MARKET COMMENTARY AND OUTLOOK | Q1 2022

Global stocks experienced a choppy final quarter of the year as investors digested downward revisions in the global economic outlook and the China real estate crises in particular. In its recently released Global Economics Prospects report, the World Bank adjusted its 2022 World Real GDP forecast down to 4.1% compared to its 5.5% expectation for 2021. Its long term forecast for 2023 is even lower at 3.2%. In support of its broadly lower forecasts, the report sites "reflecting continued COVID-19 flare-ups, diminished fiscal support, and lingering supply bottlenecks". It the same report, China's 2022 forecast is only 5.1% down from the 8% growth expected in 2021.

Major Indices	Q4	2021
S&P 500	+10.65%	+26.89%
DJ Global Ex-US	+1.00%	+5.70%
NASDAQ	+8.28%	+21.39%
Gold	+4.08%	-3.51%
Lumber	+82.93%	+31.47%

Source: WSJ

In the US, renewed pandemic concerns sparked by the Omicron variant over Thanksgiving caused the market to sharply sell off. This market volatility was exacerbated by the Fed Chairman Jerome Powell's Nov. 30 congressional testimony where he retired the word "transitory" from his characterization of inflation. At that time, he also hinted, and since confirmed, that the Fed will be reducing its asset purchase program.

Going forward, we anticipate increased volatility as investors parse every word from the Fed to drive global markets. Jerome Powell and his colleagues have a daunting mission ahead: How can they rein in inflation to achieve its average inflation target of 2% and provide a smooth landing for stocks? Just the Fed reducing its monthly bond purchases starting in January to $60 billion from $90 billion was enough cause selling pressure in the stock market in the first weeks of this year. Bear in mind that this $30 billion delta to current policy is still accommodative and the Fed's balance sheet stands at $8.8 trillion and growing.

In the end, we do not believe that the current administration or the Fed has much tolerance for lower nominal stock prices and will continue to implement accommodative fiscal and monetary policy measures for the more palatable prolonged inflation. This portends higher bond yields which has been exemplified by the large recent sell-off in the US 10y Treasury. Higher rates are negative for growth stocks and we are looking for value stocks to continue their outperformance in tandem. In addition, we are closely watching for weakness in the US dollar for a rotation into more international securities.

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