks get too expensive relative to bonds or when earnings decline, neither of which is the case now. There have been a few other themes: since no one has privileged access to the future, forecasting the market is a waste of time. It is more useful to try and understand what is happening now and give up trying to predict what is going to happen."*
>
> *Source: Millervalue.com; Bill Miller 3Q 2021 Market Letter*

We can't add much to that other than to say we will remain disciplined in our investment process, and long term focused. We look forward to continuing these conversations with you in the weeks ahead.

Sincerely,

Brian Gift, CFA

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Disclosures

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The Standard & Poor's 500 Index (S&P 500 TR) is an index of 500 stocks chosen for market size, liquidity and industry grouping, among other factors. The S&P 500 is designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe.

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