Portfolio Manager Commentary

January 7, 2022

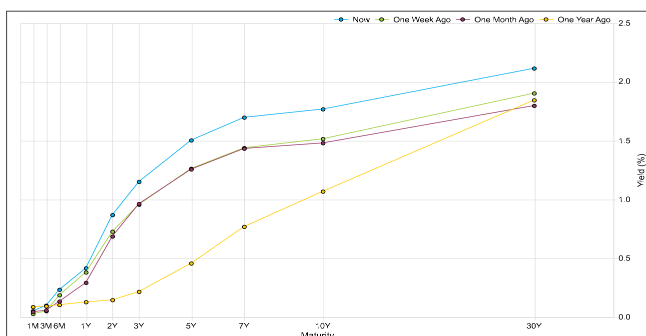
Economic Outlook

The Markit Manufacturing Purchasing Managers' Index came in at 57.7 for December versus 57.8 for November. The ISM Manufacturing Index came in at 58.7 versus 61.1 for similar months. The Markit Services PMI came in at 57.6 for December and the ISM Services Index came in at 67.6 for December. All Manufacturing and Services Indexes remain nicely expansionary. Factory Orders in the U.S. were up 1.6% in November, and the nation's unemployment rate was a low 3.9% in December, with Average Hourly Earnings up 0.6% for the month.

Fixed Income

After one week of trading in the fixed income markets, Treasury investors are bracing for further losses as the ten-year yield seems poised to make a run at 2%. The relentless surge in yields has drawn comparisons with the sharp rise a year ago that extended across the opening three months of 2021. So far, the ten-year note yield has jumped from 1.51% at the close of last year to as much as 1.80% during trading on Friday, the highest since January 2020. The rout has already driven a broad index of Treasuries to a loss of 1.60% this month, blowing past the 1% decline for all of January 2021. The rapid pace of the current repricing in the fixed income markets has raised questions about when the current selloff will abate and whether the early year rate shock will give way to a less volatile trading range scenario although at higher rates. The December FOMC meeting minutes released last week showed the central bank is willing to start raising rates as soon as March and allow its massive asset holdings to run off at a faster rate than previous tightening cycles.

Change in Treasury Yield



Current Generic Bonds Yields

Treasuries		Agencies		Corporates		Municipals	
3 mo.	0.09%	3 mo	0.16%	3 mo	0.40%	3 mo	0.37%
6 mo	0.23%	6 mo	0.22%	6 mo	0.45%	6 mo	0.38%
1 yr	0.41%	1 yr	0.43%	1 yr	0.55%	1 yr	0.43%
2 yr	0.86%	2 yr	0.85%	2 yr	0.97%	2 yr	0.53%
5 yr	1.50%	5 yr	1.33%	5 yr	1.74%	5 yr	0.92%
10 yr	1.76%	10 yr	1.86%	10 yr	2.37%	10 yr	1.35%
30 yr	2.12%	30 yr		30 yr	3.01%	30 yr	1.82%

Equity

U.S. Equity started off the new year on a negative note as the S&P 500 closes the week down -1.87%. Headlines pointed towards a bond yield backup as higher rates exacerbated longstanding valuation concerns in growth/technology duration plays. According to FactSet Research Systems, the rate rise was partly a function of the ongoing shift in the perception of the Fed's reaction to the pandemic. Eyes continue to be on the surge in the Omicron variant; concerns focus on more supply constraints and staffing shortages, and positive takeaways involve the mild symptoms and favorable immunity implications.

Energy (+10.52%) starts the year off with an incredible return as Financials (+5.43%) follows suit. Growth (-4.47%) vastly underperforms as Health Care (-4.64%) and Technology (-4.57%) were the biggest laggards. All other sectors were a mixed bag.

Index Returns	Last Week	YTD
Dow Jones Industrials	-0.28%	-0.28%
S&P 500 (LCap)	-1.87%	-1.87%
S&P 400 (MCap)	-1.72%	-1.72%
Russell 2000 (SCap)	-2.92%	-2.92%
NASDAQ Composite	-4.53%	-4.53%
MSCI EAFE (Int'l)	0.11%	0.11%
iShares Real Estate	-4.55%	-4.55%

Source: FactSet Research Systems

Asset Allocation

Current Sentiment

Cash	Favorable
Short FI	Neutral
Intermediate FI	Neutral
Inflation-Adjusted FI	Neutral
High Yield FI	Unfavorable
International FI	Unfavorable
Equity Income	Neutral
Large Cap Equity	Favorable
Mid Cap Equity	Neutral
Small Cap Equity	Unfavorable
International Equity	Unfavorable
Emerging Markets Equity	Unfavorable
Real Estate	Neutral
Commodities	Unfavorable

Summary below - Current stance on most asset classes:

Cash - Overweighting due to market volatility and uncertainty from Covid-19.

Short Term Bonds - Relative to Intermediate Bonds, the reduced duration is preferable given the oversold long-end of the curve.

Intermediate Term Bonds - The current trading range of intermediate bonds warrants a neutral position with limited upside potential. Some opportunities still remain in certain sectors.

Inflation-Adjusted Bonds - Low inflation expected in near-term providing zero real return.

High Yield Bonds - Spreads are rising given the market turbulence and exposure to unnecessary credit risk when compared to Treasuries would not be advised.

International Bonds - Foreign bonds offer good diversification qualities and higher yield opportunities, however, risks have been elevated recently and investment should be made cautiously.

Equity Income - High quality and higher-dividend-paying companies remain attractive for long-term investors given their favorable risk-adjusted profile and current yield curves.

Large Cap Stocks - A favorable weighting is recommended. Growth continues to be a more favorable style and should continue to be overweighed versus Value.

Mid Cap Stocks - Mid cap exposure remains neutral - more attractive than small caps but not as attractive as large caps.

Small Cap Stocks - In broad market corrections, small cap stocks will suffer most with increased volatility. Underweight until a clearer picture of recovery ensues.

International Stocks - Given most foreign investment is in developed markets and European countries, until sovereign debt concerns are alleviated, an underweight is recommended.

Emerging Market Stocks - Stronger balance sheets, less debt, and better growth potential make emerging markets more fundamentally attractive than developed countries longer-term. However, trade uncertainty and dollar strength provide a headwind for EM in the near term.

Real Estate - Pricing has begun to stabilize and long-term valuations appear attractive. Real Estate should continue to be a strong alternative to other asset classes.

Commodities - Global demand should support higher prices if the global recovery remains on track. Volatility will be higher, and commodities will be susceptible to short-term

Sources of statistical information are Bloomberg and Ned Davis Research.

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