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**.

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

- **The economic growth trajectory from here through 2023**
- **US Corporate earnings and expectations:** How high and how long will this last? What might get in the way?
- **Chairman Powell and the Fed just met.** What can you expect on tapering and rates?
- **Inflation is still high.** Are we past the peak?

Higher prices are starting to weigh on sentiment and spending.

It's all about the consumer. As we've mentioned, the consumer explains more than 73% of real GDP – 69% from consumption and 4.7% from US housing. Additionally, 90% of American households spend 99 cents of every dollar of income, after tax. We're starting to see elevated retail sales begin to slow, and sentiment is falling thanks to low home and durable goods affordability.[i]

Where do markets go from here?

Wall Street consensus **12-month forward price target for the S&P 500 is 5,039** as of September 24th, or ~13.3% return from September 23, 2021's market close.[ii]

We believe markets will continue to make higher highs through year-end 2021, with volatility and potential seasonal pullback during late summer and early fall (-5% to -7%), followed by higher highs into the end of 2021. We estimate the S&P 500 may see 4,700 (or higher) by year end, a 5.6% increase from September 23, 2021 market close of 4,448.98. [iii]

We believe the S&P 500 can potentially achieve 5,200 or greater over the next 2-3 years given the current earnings estimate trajectory combined with the market's current multiple (21.5x).

What's driving market returns?

The S&P 500's 18.6% year-to-date return though last Friday, September 24th has been entirely driven by corporate earnings growth. Earnings are up 26.2% year-to-date, outstripping the index's price return by ~8%.[iv]

Full Year 2021 expectations: Earnings increase of 42.6%; revenue increase of 14.9%[v]

Full Year 2022 expectations: Earnings increase of 9.5%; revenue increase of 6.7%[vi]

But how long will it continue? We still believe there are three key headwinds for the future of corporate earnings as we move towards 2022.

<u>3 Headwinds for Corporate Earnings:</u>

1. Likelihood of **corporate tax increases** in 2022.
2. Continuing **supply chain issues** may lead to lower revenues.
3. **Skilled labor shortages** may lead to higher wages.

Inflation, Rates, and Fed Policy – What might happen, and when?

Much of what we've believed for some months was reaffirmed by Fed Chair Jerome Powell last week.

We believe the Fed will begin tapering bond purchases in November 2021 – Chair Powell stated on September 22 that he "expects tapering will last through mid-2022."[vii] The sharp decrease in Treasury issuance next year will help to neutralize the negative Treasury price impact of tapering. 10-year Treasury Yields will continue to remain range bound between 1.25% and 1.75% through the rest of 2021 and potentially in the first half of 2022. Lastly, we believe the fed will begin to hike rates at the end of 2022, with the first hike likely during late summer or early fall of next year.

Learn more about our thoughts on inflation and other topics on the full replay.

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[i] Strategas, BEA, JP Morgan Guide to the Markets – 09/21/21
[ii] Bloomberg as of 9/24/21
[iii] Bloomberg as of 9/24/21
[iv] As of 9/24/2021 – FacSet Earnings Insight
[v] As of 9/24/2021 – FacSet Earnings Insight
[vi] As of 9/24/2021 – FacSet Earnings Insight
[vii] CNBC, Press Conference – 9/22/21