Quarterly Outlook

JANUARY 2022

Fourth Quarter 2021

Markets and Returns

US stocks surged in the final quarter of 2021, while bond returns were mixed. Overall, developed-market stocks produced excellent returns for 2021 due to fiscal and monetary tailwinds. Year-over-year growth in corporate earnings plus record profitability pushed stocks higher for the third consecutive year. Most bond categories were negative for the year in the face of rising interest rates, except for convertible and high-yield bonds.

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Within the Standard and Poor's 500 (S&P 500), the top performing sectors were Energy, Real Estate, Financials and Technology. Roughly 60% of the return of the S&P 500 came from about 10 stocks.

Index/Instrument	Category	Q4 2021 Total Return	2021 YTD Total Return (as of 12/31/2021)
S&P 500	Large-capitalization stocks	11.02%	28.68%
S&P 400 Midcap	Mid-capitalization stocks	7.97%	24.73%
S&P 600 Small Cap	Small-capitalization stocks	5.59%	26.74%
NASDAQ 100	Large-capitalization stocks	11.28%	27.51%
Russell 2000 Index	Small-capitalization stocks	2.12%	14.78%
MSCI World ex USA	Developed markets international stocks	3.20%	13.25%
MSCI Emerging Market	Emerging markets international stocks	-1.36%	-2.47%
Bloomberg Barclays US Aggregate Bond Index	Investment-grade US bonds	0.01%	-1.54%
Bloomberg Barclays US Treasuries	US government bonds	0.18%	-2.32%
Bloomberg Barclays US Investment Grade Corps	US investment-grade corporate bonds	0.23%	-1.04%
Bloomberg Barclays US Corporate High-Yield Bond Index	US corporate high-yield bonds	0.71%	5.28%
Bloomberg Barclays US MBS Index	US mortgage-backed securities	-0.37%	-1.04%
Bloomberg Barclays Global Aggregate Bond Index	Global investment-grade bonds	-0.67%	-4.71%
Bloomberg Barclays Global High-Yield Bond Index	Global high-yield bonds	-0.71%	0.99%
Bloomberg Barclays US Convertibles	US convertible bonds	-0.93%	4.32%

The S&P 500 has rewarded investors with exceptional returns in the medium term. Over the three years ending December 31st, the index has returned 25.96% annually. Moderation from this lofty level is expected as both monetary and fiscal support reverse course from emergency levels and investors recalibrate valuations to account for the higher cost of money.

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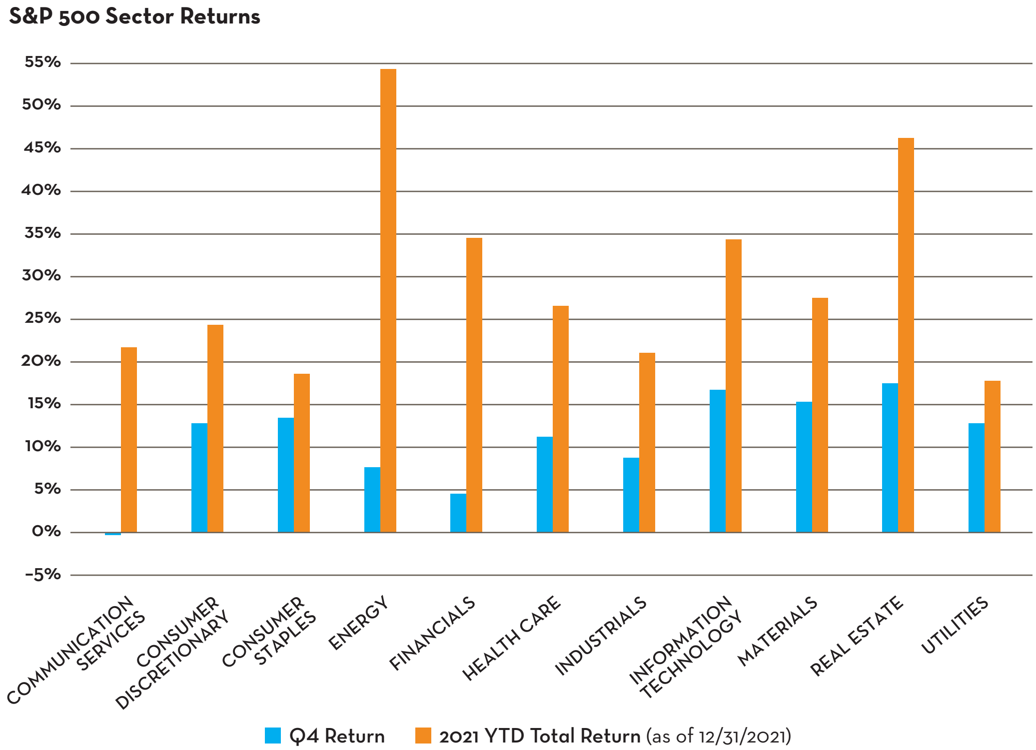

GDP and Labor

The economy is slowing, but still growing at decent pace. GDP climbed approximately 5.5% in 2021, the highest annual rate we have seen in decades, and is expected to grow roughly 3.0% in 2022, even as the Fed withdraws its enormous support. With fiscal support gone, support shifts from the government to the private sector.

Supply-chain snarls hampered the full potential of the economy in 2021, but those impediments are expected to ease throughout 2022 as the pandemic becomes more endemic and job openings are filled by those still on the sidelines. Still, millions of people remain hesitant to re-enter the work force resulting in a labor mismatch, even as the unemployment rate falls close near a pre-pandemic low at 3.9%.

The transition from an economy driven by robust demand for physical items to one driven by demand for services (our historical norm) continues but remains hampered by the latest Covid variant. The insatiable demand for goods at a time when the supply chain was hampered was unprecedented, resulting in the highest inflation we have experienced since the 1980s. The pandemic revealed the fragility of our supply chain and the inter-dependence of a connected world. Investment in the domestic supply chain can alleviate this type of disruption over time, but today's issue will require more patience on behalf of investors. Additionally, some types of inflation will remain sticky, particularly within shelter, health services and lower-end wages. Overall, inflation is expected to settle at a slightly higher level than in the previous expansion.

Consumers have been driving the economy since the market bottom, while corporate America waited out the disruption by cutting costs and becoming

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more profitable. While inflation is testing the resiliency of the US consumer, the economy remains on firm footing in terms of an improving labor market and a sound banking system primed to lend. Going forward business investment and housing are expected to lead the economy.

The Fed and Interest Rates

In the face of nearly 7% year over year inflation readings (Consumer Price Index), the Fed has finally shifted its focus to combat inflation instead of unemployment. At the Fed's December meeting Chairman Powell finally pivoted from his year-long "transitory inflation" stance. Critics argue the Fed is well behind the curve given that inflation readings are a lagging indicator. Investors worry the need to "catch up" will force the Fed to act more aggressively than expected. In other words, they may make a policy mistake that dents investor returns. The market expects the Fed to raise short-term interest rates four times in the coming year.

Outlook

Stocks experienced excellent returns last year as S&P 500 earnings climbed nearly 50% from pandemic-induced lows. Consensus predictions for 9% growth this year and next force us to temper our expectations going forward. At the same time, bond returns may again be challenged by rising rates. Around the rest of the world, we expect a similar slowdown in terms of both economic growth and earnings. Most emerging-market countries, outside of China, are already in recessions. As the tightening cycle pushes the US into the next portion of the business cycle and presents new challenges and opportunities for investors, Tandem-managed portfolios will continue to be shaped by diversification, balance and a focus on the long term.

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