The *CFO* 2022 First Quarter Market Outlook

As we move into 2022 and assess the evolving state of the global economy and financial markets, ***CFO*** believes that it is key to weed out market noise and focus on the primary economic and market signals that provide rational perspective on what actions investors should take from here. First, there are the big three macro-economic factors: GDP growth, inflation, interest rates, and then there are the global central bank policy actions, including our Fed, in response to that data. Second, corporate earnings data will be key to security selection and portfolio allocation strategy. The third factor to keep an eye on, but still less critical [minus outright war!] for the global economy and financial markets are the developments in U.S. and global politics.

For 2022, Ned Davis Research [NDR] forecasts that GDP growth will be +5.6% and +3.5% for the global and U.S. economies respectively. The U.S. Commerce Department just released preliminary estimates for U.S. economic growth for Q4 that came in at a sizzling [read: **inflationary**] +6.9%, and well ahead of consensus estimates, including NDR, of +5.5%. While decelerating from the pace of 2021, U.S. economic growth is still expected to remain reasonably strong in 2022, especially if (as we expect) COVID-19 moves increasingly into the rearview mirror. Please review the Fidelity Investments chart "*Some Causes of Recent Inflation*" for an overview of the drivers of current inflationary pressures which follows on the top of page two. In short, inflation is **the** economic issue of 2022, and while the Fed has seemingly turned more "hawkish", we can only hope that they have not waited too long and that they can engineer the ever sought-after "soft landing". Only time will tell. In order to reduce inflationary pressures, we believe that investors should want the Fed to slow U.S. economic growth to a more moderate rate of +3%/ +3.5% [that is still above the annual average of +2.5% of the last 30 years!]. All eyes will be on Fed behavior and actions as we move through 2022. Three rate hikes are currently priced into the market, but we might see more. If the Fed has been clear and consistent about anything, it is that they are data dependent and they will be measured in their response to the macro-economic data as it unfolds over the course of 2022. The Fed wants to engineer a soft economic landing while still achieving their dual-mandate of both full-employment and stable prices.

There are many investors who *already* feel that the impending rate hike(s) represent(s) the death knell of the bull market. History, however, suggests otherwise as evidenced by how the market performed after the last seven initial rate hikes going back to 1983. Please also review the chart "*S&P 500 Performance Before & After First Fed Tightening*" from Fidelity Investments on the bottom of page two. The first three months were the rockiest with the S&P 500 finishing lower four out of seven times while posting a median loss of -1.6%, but after six months the S&P 500 has garnered a median, annualized gain of +7.4%. It remains to be seen whether history repeats, and there are certainly no guarantees. However, if past history provides any useful analytical criteria, the impending Fed first rate hike would not be a sufficient reason to materially reduce portfolio stock holdings. The volatility has been substantial, and there has already been a great deal of purging in some of the more speculative sectors. The stock markets may continue to trend lower over the near-term, and the eventual speed of Fed rate hikes will certainly determine the 2022 stock market performance, but we feel that it is still too early to make any wholesale move to the bearish camp. Finally, while we are maintaining most current stock positions, and giving this bull market the benefit of the doubt, we do have our technical "lines in the sand", and we will move very quickly if our indicators trigger a "sell" signal.

Please do not hesitate to call us directly with any questions that you may have about your portfolio strategy for your accounts.

The CFO Capital Management Team, January 25, 2022

Some causes of recent inflation:

	Demand	Supply
Covid related	Shift from Services to Goods spending Wealth Effect: Savings	Shrinking Labor Force - Early retirements - Health/child-care concerns - Generous transfer payments Supply Chain Issues - Zero Covid Policy in China - Lack of vaccination in major goods supply countries - Understaffed transport facilities
Policy related	Wealth Effect: Transfer Payment	Shrinking Labor Force: Curb on Immigration (Global) Energy Policy that discourages investment in fossil fuels
Fed Policy	Wealth Effect: Equity & Real Estate prices	

Looking at S&P 500 performance around periods of Fed tightening, has generally been positive 6 months out…

S&P 500 Performance Before & After First Fed Tightening

Date of First Hike	-6 Mos.	-3 Mos.	+3 Mos.	+6 Mos.
3/31/1983	30.1%	10.0%	11.1%	11.0%
1/5/1987	1.9%	8.8%	20.0%	23.0%
3/30/1988	-18.4%	5.3%	7.0%	7.4%
2/4/1994	6.2%	3.4%	-3.3%	-1.0%
6/30/1999	12.1%	5.9%	-6.2%	7.4%
6/30/2004	3.7%	1.7%	-1.9%	7.3%
12/16/2015	0.0%	4.5%	-1.6%	1.4%
Average	5.1%	5.7%	3.6%	8.1%
Median	3.7%	5.3%	-1.6%	7.4%

Past performance is no guarantee of future results. It is not possible to invest directly in an index. All market indices are unmanaged. Index performance is not meant to represent that of any Fidelity mutual fund.

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