



METIS WEALTH MANAGEMENT & PLANNING

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2022 Market Outlook

By Robert Sokolowski



Despite several bouts of volatility along the way and a plethora of foreign and domestic issues, the markets ended 2021 with remarkably strong performance. The S&P 500 returned 28.7% for the year- a phenomenal year by any standard. The fact that market performance was so strong in the face of major supply chain issues, inflation hitting a 31 year high, foreign governments imposing COVID shutdowns and multiple large scale COVID waves across the world is humbling. How many among us would have predicted such a good year knowing in advance all that would come to pass?

The fixed income markets were not as kind as the equity markets. The Bloomberg Barclays U.S. investment grade bond index returned -1.54% for the year as interest rates rose in response to inflation and future Federal reserve actions. That being said, our bond strategy was quite strong. We remained fully invested in Treasury Inflation Protected Securities (TIPS) throughout the year which helped as inflation picked up. The TIPS ETF we most commonly use returned +5.87% for the year. Where appropriate, we also added or held the SPDR Senior Loan ETF and the SPDR High Yield Bond ETF. These funds returned +4.49% and +4.0% respectively for the year.

We are continuing to monitor the actions and communications from the Fed. The Fed has begun to indicate that they are increasingly concerned about the inflation rate. Given that inflation was running at 6.8% for the 12 months ending in November, we are pleased to hear the Fed has made this a focus. The Fed operates under a dual mandate- their goals are “stable prices” and “maximum employment.” The labor market has been surprisingly tight as we are transitioning out of the pandemic despite wages rising 3.74% over the past year. The unemployment rate has fallen to 4.2% from a high of 14.8% in April 2020. However, it appears that millions have dropped out of the labor force, perhaps permanently. The last time labor force participation was this low was 1976! As we have previously mentioned, there are more job openings than unemployed people and businesses are almost universally reporting issues with staffing. It’s certainly looking like we’re approaching “maximum employment” meaning it’s no surprise the Fed has turned its focus to the “stable prices” side of the dual mandate.

The Fed’s main mechanism for controlling inflation is to raise interest rates- either through open market operations (also known as quantitative easing or QE) or through the Fed funds rate as a way of slowing the economy down. At the current point in time the Fed is still conducting QE to the tune of \$60 billion per month, though they have stated they are planning on tapering asset purchases down to zero in 2022. That being said, the Fed still has an expansionary policy- the \$60 billion in purchases represents \$60 billion in cash being injected into the economy each month. The point here is that monetary policy is still very easy and we have a long way to go before we reach a state that could be described as contractionary- especially on an historical basis.

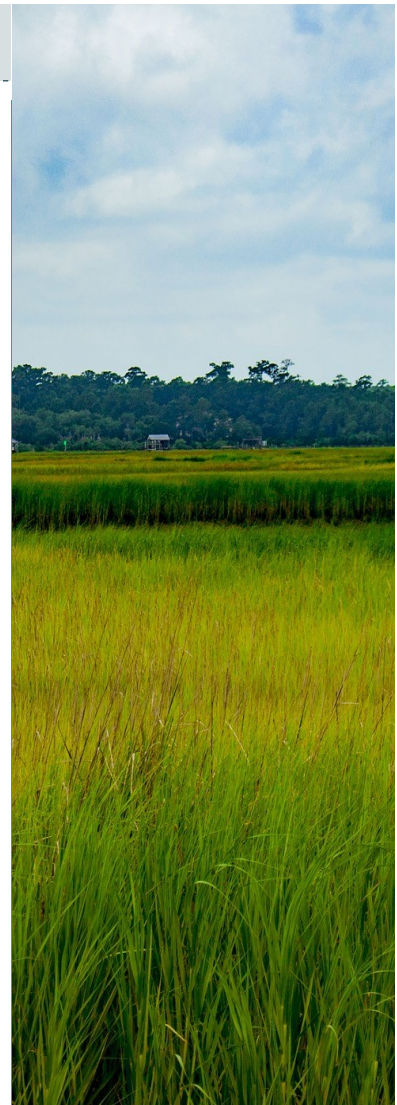
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SPECIAL POINTS OF INTEREST

- Contact us if you would like to update your financial plan or schedule a portfolio review.
- We would love to help your family or friends! Please let us know if anyone in your circle could use financial planning or investment management.
- Our office will be closed Monday, January 17th, 2022 in observance of MLK Day.



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Furthermore, while all indications are the omicron variant is still causing less severe disease than the delta variant, it remains remarkably transmissible. This has exacerbated the staffing issues we witnessed in the fall and has caused people to pull back on certain activities. In our view, the omicron variant will likely take some of the pressures off the economy and prices by slowing things down a bit. We don't believe this will be hugely detrimental to the economy beyond the short-term impacts and we are confident that the Fed is closely tracking the situation with the virus and will take this into account as they plan their strategy.

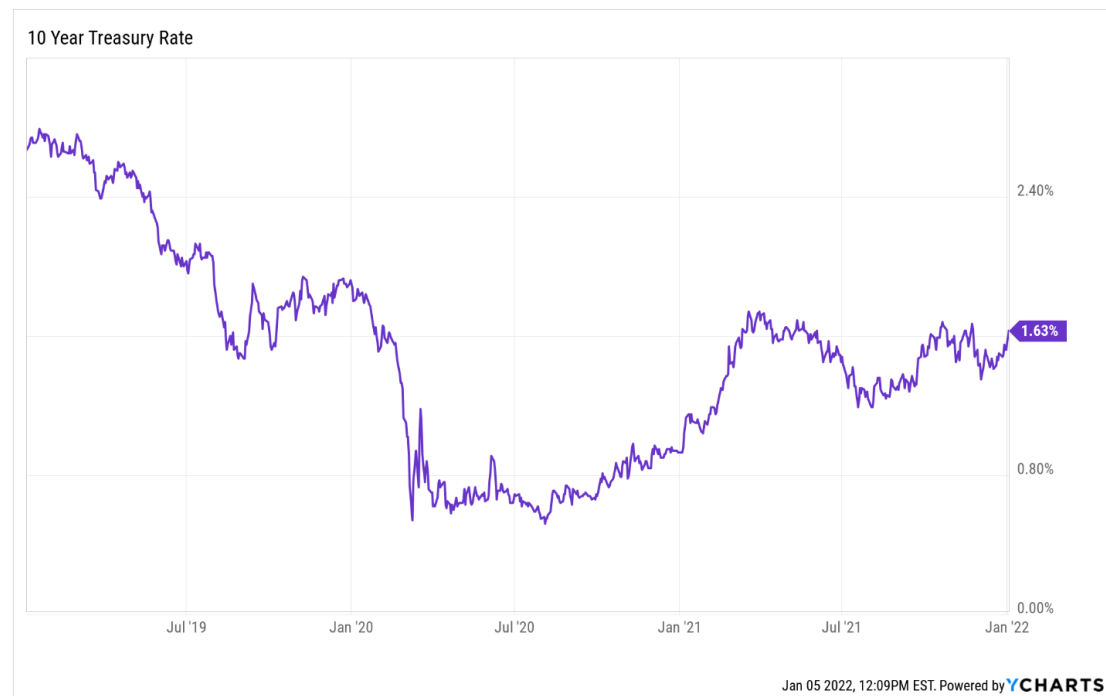
That being said, the prospect of higher rates has caused some major moves in certain sectors of the market already. Most notably, highly valued stocks that were tied to the COVID "stay at home" trade have been under huge pressure since early last year and are substantially off their highs. Here are a few select stocks that fall into this category.



All throughout last year we made sure to selectively trim the size of positions in stocks that had grown to be too large. In many cases, these stocks were also higher valuation growth stocks which we anticipate will come under pressure if and when interest rates rise more significantly. We will continue to control our exposure to these types of stocks.

The benchmark 10-year treasury yield bottomed in August 2020 at 0.52%. Since then, it has climbed, albeit in fits and starts, to 1.63%.

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This is a very significant move, but the 10 year is still some 5.2 percentage points below the rate of inflation. When we look at what the stock market and the bond market are telling us, we see mixed messages. The stock market is telling us to expect a strong economy and healthy corporate earnings. The bond market is telling us that perhaps the economy isn't as strong as the stock market thinks, but things are still improving. We think that the middle ground between those two messages is probably correct:

- By and large, corporations are healthy
- We are not expecting a recession any time soon
- Supply chain issues are likely to persist well into 2022
- The eventual outcome of the labor shortage is unknown
- The economic effects of COVID will likely continue to abate
- We're watching for developments with inflation.

The bottom line is there are strong points of optimism and a few areas for concern. If that means a slightly more dovish Fed or an economy that cools off a touch without contracting, that is probably a fairly constructive scenario over the long run. We will have to wait and see what comes to pass, but we will continue to stick to our portfolio management rules and monitor what happens along the way.

Market Index	Q4 Total Return	Year to Date Total Return	1 Year Total Return
S&P 500	9.8%	28.7%	28.7%
DJIA	6.2%	20.3%	20.3%
NASDAQ Comp	7.6%	22.2%	22.2%
MSCI EAFE	3.5%	11.8%	11.8%
Russell 2000	0.4%	14.8%	14.8%



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Business Updates

As we discussed with all of you in the fall, the business ownership transition took place on 1/1/2022. We are extremely excited to be new business owners and to have the opportunity to serve all of our clients for many years to come! Also according to plan, Pat and Roy are still involved with the business and continue to give us guidance and advice. Though we will be the main points of contact going forward, Pat and Roy will be available to talk any time!

We had hoped to move into our new office in Bluffton by the first of the year. Unfortunately, it is new construction and due to the ongoing issues with the supply of construction materials and labor shortages, it's looking like it will not be complete until around March now. We will pass along updates on our new space as they become available.

Our contact information has not changed, but we wanted to make sure all our clients have it on hand:

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Again, we are humbled to have the opportunity to serve all of you well into the future. We hope and believe the ownership transition will be seamless for you. Please do not hesitate to contact us if you have any questions or concerns, or if you just want to say hi!

-Jenn and Robert



Important Disclosure: Please remember that past performance may not be indicative of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product made reference to directly or indirectly in this newsletter, will be profitable, equal any corresponding indicated historical performance levels, or be suitable for your portfolio. Due to various factors, including changing market conditions, the content may no longer be reflective of current opinions or positions. Moreover, you should not assume that any discussion or information contained in this newsletter serves as the receipt of or as a substitute for, personalized investment advice from Metis Wealth Management & Planning. To the extent that a reader has any questions regarding the applicability of any specific issue discussed above to his/her individual situation, he/she is encouraged to consult with the professional advisor of his/her choosing. A copy of our current written disclosure statement discussing our advisory services and fees is available for review upon request.