



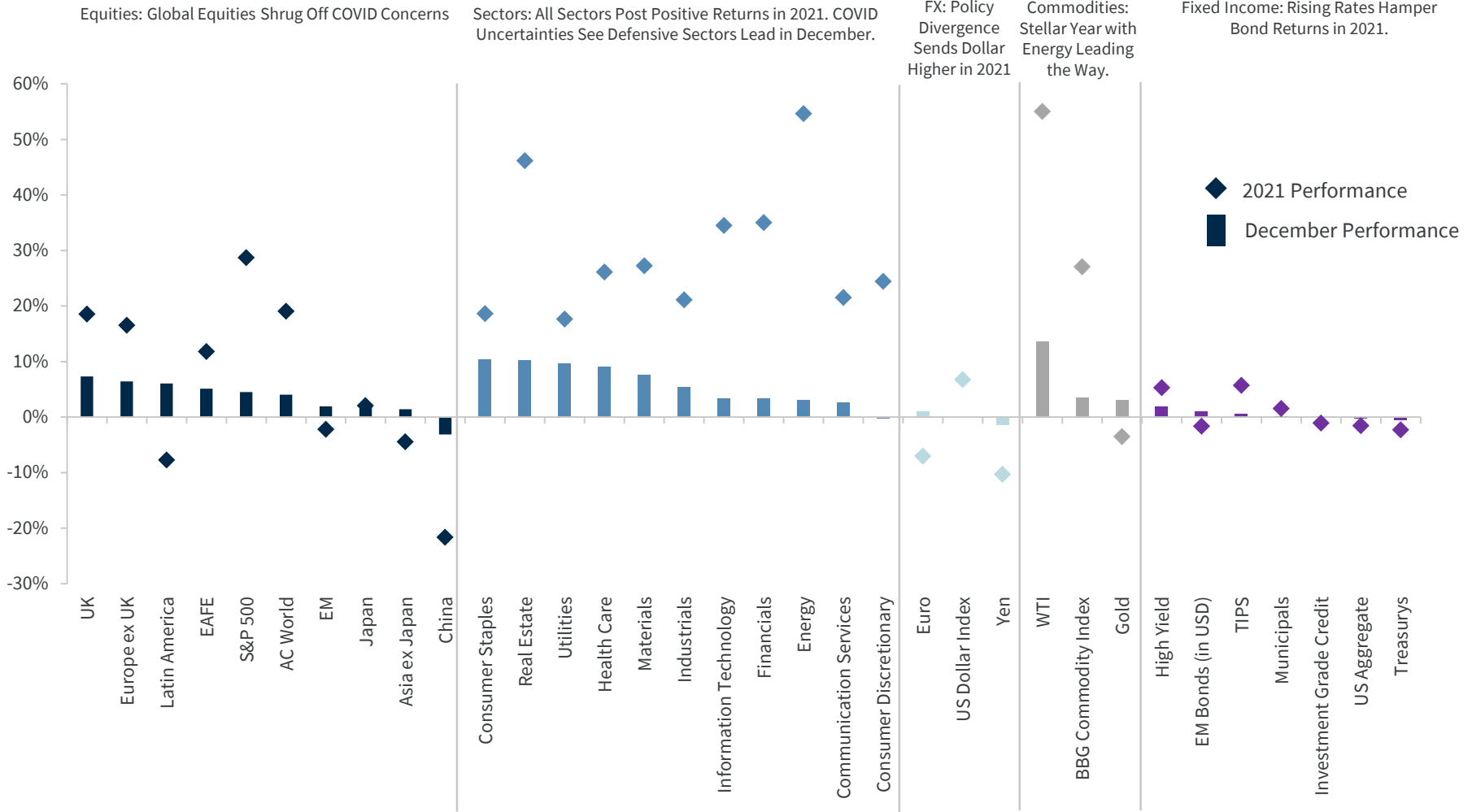
CIO View Monthly Strategy Snapshot

January 2022

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Chief Investment Officer

Returns By Asset Class | Month and Year-to-Date Returns

Returns by Asset Class



Data as of December 31, 2021. All international equity indices are MSCI indices and in USD. Diamonds represent the year-to-date total returns and bars represent monthly returns.

Global Economy | Federal Reserve Signals Less Accommodative Policy

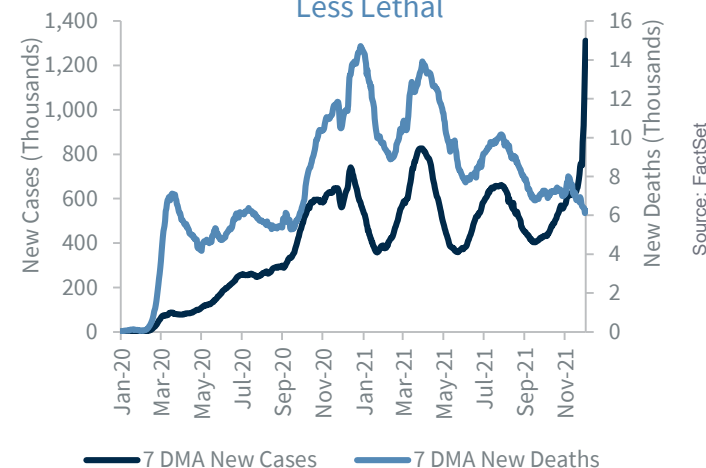
Global Economy | Recent Trends

- **Global COVID-19 cases reached all-time highs in December**, surpassing 1.3 million daily new cases in the final week of the year, as the Omicron virus proved more contagious than previous variants. **Though more transmissible, this new variant appears to be less fatal**, with COVID-19 related deaths falling ~4% throughout the month.
- At the December 15 FOMC meeting, the Federal Reserve (Fed) announced the **accelerated tapering** of its monthly asset purchases (by double the original amount), as well as an accelerated outlook on short-term rate increases, anticipating **three rate hikes in 2022**. This policy shift comes in response to the belief that inflation (**CPI: 6.8% Y/Y**) is becoming more broad based.
- The **unemployment rate fell to 4.2% in November**, the lowest since February 2020. However, nonfarm payrolls rose less than expected (210,000 vs. 550,000 exp.) – down 4.1 million (-2.7%) from February 2020. As we would have likely added ~3.5 million jobs over the last 20 months if not for the pandemic, **payrolls remain ~7.6 million below the pre-pandemic trend**.
- **Consumer confidence rose to 115.8 in December** (from 111.9 in November) The ‘present situation’ component was little changed, but **‘expectations’ saw an ~7.5% increase**.
- **Retail sales were up 18.2% Y/Y in November**. While sales remain ~15% above the pre-pandemic trend, about a third of that is due to higher inflation. We have yet to see a shift away from goods and back to services, though we expect that may be **a trend to be seen in 2022**.

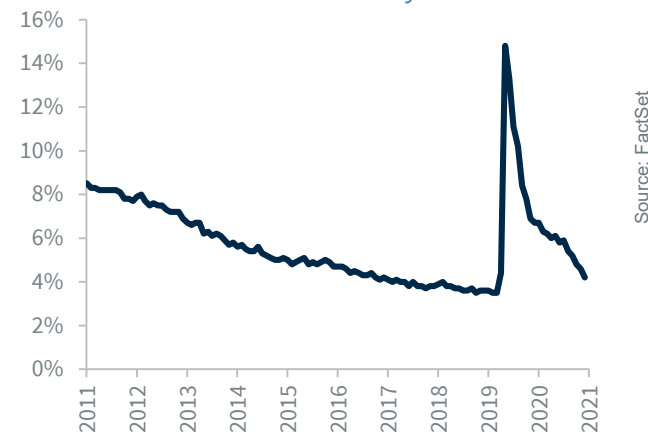
Global Economy | 12-Month Outlook

- **We expect US GDP to grow at an above-trend pace (3.5%) for the second consecutive year.** While policy support may be fading, the consumer will likely remain in the driver’s seat supported by elevated savings and a strong labor market. Capex spending and inventory rebuilding should also boost growth.
- **COVID variants pose a risk to global growth, but is unlikely to derail it.** 2022 should bring more normality for consumers as vaccines and therapeutics are proving effective. The transition from a pandemic to an endemic state should prove a tailwind.
- Persistently higher inflation readings around the globe have caused **some Central Banks around the world to dial back some of their policy support**. We now expect the Fed to raise rates two to three times in 2022.
- While demand remains strong, consumers are starting to balk at higher prices. We think **moderating growth and receding inflation pressures** toward the end of the year **will give the Fed flexibility heading into 2023**.

Omicron Appears More Transmissible, But Less Lethal



Unemployment Rate Reaches Lowest Level Since February 2020

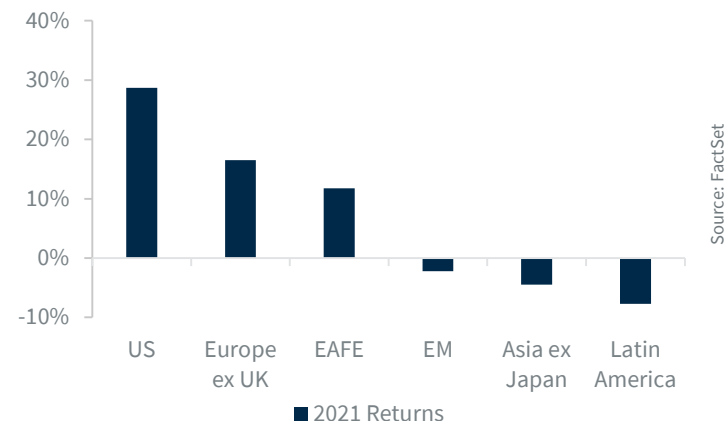


Equities | Equities Look Through Multiple Headwinds

Global Equities | Recent Trends

- Despite all of the volatile headlines surrounding inflation, Fed policy, COVID, geopolitical issues, and supply chains in 2021, the **markets were able to look past the potential risks** of the highly contagious Omicron variant.
- **The S&P 500** ended December on a high note, returning 4.5% and **was up 28.7% in 2021**. This is the **fourth time** since the early '40s **the index surpassed 15% 3 years in a row**. Small-cap equities were up 14.8%, but trailed the S&P 500 by its widest margin since '98.
- Strong growth and rising earnings helped **all sectors achieve double-digit growth in 2021**, led by Energy (54.6%) and Real Estate (46.2%). This is the second time since '95 that all sectors notched double-digit gains on a price return basis.
- Our preference for US equities showed advantageous in 2021. The **US (28.7%) significantly outperformed** Developed International (11.8%) and Emerging Markets (-2.2%). China regulatory concerns, EM Central Bank tightening and a stronger dollar weighed on EM equities.
- S&P 500 earnings and operating margins held up well through the rising cost environment. Despite inflationary pressures, the **S&P 500 enjoyed the best year of earnings growth, up 51%, since 2000**.

US Led Global Equity Markets in 2021

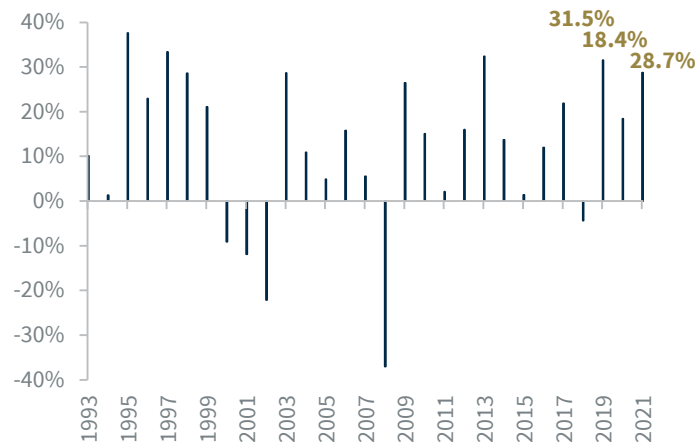


Source: FactSet

Global Equities | 12-Month Outlook

- **We expect the S&P 500 will rise above the 5,000 level for the first time in 2022 and have a year-end target of 5,053 (using \$235 EPS and 21.5x P/E)**. Above-trend growth and still healthy margins will continue to support earnings and allow equities to move higher.
- We think the macroeconomic backdrop remains supportive for the cyclical sectors and it's too early to start getting defensive. **We continue to favor Communication Services, Consumer Discretionary, Energy, Financials and Industrials**.
- While **small caps have underperformed recently, we expect them to turn the corner in 2022**. Strong growth, favorable valuations, and the expected transition from goods to service spending should support stronger performance over the course of the year.
- **Our longer-term bias toward US equities remains intact**. US equities have strongly outperformed; the trend is likely to continue. Although foreign equities are cheap on a relative basis, US earnings growth and profitability remain favorable.
- The lagged impact of EM tightenings in Latin America and Central/Eastern Europe remain headwinds for some markets, although we **see opportunities in Asia after the sharp re-rating of Chinese equities in 2021**.

S&P 500 Returns Surpassed 15% for the Third Year in a Row

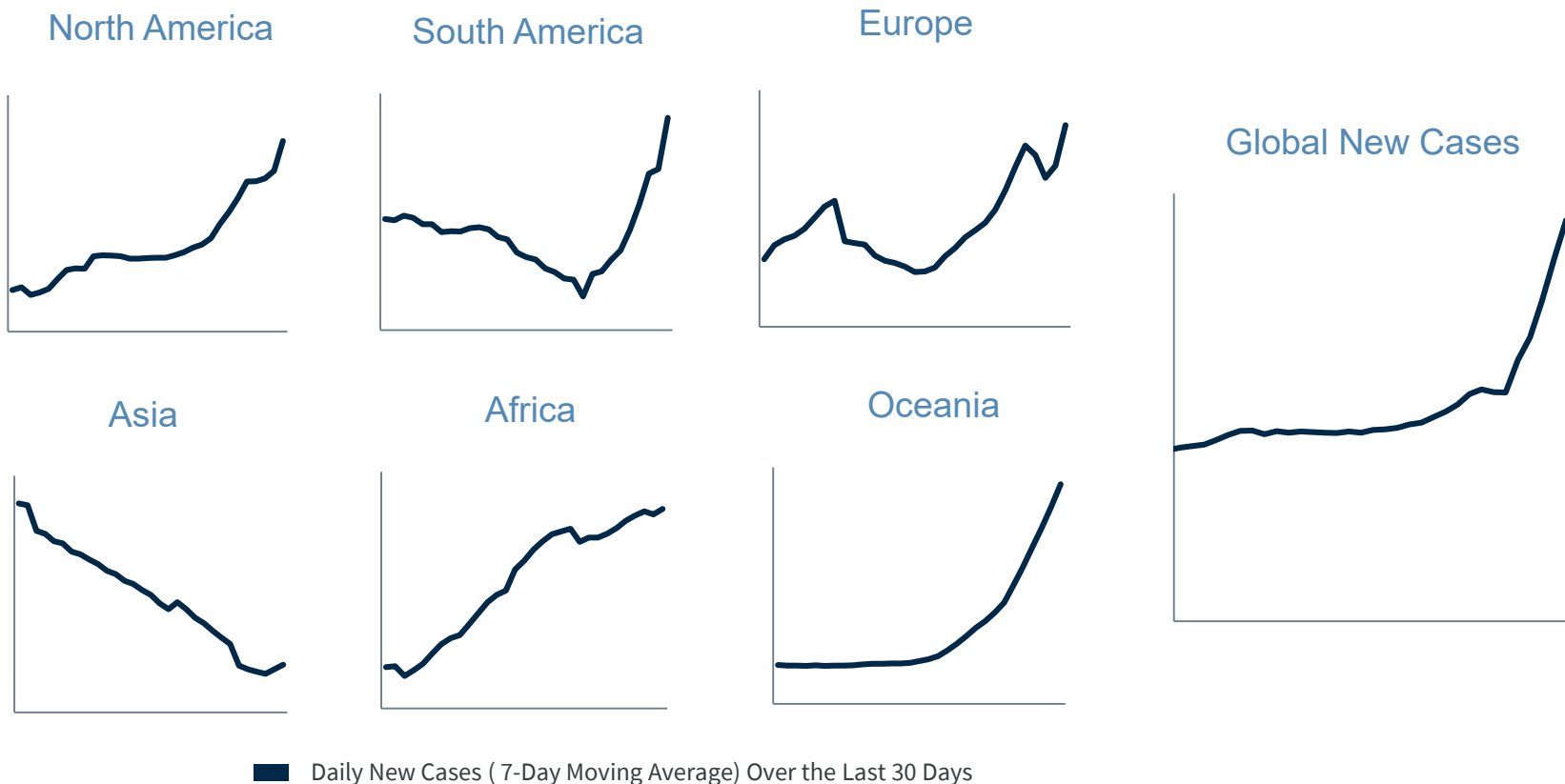


Source: FactSet

COVID-19 | Omicron Surge

OMICRON VARIANT PUSHES NEW CASES TO RECORD HIGHS

- Daily new cases (7 DMA) reached all-time highs in December as the Omicron variant surged around the globe. However, in a positive light, Omicron is expected to be less lethal than previous variants and we expect the surge will be shorter lived.



Source: FactSet as of 12/31/2021

Fixed Income | Treasury Yields Moved Higher in 2021

Global Bonds | Recent Trends

- **10-year Treasury yields traded sideways in December**, hovering near 1.5%. However, **yields were up sharply in 2021**, rising nearly 60 basis points, and are up ~103 bps off August 2020 lows.
- With the market pricing in between two and three rate hikes through 2022, the **US yield curve flattened to its lowest level since last January** (79 bps). While the Fed accelerated the pace of tapering to \$30 billion per month, double the pace announced the month prior, bonds were more reactive to the Fed's recent policy shift.
- 2021 capped off a tumultuous year for the bond market. The combination of rising rates and historically low yields hampered returns across most sectors. The **Bloomberg US Aggregate Index delivered its first negative year (-1.5%) since 2013**. The Agg has not delivered two consecutive years with negative returns since its inception in '86.
- **Corporate credits fared better than US Treasurys**, supported by low default rates, solid corporate fundamentals and higher yields, which act as a cushion against rising rates. Investment-grade corporates returned -1.1% and high-yield bonds delivered 5.3% in 2021.
- **Municipal bonds continue to see strong demand and inflows**. Healthy state budgets, concerns about higher taxes, and limited supply continue to underpin the sector.

Global Bonds | 12-Month Outlook

- **Fixed income remains unattractive relative to equities**. With the Fed starting to unwind some of its accommodative policies, **we expect the 10-year Treasury yield to rise to ~1.9%** over the next 12 months.
- **While there may be modest upward pressure on bond yields in 2022, the upside should be limited**. Favorable demographics, globalization trends and strong demand from overseas investors will likely keep a lid on rates.
- **Rising interest rates and the historically low level of yields will make for another challenging year for fixed income returns**. While it is rare to see two consecutive years with negative bond returns, the low level of yields provides much less of a cushion to absorb losses associated with rising rates than it has in the past.
- Despite these challenges, **fixed income remains an important piece within investors' portfolios** as it limits/hedges equity market risk and provides diversification.
- Robust corporate earnings and low default rates remain supportive for corporate credits, despite historically tight valuations. With the macro backdrop still strong, **periodic bouts of volatility could create opportunities**.

10-Year Treasury Yields Rise in 2021



Investment-Grade & High-Yield Spreads Tighten



Commodities & Currencies | Crude Oil Continues Upward

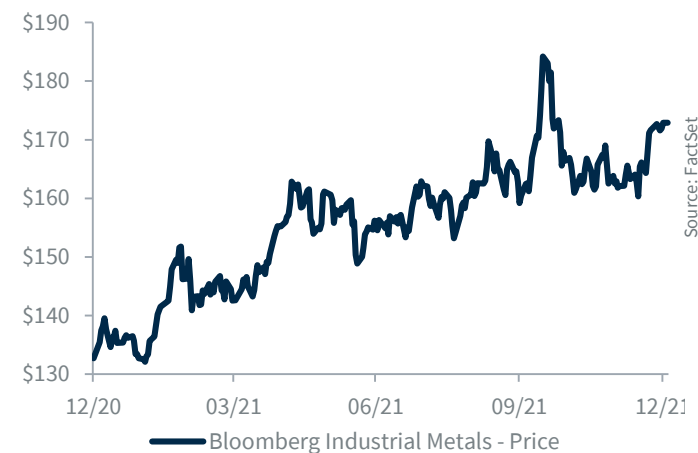
Commodities & Currencies | Recent Trends

- Commodities regained some lost momentum in December, as the Bloomberg Commodity Index increased 3.5% over the course of the month. **Commodities ended 2021 up 27.1%, the strongest year of growth for the asset class in nearly 30 years.**
- Crude oil recouped over half of its loss in December as concerns about the highly contagious Omicron variant and its risks to global growth started to fade. **Crude oil ended the year up over 55%, its best performance since 2009.**
- Natural gas has continued to sell off through December, falling to levels last seen in late June of 2021. After rising to a 12-year high in October on the back of supply constraints, **natural gas is now down 40% from its recent peak, but ended 2021 up ~47%.**
- Industrial metals regained their footing in December, rising ~6% as markets shrugged off concerns about the Omicron variant derailing growth. **Industrial metals were up ~30% in 2021 and have notched a rally of ~91% from the 2020 low.**
- The US dollar ended the year on a strong note, rising 6.7% in 2021.** Rising interest rate differentials and the market pricing in a more aggressive Fed were the key drivers. Among the major currencies, the Japanese yen was the weakest down ~10% and the euro slumped ~7% versus the US dollar, whereas the Canadian dollar and British pound fared better.

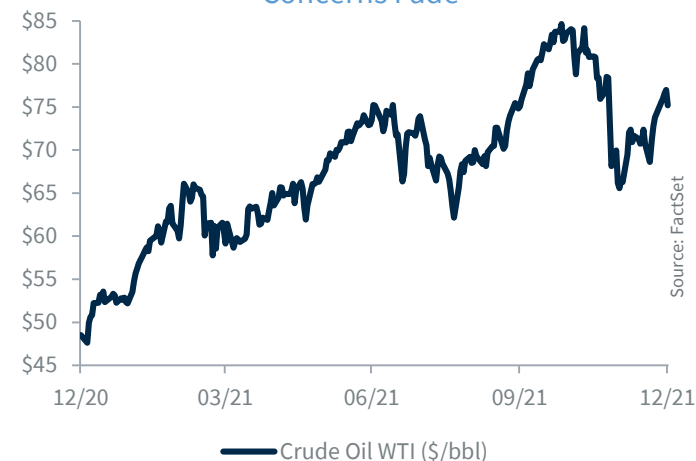
Commodities & Currencies | 12-Month Outlook

- We expect **crude oil prices to remain elevated over the next 12 months and have a year-end price target of \$80/barrel.** While global demand remains strong, we expect to see an improvement in the supply/demand dynamics as OPEC increases production in 2022.
- With the price of crude oil above current breakeven levels, **US producers have a strong incentive to increase capital spending.** This, combined with increased OPEC production, should **limit upward pressure on oil prices in 2022.**
- High oil prices and **strong demand for clean energy solutions** should lead to further interest in renewable energy sources. The proliferation of electric vehicles (EV) are front and center on the trend, with adoption rates expected to grow substantially in the coming years.
- We expect the US dollar **to trade sideways over the next 12 months.** While policy divergences will likely bring near-term strength, the dramatic swing in investor positioning may limit the dollar's ascent. However, on a longer-term basis, the twin deficits (e.g., current account and budget deficits) and the dollar's overvaluation on a real effective exchange rate basis suggest the direction in the dollar could be lower.

Industrial Metals Recoup November Loss



Crude Oil Prices Regain Momentum as Omicron Concerns Fade



Summary | Views and Key 2022 Year-End Targets

1 ECONOMY

2022 US GDP: ~3.5%

We expect another year of above-trend growth, with the economy accelerating around a ~3.5% pace. The sustained recovery will be supported by consumer spending, inventory rebuilding and rising capital expenditures. We expect the Fed to dial back some of its policy accommodation as inflation pressures remains elevated.

2 BOND MARKET

2022 10-Year Treasury: 1.9%

We expect modest upward pressure on the 10-year Treasury as the Fed begins to lift rates and have a year-target of ~1.90%. Debt, demographics and high demand from overseas investors and pension funds should prevent yields from moving substantially higher. Bond exposure should be viewed as a portfolio diversifier in mitigating the overall risk of a diversified portfolio.

3 EQUITIES

2022 S&P 500: 5,053

We expect US equities to move higher, supported by strong earnings and still healthy margins, and have a year-end price target of 5,053. We prefer US over International, and see opportunities in small caps and Asian equities after the re-rating of Chinese stocks in 2021. Within US equities, we continue to favor the Financials, Communication Services, Industrials, Energy, and Consumer Discretionary sectors.

4 DOLLAR DIRECTION

2022 EUR/USD: 1.15

We expect the US dollar to trade sideways in 2022. While policy divergences could see the dollar move higher in the near term, big swings in investor positioning could limit the dollar's ascent. Over the long term, the twin deficits (e.g., current account and budget deficits) and the dollar's overvaluation on a real effective exchange rate basis suggests the direction of the US dollar could be lower.

5 OIL

2022 WTI: \$80/bbl

We expect crude oil prices to remain elevated over the next 12 months and have a year-end price target of \$80/barrel. With OPEC expected to increase production in 2022 and US producers starting to increase spending as oil prices remain above their breakeven levels, the supply/demand imbalances will improve. These developments should limit the upside to crude oil prices.

6 VOLATILITY

Volatility: 

We expect volatility to modestly increase over the next 12 months. There are a number of catalysts that could lead to higher volatility on the horizon, such as geopolitical uncertainty, the 2022 midterm elections, the changing composition of the Fed, central bank's adopting a more aggressive tightening stance, the Fed's balance sheet reduction plans and additional COVID waves.

DISCLOSURES

Diversification does not ensure a profit or guarantee against a loss

INTERNATIONAL INVESTING | International investing involves additional risks such as currency fluctuations, differing financial accounting standards, and possible political and economic instability. These risks are greater in emerging markets.

SECTORS | Sector investments are companies engaged in business related to a specific economic sector and are presented herein for illustrative purposes only and should not be considered as the sole basis for an investment decision. Sectors are subject to fierce competition and their products and services may be subject to rapid obsolescence. There are additional risks associated with investing in an individual sector, including limited diversification.

OIL | Investing in oil involves special risks, including the potential adverse effects of state and federal regulation and may not be suitable for all investors.

CURRENCIES | Investing in currencies is generally considered speculative because of the significant potential for investment loss. Their markets are likely to be volatile and there may be sharp price fluctuations even during periods when prices overall are rising.

GOLD | Gold is subject to the special risks associated with investing in precious metals, including but not limited to: price may be subject to wide fluctuation; the market is relatively limited; the sources are concentrated in countries that have the potential for instability; and the market is unregulated.

FIXED INCOME | Fixed-income securities (or “bonds”) are exposed to various risks including but not limited to credit (risk of default of principal and interest payments), market and liquidity, interest rate, reinvestment, legislative (changes to the tax code), and call risks. There is an inverse relationship between interest rate movements and fixed income prices. Generally, when interest rates rise, fixed income prices fall and when interest rates fall, fixed income prices generally rise.

US TREASURIES | US Treasury securities are guaranteed by the US government and, if held to maturity, generally offer a fixed rate of return and guaranteed principal value.

US DOLLAR | The US Dollar Index is an index (or measure) of the value of the United States dollar relative to a basket of foreign currencies,[1] often referred to as a basket of U.S. trade partners' currencies.[2] The Index goes up when the US dollar gains "strength" (value) when compared to other currencies.

CANADIAN DOLLAR | The CAD index is used for analysis and trading of the Canadian dollar CAD against the rest of the Forex market. A portfolio of most liquid currencies is used as a market systemic indicator. Currency index is aimed at analyzing and trading Canadian dollar (CAD) against other segment of Forex market.

BRITISH POUND | The GBP index is used for analysis and trading of the British Pound against the rest of the Forex market. A portfolio of most liquid currencies is used as a market systemic indicator. The index sensitivity to fundamental events in other currency zones is minimal, which allows to detect low-volatility trend movement of the index that characterizes objectively the state of UK economy

DEFINITIONS

AGGREGATE BOND | **Bloomberg US Agg Bond Total Return Index:** The index is a measure of the investment grade, fixed-rate, taxable bond market of roughly 6,000 SEC-registered securities with intermediate maturities averaging approximately 10 years. The index includes bonds from the Treasury, Government-Related, Corporate, MBS, ABS, and CMBS sectors.

HIGH YIELD | **Bloomberg US Corporate High Yield Total Return Index:** The index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below.

CREDIT | **Bloomberg US Credit Total Return Index:** The index measures the investment grade, US dollar-denominated, fixed-rate, taxable corporate and government related bond markets. It is composed of the US Corporate Index and a non-corporate component that includes foreign agencies, sovereigns, supranationals and local authorities.

MUNICIPAL | **Bloomberg Municipal Total Return Index:** The index is a measure of the long-term tax-exempt bond market with securities of investment grade (rated at least Baa by Moody's Investors Service and BBB by Standard and Poor's). This index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and prerefunded bonds.

BG COMMODITY INDEX | Bloomberg Commodity Index is calculated on an excess return basis and reflects commodity futures price movements.

NASDAQ COMPOSITE INDEX | The **Nasdaq Composite Index** is the market capitalization-weighted index of over 3,300 common equities listed on the Nasdaq stock exchange.

[S&P 500](#) | The **S&P 500 Total Return Index**: The index is widely regarded as the best single gauge of large-cap U.S. equities. There is over USD 7.8 trillion benchmarked to the index, with index assets comprising approximately USD 2.2 trillion of this total. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.

[EMERGING MARKETS EASTERN EUROPE](#) | **MSCI EM Eastern Europe Net Return Index**: The index captures large- and mid-cap representation across four Emerging Markets (EM) countries in Eastern Europe. With 50 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

[ASIA EX JAPAN INDEX](#) | **The MSCI AC Asia ex Japan** Index captures large and mid cap representation across 2 of 3 Developed Markets (DM) countries* (excluding Japan) and 9 Emerging Markets (EM) countries in Asia. With 983 constituents, the index covers approximately 85% of the free float adjusted market capitalization in each country.

[AC WORLD INDEX](#) | **The MSCI AC World** Index is a market capitalization weighted index designed to provide a broad measure of equity-market performance throughout the world. The MSCI ACWI is maintained by Morgan Stanley Capital International (MSCI) and is comprised of stocks from 23 developed countries and 24 emerging markets.

[EMERGING MARKETS LATIN AMERICA](#) | **MSCI EM Latin America Net Return Index**: The index captures large- and mid-cap representation across five Emerging Markets (EM) countries in Latin America. With 116 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

[EMERGING MARKETS](#) | **MSCI Emerging Markets Net Return Index**: This index consists of 23 countries representing 10% of world market capitalization. The index is available for a number of regions, market segments/sizes and covers approximately 85% of the free float-adjusted market capitalization in each of the 23 countries.

[JAPAN](#) | **MSCI Japan Net Return Index**: The index is designed to measure the performance of the large and mid cap segments of the Japanese market. With 319 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in Japan.

[EUROPE EX UK](#) | **MSCI Europe Ex UK Net Return Index**: The index captures large and mid cap representation across 14 Developed Markets (DM) countries in Europe. With 337 constituents, the index covers approximately 85% of the free float-adjusted market capitalization across European Developed Markets excluding the UK.

[MSCI EAFE](#) | The **MSCI EAFE** (Europe, Australasia, and Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the United States & Canada. The EAFE consists of the country indices of 22 developed nations.

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DATA SOURCES

FactSet as of 12/31/2021.

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