



STRATEGIC CLIENT NEWSLETTER

FOURTH QUARTER 2021

Stock Markets Add to Gains in Fourth Quarter to Finish Out a Strong 2021

Positive market growth continued throughout 2021, creating what we believe to be overvalued equities, as stock indices pushed into record territory. The DJIA closed the year at 36,338.30 (+18.67%), and the S&P 500 Index closing at 4,766.18 (+26.60%). ***We believe the overvalued stock market will lead to some negative market volatility moving forward, unless corporate earnings increase to levels more in line with stock valuations.***

With the stock markets being at what we feel is slightly overvalued in the fourth quarter, the U.S. economy showed moderate strength:

- Gross Domestic Product for the third quarter of 2021 increased at a rate of 2.3%, following growth rates in the first half of the year (+6.4% in the first quarter; +6.7% in the second quarter). (Source: www.bea.gov)
- The National unemployment rate fell slightly in September 2021, with a rate of 4.8%, with additional decreases in October 2021 (4.6%) and November 2021 (4.2%). (Source: www.bls.gov)
- Nonfarm productivity began 2021 with a first quarter rate of 4.3%, but slowed in the second quarter (+2.4%) and third quarter (-5.2%). (Source: www.bls.gov)
- The Consumer Price Index (CPI), which measures changes in the price level (inflation) of consumer goods and services, continues to show increasing rate: 0.4% in September 2021, 0.9% in October 2021 and .8% in November 2021. (Source: www.bls.gov)
- Personal Income increased in October 2021 (+.5%) and November 2021 (+.4%) (Source: www.bea.gov)
- Corporate profits from current production increased in the third quarter of 2021 by \$96.9 billion, following an increase of \$267.8 billion in the second quarter. (Source: www.bea.gov)

FOURTH QUARTER

2021

As of 12/30/2021

Market Performance

www.bloomberg.com

Dow Jones Industrial Average

This Quarter	7.10%
Year-to-Date	18.67%

S&P 500

This Quarter	10.40%
Year-to-Date	26.60%

Nasdaq Composite

This Quarter	7.93%
Year-to-Date	20.73%

Indices are unmanaged and you cannot invest directly in an index

2022 Outlook

In our forecast for this past year, we severely under-forecasted the stock performance in both the Dow Jones Industrial Average and the broader S&P 500 Index by a large percentage; as well as over-forecasting the performance in the bond markets, which finished 2021 in negative territory. With the performance in equities driven by anticipated corporate earnings and economic recovery, we began to see stocks reaching what we feel are full to over-valued market valuations throughout the year, with improved earnings reducing some of those concerns. We continue having concerns over increasing inflationary pressure and rising interest rates, and expect these pressures to be impactful in 2022 as the Federal Reserve anticipates 2-3 rate increases in 2022. The bond markets under-performed our expectations in 2021, mostly due to higher than anticipated inflation and the higher performing equity markets.

In our 2022 outlook, we are concerned in the following area, which we will continue to watch throughout the year:

- Moderate increases in inflation.
- Overvalued equity markets without a substantial basis from corporate earnings.
- The increasing amount of national debt as the U.S. government continues to borrow.

Looking ahead to 2022, we expect the stock markets to have volatility as inflation increases and economic recovery continues. We expect some volatility in the labor markets, as well as anticipate volatility around the mid-term elections. With the over-valued equities, we expect a market pullback in 2022.

Assessment: We expect a slight market pullback in 2022 as we feel stocks are currently overvalued.

We feel that energy prices will fall in 2022, as additional reserves are released and an increased focus on domestic energy. We believe there will continue to be minimal increases in crude prices as overall economic growth is slow to moderate, and alternative energy sources continue to be explored and expanded upon. **Assessment:** We believe oil prices will be volatile in 2022 at \$60-\$90/barrel for WTI, with potential for lower price levels.

We expect GDP to grow by 2.5%-3.5% by year end 2022, with moderate inflationary pressure, and expect the Federal Reserve to increase rates at 0.5%-0.75% in 2022 as growth uncertainty remains.

STOCKS

We believe stocks are over-valued right now, and we expect to see some pullback in the broad markets as we reach maturity of the business cycle. We still expect the broad markets to gain between 10-12% in 2022. In particular, we continue to favor financials and mid-large cap value domestic, industrial and manufacturing stocks. We are neutral on international and global stock portfolios, and continue favoring domestic infrastructure stocks. We will continue to focus on low risk (low beta) stock portfolios for added downside protection.

CASH/MONEY FUNDS

The Federal Reserve cut rates in 2020 to near 0.0%. **Based on Federal Reserve meetings, we expect rates to increase in 2022**, as inflationary and growth concerns continue to drive Federal Reserve policy. We believe money market rates will remain relatively low in 2022 until rates start increasing.

BONDS

We favor corporate bonds going into 2022, and favor maintaining current fixed income allocations. With the Federal Reserve increasing rates in 2022, there's a potentially unfavorable impact to fixed income prices, and we expect to see returns in the overall bond market of 0-3%.

2022 Retirement Planning

As a review, the SECURE Act, passed by Congress and signed into law at the end of 2019 will make some significant changes to retirement planning strategies, including:

1. IRA Required Minimum Distributions won't start until age 72, starting in 2020. If clients have already started taking their RMDs, and/or have reached the age of 70 ½ in 2019, they are not impacted by this change.
2. In most cases, Non-Spousal, Inherited IRAs will need to be fully distributed within ten years.
3. There are no longer any age limits to making IRA contributions.

<u>Retirement Plan Updates for 2022</u>		
	Contribution Limit	Additional Catch Up <i>(if over age 50)</i>
401(k), 403(b) and 457 Plans	\$20,500	\$6,500
Traditional IRA, Roth IRA	\$6,000	\$1,000
Simple IRA	\$14,000	\$3,000
SEP IRA	\$61,000	-

Tax Season 2021

As with previous years, please feel free to contact our office to help expedite any tax inquiries you or your tax professional may have, and to assist with any additional information that may be required. We do not expect to have access to any tax documentation from Wells Fargo and will most likely only be able to provide you with tax information for you Schwab accounts.

Key Milestone Ages for Social Security Benefits:

60: Eligible for reduced Social Security payments; Remarriage after age 60 does not bar Social Security widower or surviving divorced spouse payments.

62: Eligible for reduced Social Security retirement or spousal payments.

65: Eligible for Medicare; Eligible for SSI aged payments.

65-67: Full retirement age, as determined by birth year, so eligible for unreduced Social Security benefits; maximum spousal and widower benefits; may draw spousal benefits without applying for own Social Security benefits; no earned income limitations.

70: Maximum Social Security benefits; voluntarily suspended payments automatically resume.

Typically, Wells Fargo Advisors Financial Network begins mailing 1099 Forms mid-February, with the majority sent out by the end of February. In some instances, clients may receive amended tax documents if additional income or distribution information was provided after the original mailing date. Charles Schwab begins producing 1099 statements late January to early February, with most 1099 statements being produced by mid-February.

CHB Investment Group Recommendations

Recommendations made by CHB Investment Group, LLC may not be suitable for all clients, and we suggest calling our office to review any recommendations that may meet clients' specific financial needs and risk tolerance.

- We have a bias towards value styles, as stocks have reached what we believe to be over valuation and also recommend a slight overweight in mid-large cap stocks, and lower risk equity portfolios.
- We have a neutral bias in international and global stocks.
- We continue to favor corporate debt, as well as having a slight underweight in Treasury bonds and CDs.

CHB Investment Group News

Please call our office with any account related questions or inquiries. We look forward to continuing to serve you in 2022. Happy New Year!

For clients who would like to receive non-confidential information regarding general market conditions and CHB Investment Group updates, please send your preferred e-mail address to chris.lindenthal@chbinvestmentgroup.com

Past performance is no guarantee of future results.

Indices are unmanaged and you cannot invest directly in an index.

The S&P 500 Index consists of 500 stocks chosen for market size, liquidity, and industry group representation. It is a market value weighted index with each stock's weight in the index proportionate to its market value.

The Dow Jones Industrial Average is a price-weighted index of 30 "blue-chip" industrial U.S. stocks.

NASDAQ Composite Index: The Nasdaq Composite Index measures the market value of all domestic and foreign common stocks, representing a wide array of more than 5,000 companies, listed on the NASDAQ Stock Market.

Generally, CDs may not be withdrawn prior to maturity. CDs are FDIC insured up to \$250,000 per depositor per insured depository institution for each account ownership category. CDs may be issued by out of state institutions.

Stocks offer long-term growth potential, but may fluctuate more and provide less current income than other investments. An investment in the stock market should be made with an understanding of the risks associated with common stocks, including market fluctuations. The prices of small company stocks are generally more volatile than large company stocks. They often involve higher risks because smaller companies may lack the management expertise, financial resources, product clarification and competitive strengths to endure adverse economic conditions. There are special risks associated with an investment in real estate, including credit risk, interest rate fluctuations and the impact of varied economic conditions.

Investing in fixed income securities involves certain risks such as market risk if sold prior to maturity and credit risk especially if investing in high yield bonds, which have lower ratings and are subject to greater volatility. Bond prices fluctuate inversely to changes in interest rates. Therefore, a general rise in interest rates can result in the decline of the value of your investment. All fixed income investments may be worth less than original cost upon redemption or maturity.

Investing in foreign securities presents certain risks not associated with domestic investments, such as currency fluctuation, political and economic instability, and different accounting standards. This may result in greater share price volatility. Diversification does not guarantee profit or protect against loss in declining markets.

This newsletter is designed to provide accurate, authoritative information. CHB Investment Group, LLC is not engaged in rendering legal, accounting or tax advice. If legal, accounting, or tax assistance is required, the services of a competent professional should be sought. The hiring of a professional is an important decision and should not be based on advertising. Ask for written information stating qualifications, experience and Firm association before making a decision.

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