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December Edition
Your Need-to-Know Monthly Commentary and Economic Outlook

Stock Market and Economic Outlook: We believe that the market is range bound at 4,500-4,700 through the end of the year, which implies a neutral and volatile market. We have upgraded our forecast for US GDP growth from 0-2% to 2-3% in 2022. We also see oil trading in the range of $65-$75 in December 2021 and $80-100 in 2022.

- The Omicron variant creates a great deal of near-term uncertainty as we do not know how severe it is and how resistant it will be to vaccines; however, some of this uncertainty is mitigated by the production and development of a class of drugs to be used for treatment, which should reduce deaths from the virus. Thus, we believe it is causing only a short-term disruption in international travel, which will subside in early 2022.
- Legislators have removed corporate tax rate increases and scaled back other taxes in recent proposed legislation. Corporate tax rates are 33% negatively correlated with growth globally.

Interest Rate and Inflation Outlook: We believe 10-year interest rates will head higher as the Fed starts to taper and inflation continues to accelerate, but they do have a ceiling. We are forecasting that 10-year rates will be 2-2.25% in 2022. We still believe the Fed has lost control over inflation and forecast that true run-rate inflation is currently over 10%. Under this environment, we see value stocks performing better than high valuation tech stocks

- Ultra-loose Fed policy (monetary base up 82% since the beginning of the Pandemic) has driven housing prices up at a record rate of 20% y/y and rents are increasing at over 10% per year for the first time since the 1970s (where housing prices increased 10.7% annually during the decade and rents also increased over 10% per year).
- Tighter Fed policy in 2022 is likely to flatten the yield curve, which will keep a lid on long term rates. There are $52 trillion of global pension assets which will rebalance and reallocate into treasuries if yields are significantly above 2%, thus effectively capping the rise in interest rates.

Quick Tip: When inflation rises, the dollar often rises as the market anticipates Fed tightening. Consider adding defensive dividend investments that have lower volatility and benefit from rising inflation to your portfolio.

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