Making **Sense**

Each month, **Chief Investment Officer, Brent Ciliano** and **Manager of Institutional Portfolio Strategy, Phillip Neuhart** help you make sense of the markets and the economy. Below you'll find a summary of their most recent update. Watch the full update here. Register for the next Making Sense webinar here.

WHAT'S COVERED ON THIS MONTH'S WEBINAR? (WATCH IT HERE.)

- **Market outlook for 2022**
  - **Tailwinds**
  - **Headwinds**
- **Beyond 2023 through the end of the decade**

WHAT'S NEXT?
Cryptocurrency 101: January 11th - Register here.
The next Making Sense Webinar: January 27th – Register here.

2022 Market Outlook: Key Market Tailwinds and Headwinds.

We believe there are 5 key tailwinds pushing the market as we head into 2022.

1. **Continued growth in corporate earnings.** Corporate earnings growth has driven stocks this year, and we expect them to continue to drive market returns into 2022.
2. **There is no alternative.** Low and negative rates have driven investors into risk assets as the only source of real return, and as of today, we sit at the apex of that with inflation running north of 6% and yields historically low.[i]
3. **Omicron may not be as deadly or economically damaging as initially thought.** We are now on our 15th variant of Covid-19, and the mindset is shifting from a pandemic to an endemic state, and consumers and businesses are becoming more adept in functioning in this new normal environment.
4. **Inflation pressures may be peaking.** We're monitoring 4 key bottlenecks: supply of product, transportation, labor, and energy. Today, none of these are close to being solved. But in three of the four cases, we believe we are seeing "peak bottlenecks." Energy remains the biggest wild card.
5. **The overall economic cycle is broadly still positive.** 9 of 12 economic sub-cycles are still positive, with 5 of those 9 still expanding.[ii]

However, we also believe there are 6 market headwinds that may create market volatility.

1. **Easy financial conditions may be in the rearview mirror.** In addition to the fiscal policy fade, the Fed has already embarked on the journey to unwind their monetary policy accommodation via the reduction in monthly bond buying, as well as expectations for a mid-2022 Fed Funds rate lift-off.
2. **Global earnings growth is expected to slow down.** However, it's expected to stay above the long-term average.
3. **Very high valuations of both stocks and bonds.** In some past cycles, the valuations of stocks and bonds has been inversely correlated in which one asset was expensive and another cheap, but currently both are very expensive.
4. **Rising rates – bad for stocks?** Historically, the first Fed rate hike is not detrimental to equities. On average, the S&P 500 is up 6.6% in the six months following the initial rate hike, with equities even rallying in the months leading up to the hike.[iii]
5. **Mid-term election year.** Mid-term election years historically see heightened volatility and higher intra-year drawdowns compared to non-mid-term election years (-17% vs. -12%), but also more significant recoveries.[iv]
6. **Geopolitical tensions (China/Russia/Iran, China/Taiwan).** This is a wild card that we think is currently unaccounted for by the market and, as always, geopolitical tensions are difficult to price.

A final thought for the future.

As we move into 2022, we're likely to see more volatility than we have in recent months. Remember, focus on what you can control. Work with us to build and follow a comprehensive financial plan, as we believe it is the preeminent key to success. Let us help you navigate what to own, when to own it, and how much of it to own.

Learn more about our thoughts on where the market goes from here and other topics on the full replay.

Capital Management Group | First Citizens Bank | 8510 Colonnade Center Drive | Raleigh, NC 27615
Brent Ciliano, CFA | SVP, Chief Investment Officer
brent.ciliano@firstcitizens.com | 919.716.2650

First Citizens Bank | 8510 Colonnade Center Drive | Raleigh, NC 27615
Phillip Neuhart | SVP, Manager of Institutional Portfolio Strategy
phillip.neuhart@firstcitizens.com | 919.716.2403

[i] Bloomberg Factset
[ii] Ned Davis Research
[iii] Strategas Research Partners 12/08/2021
[iv] Strategas Research Partners 12/01/2021