Portfolio Manager Commentary

January 14, 2022

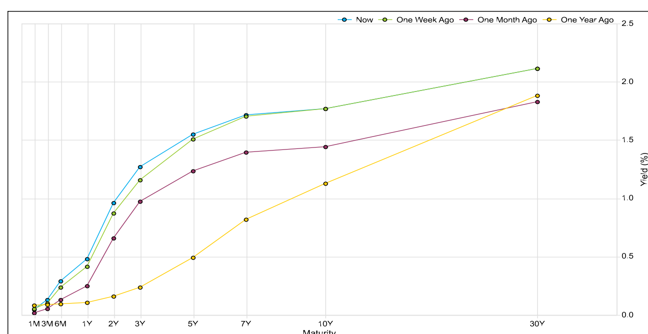
Economic Outlook

The U.S. NFIB Small-Business Index came in at 98.9 for December, slightly up from November. The overall Consumer Price Index was up 0.5% for the month of December, and up 7.0% year-over-year into December. The Producer Price Index was up 0.2% in December, after having been up 0.8% in November. U.S. Retail Sales were down 1.9% in December after having been up 0.2% in November. U.S. Industrial Production was down 0.1% in December, after having been up 0.7% in November. Capacity Utilization stood at 76.5% in December. Finally, the University of Michigan Preliminary Consumer Sentiment Index was down to 68.8 in January.

Fixed Income

The Treasury market is facing a patch of supply-related cross currents that may complicate the path for yields as they move higher. Yields on U.S. debt maturing over the next decade have climbed over the past two weeks back up to levels not seen since the pandemic roiled markets back in March of 2020. The shift reflects mounting expectations that the Fed will raise overnight rates at least three times this year, if not four, and that it will eventually stop replacing the Treasuries it holds when they mature. A decision on that may not come before March, however, when the current buying program is slated to wind down. The purchases, which have added $3.12 trillion of Treasuries to the Fed's balance sheet since March 2020, have left a massive footprint. The buying program was initially launched to restore liquidity to the markets due to the effects of the pandemic (causing wholesale dumping of all types of financial assets) and continued in order to support the U.S. economy after the Fed cut overnight lending rates to zero. The Fed's next meeting will be the last week of this month and should shed some light on the plans they have going forward.

Change in Treasury Yield



Current Generic Bonds Yields

Treasuries		Agencies		Corporates		Municipals	
3 mo.	0.11%	3 mo	0.21%	3 mo	0.45%	3 mo	0.36%
6 mo	0.28%	6 mo	0.29%	6 mo	0.51%	6 mo	0.36%
1 yr	0.48%	1 yr	0.51%	1 yr	0.63%	1 yr	0.41%
2 yr	0.97%	2 yr	0.96%	2 yr	1.08%	2 yr	0.56%
5 yr	1.56%	5 yr	1.41%	5 yr	1.82%	5 yr	0.94%
10 yr	1.78%	10 yr	1.89%	10 yr	2.42%	10 yr	1.40%
30 yr	2.12%	30 yr		30 yr	3.04%	30 yr	1.91%

Equity

U.S. Equity finished the week down as the S&P 500 Large Cap Index returned -0.29%. Stocks seemed to be in a state of limbo this week as Tuesday and Wednesday saw a “buy the dip” theme due to the previous week’s selloff, the strong consumer backdrop, solid inflows, and expectations for another season of 20%+ earnings growth (FactSet); however, there wasn’t enough to keep the spark alive as Wednesday’s headline CPI is at a 40-year high and is threatening to unmoor inflation expectations. Along with that, it seems more likely for a rate liftoff happening in March and a possibility of four hikes before the end of 2022.

Energy (+5.17%) continues to push ahead as it and Communication Services (+0.16%) were the only positive sectors for the week. Consumer Discretionary (-1.48%) and Utilities (-1.43%) were the only sectors to fall below -1%.

Index Returns	Last Week	YTD
Dow Jones Industrials	-0.87%	-1.15%
S&P 500 (LCap)	-0.29%	-2.16%
S&P 400 (MCap)	-0.38%	-2.09%
Russell 2000 (SCap)	-0.80%	-3.69%
NASDAQ Composite	-0.28%	-4.80%
MSCI EAFE (Int'l)	0.29%	0.41%
iShares Real Estate	-1.42%	-5.90%

Source: FactSet Research Systems

Asset Allocation

Current Sentiment

Asset Class	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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