Portfolio Manager Commentary

December 17, 2021

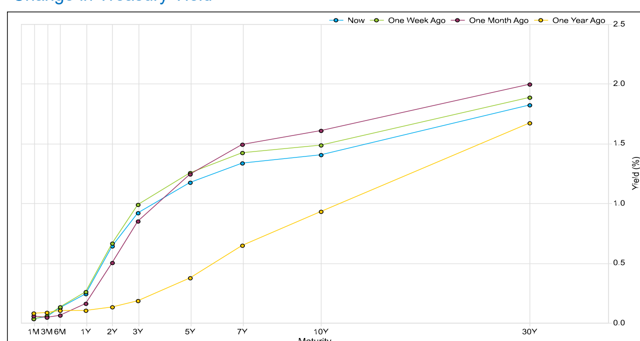
Economic Outlook

U.S. Producer Prices were up 0.8% for the month of November, after having been up 0.6% for October. Retail Sales were up 0.3% for November, a bit of a slowdown from October when Retail Sales were up 1.8%. The NAHB Home Builders' Index came in at a strong 84 for December, similar to November's level. U.S. Industrial Production was up 0.5% for November, after having been up 1.7% for October. Capacity Utilization was a solid 76.8% for November.

Fixed Income

Bond traders will be spending the next few months digesting the recent moves by the Federal Reserve and trying to determine what affects they may have going forward. The FOMC just released its forecast for overnight rates, and they are projecting the Fed Funds rate to end 2023 at 1.60% and 2024 at 2.10%. But for now, it seems that the bond market isn't impressed with these projections. The Eurodollar markets are forecasting rates for these dates at 1.50%. The concern is that the economy won't be able to handle the loftier rates policymakers have in mind, which limits how far central bankers can raise interest rates and how high Treasury yields can go. The yield on the U.S. thirty-year bond ended last week at 1.81%, down from a high rate of 2.51% which was reached earlier this year in March. This week could be a little volatile also as the market will close early on Thursday and there will be no trading this Friday in observance of the Christmas holiday. The Bloomberg Treasury Index has returned minus 2.10% this year, the first annual drop since a loss of 2.75% back in 2013.

Change in Treasury Yield



Current Generic Bonds Yields

Treasuries		Agencies		Corporates		Municipals	
3 mo.	0.03%	3 mo	0.03%	3 mo	0.36%	3 mo	0.28%
6 mo	0.12%	6 mo	0.13%	6 mo	0.39%	6 mo	0.28%
1 yr	0.24%	1 yr	0.29%	1 yr	0.48%	1 yr	0.30%
2 yr	0.64%	2 yr	0.68%	2 yr	0.81%	2 yr	0.38%
5 yr	1.18%	5 yr	1.10%	5 yr	1.50%	5 yr	0.76%
10 yr	1.40%	10 yr	1.51%	10 yr	2.09%	10 yr	1.21%
30 yr	1.81%	30 yr		30 yr	2.76%	30 yr	1.75%

Equity

U.S. Equity finished the week lower as the S&P 500 notched a -1.96% loss. The believed explanation for the pullback involves the Fed continuing its hawkish pivot with an accelerated taper, in which a median estimation of three rate hikes was given for 2022, the removal of the transitory reference to inflation, and comments from Fed Chair Powell that suggested the maximum employment goal may be reached sooner than expected (FactSet).

Consumer Staples (+1.36%), Health Care (+2.48%), and Utilities (+1.24%) were the sole sectors to finish positive for the week as the overall equity market fell. Growth (-2.93%) was hit harder for the week compared to Value (-0.53%), though Growth is still outperforming on a year-to-date basis by ~700 basis points.

Index Returns	Last Week	YTD
Dow Jones Industrials	-1.65%	17.52%
S&P 500 (LCap)	-1.96%	24.53%
S&P 400 (MCap)	-1.86%	18.27%
Russell 2000 (SCap)	-1.71%	10.08%
NASDAQ Composite	-2.95%	17.70%
MSCI EAFE (Int'l)	-1.35%	8.42%
iShares Real Estate	1.05%	32.64%

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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