



January 1, 2022

Market Perspective

Despite Covid variants, supply chain disruptions, and rising levels of inflation, 2021 turned out to be another good year for the U.S. equity market. Market gains were driven by a surge in economic activity, strong company earnings, and very accommodative monetary and fiscal policies. A more vaccinated public was eager to get out and spend, which spurred a surge in economic activity. That surge flowed through to company earnings. Depending on fourth quarter statistics, FactSet is forecasting S&P 500 earnings growth of nearly 45%, which would be the highest one-year growth rate since tracking began in 2008. Low interest rates and \$2.8 trillion in deficit government spending were also big contributors.

As we look to 2022, the cloud of uncertainty still hangs over the economy with the current spread of Omicron and risk of more variants to come. If Omicron has a limited economic impact, it would be a positive sign for continued economic growth in 2022. Either way, forecasts project robust business spending in the first half of the year as companies look to rebuild their depleted inventories. Additionally, with ongoing labor shortages due to the extraordinary wave of baby boomer retirements, we also expect companies to ramp up spending on capital equipment and technology to increase productivity while doing more with fewer workers.

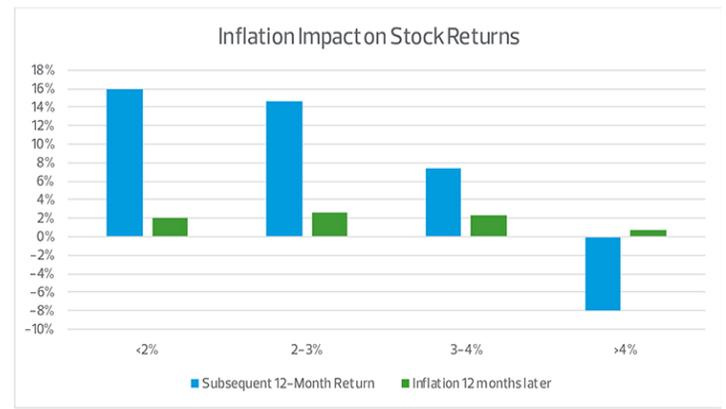
An important risk to economic growth and earnings is inflation. Inflation is running at levels we have not seen since the 1980's and 1990's. The big questions are how high will inflation go, how long will it remain elevated, and will companies be able to pass through higher input costs? There are signs that supply chain issues are improving with shipping rates and backlogs coming down. While supply chain issues should eventually resolve themselves, it is likely that rising workers' wages and increasing home and rental costs will have a lasting inflationary impact. Most analysts expect inflation to begin to drop by the second half of the year, but likely remain above the Fed's 2% target. Equities perform well so long as inflation remains less than 4%. (See chart at the end.)

These inflation questions will have a significant impact on the market narrative in 2022 because it will drive the Federal Reserve and global central banks' responses. The Federal Reserve has already begun to taper their bond purchases, which has a

tightening effect on markets. Once they finish tapering sometime in the first half of the year and if inflation remains stubbornly high, they will most likely look to raise interest rates to slow the economy. One of the biggest risks in 2022 is a Federal Reserve policy mistake.

If they raise rates too quickly and inflation turns out to be transitory, they risk tipping the economy into recession. Conversely, if they raise rates too slowly, they run the risk of an inflationary pricing spiral which could also lead to a recession. Nothing slows down high prices like high prices...

Presuming the Federal Reserve gets this delicate balancing act correct, 2022 could be a year with continued economic growth and the potential for continued portfolio gains. However, we are likely to see more volatility ahead as data is digested and Fed policy is deliberated in "real time" by the markets.



WPC ANNUAL MEETING

Thursday, January 20th at 6:00 p.m.

Email invitation with details coming soon!

See all our Team News, Blogs and Events on



<https://www.linkedin.com/company/wealth-planning-corporation>

or on our website

www.wealthp.com/blog/



Investment Committee Notes

On the surface, it looked as though 2021 was a year of minimal S&P 500 stock market volatility with the index not having a single 10% drop. But when you look deeper, you will see there were periods of drawdown.

Even though returns were mostly in positive territory on the year across the indexes, digging into the data one will see there was a massive amount of volatility with around 92% of the index members having at least a 10% drawdown and the average drawdown being around 18%.

Index	YTD Return	Percent of Members with Positive YTD	Percent of Members with - 10% Drawdown from YTD High	Average Member Drawdown from YTD High
S&P 500	22%	79%	92%	-18%
NASDAQ	20%	61%	89%	-40%
Russ2000	14%	64%	98%	-36%

Source: Charles Schwab, Bloomberg 11/26/2021

NASDAQ and the Russell 2000 indices saw significantly greater average drawdowns. This was because there were big market rotations throughout the year where growth and value switched leadership.

The rotation usually happened quickly which once again makes the argument for a balanced, diversified portfolio. We rebalanced the portfolios four times in 2021 using these drawdowns to add equities at discounted prices.

The Investment Committee recently discussed the growth of global GDP and wanted to share an insight which supports our long-term approach to investing in both domestic, developed international and emerging markets. In the near-term, economic growth may slow down due to inflationary pressures, but forecasts are for global GDP to reach \$180 trillion by 2050! That is double today's GDP.

Our focus remains on being invested for the long-haul while managing to short-term risks and knowing our clients' goals and lifestyle choices. This investment discipline and financial planning in combination allows WPC to manage your portfolio in an appropriate model to meet your income needs with tax efficient strategies.

Financial Education - Investing 101

Definitions to share with your NexGen Investor

Asset Allocation: The mix of investments in your portfolio, such as stocks, bonds, alternatives, private equity, real estate, commodities, or cash. Time horizon, risk tolerance and needed return determines your appropriate composition.

Diversification: Investing in more than one asset class to reduce your overall investment risk. Having asset classes with low or negative correlations. Spreading your money across a variety of investments may limit your losses and reduce the impact of market fluctuations on investment returns.



New Year – New Idea!

Set Up Your Secure WPC Portal – contact Angie angied@wealthp.com

- Access Annual Reviews
- Post Tax Documents
- Store Estate Planning & Need to Know Documents
- See Your Investment Dashboard
- Check Your Financial Plan

Tax Prep Tips!

- ✓ View Your Account Online to Access Tax Records & Verify Your Information
- ✓ Gather & Organize Tax Records
- ✓ Prepare Tax Planners from CPA's
- ✓ Check Your Withholding & Estimated Payment Amounts
- ✓ File Electronically and Set Up Direct Deposit
- ✓ Understand Refund Timing (may be > 21 days)

The IRS Will Never...

- Call to demand immediate payment via gift card
- Demand that taxpayers pay taxes without an opportunity to appeal or question the amount
- Threaten to bring in authorities such as police, immigration or FBI officers
- Threaten to revoke drivers' licenses, business licenses or passports