MARKET INSIGHT MONTHLY

December Update

MONTHLY COMMENTARY

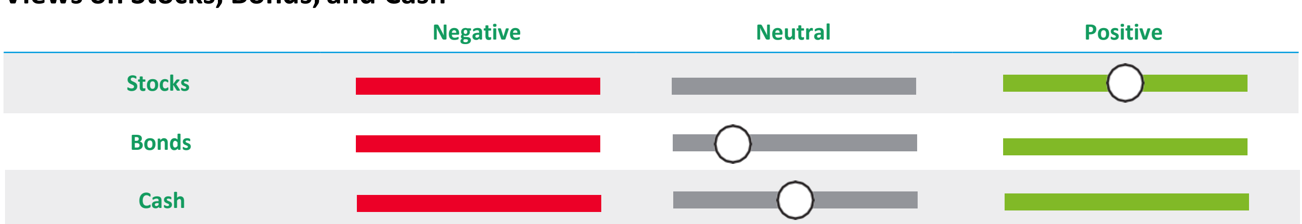
As we move into the final month of the year, quite similarly to 2020, most people will look back on 2021 with mixed emotions. We cannot completely rejoice in our portfolio's returns, without acknowledging the pain and toll upon our society caused by the pandemic. We are more than thankful that vaccines are plentiful and that so many have become re-employed. Twelve months ago, though the markets had already staged an impressive rebound, economic recovery was in its infancy. There was still great uncertainty. The U.S. election outcome remained contentious and COVID vaccine distribution had only begun. Much of the country, if not the world, remained in some type of social distancing protocols. Despite the unknown, astute investors recognized the opportunity and continued to reward innovative companies. Investors evaluated risk by utilizing their experience and sensed that economic activity would remain a primary global objective. Despite obstacles, and there are always obstacles, economies and companies grew, and corporate earnings are now the highest ever generated. We believe that this momentum will propel further gains into 2022.

INVESTMENT TAKEAWAYS

- Despite the increased likelihood of higher interest rates in 2022, we continue to overweight equities within our total global asset allocation. We continue to favor stocks relative to bonds based on our expectation that strong economic fundamentals remain in place and will continue to drive earnings even higher than the records set thus far this year. We expect this growth will extend well into 2022.
- We favor a combination of growth and value large cap stocks. We continue to expect that economically sensitive cyclical stocks will perform well. We also favor companies that currently generate strong earnings and possess strong future earnings growth potential.
- Our positive view of mid and small caps is supported by historical evidence from prior recoveries and the current economic backdrop. These segments perform well as early-stage growth transitions into more mature bull markets. Valuations are in line with historical averages.
- Cyclical stocks have established leadership within most global markets. Developed nations have generally emerged from the pandemic, but new COVID variants have forced governments to implement intermittent shutdowns. Though developed nations' equity markets have generally outperformed those of emerging markets (EM),the U.S. equity markets have been dominant.
- Chinese authorities continue to exert significant political influence over several industrial sectors which hascontributed to investor anxiety. This has led to pressure in emerging market equities, as has a strong U.S. Dollar.
- We continue to underweight our allocation to fixed income. Rates have moved modestly higher this year. We expect rates to continue on this path into 2022 as the Fed has recently initiated long awaited taper activities. Higher rates should eventually put modest pressure on total bond returns.
- We favor a blend of short to intermediate bonds with an emphasis on high credit quality.

BROAD ASSET CLASS VIEWS

Views on Stocks, Bonds, and Cash



EQUITY ASSET CLASSES

The factors that influence our decision to overweight equities remain in effect. We continue to favor stocks relative to bonds. Economic strength will be maintained as we enter 2022, although the rate of growth is likely to abate. The record setting domestic earnings of 2021 will carry forward into next year. We see little evidence suggesting earnings growth will be curtailed. We expect companies from developed nations to continue their transition more quickly into a post-COVID environment, though governments will continue to respond to COVID concerns when needed. Our U.S. equity preference has proven to be both prudent and profitable. International developed stocks have outperformed emerging markets, but U.S. markets remain the global favorite. As Chinese authorities continue to exert pressure on several of their domestic sectors (Real Estate, Communications and Technology) investor enthusiasm has waned for emerging markets in the near term.

	Sector	Overall View	Relative Trend	Rationale
Market Capitalization	Large Caps			The initial recovery starting in late 2020 followed by the record setting earnings of 2021 influenced investors to continue holding and buying large-cap cyclical and growth stocks throughout the entire recovery. We remain well positioned in this segment,our largest equity allocation.
	Mid Caps			Mid-cap companies have grown dramatically with economic expansion. They provide hybrid qualities with certain features of both large and small-cap stocks. Mid-cap valuations remain attractive as strong earnings continue to be reported.
	Small Caps			The U.S. small cap sector remains among the strongest performers of 2021. Continued economic expansion, strong earnings growth and investor risk appetite have generated increased demand. Valuations are attractive based on strong earnings growth prospects through 2022. We remain overweight small caps.
Style	Growth			We believe large cap growth stocks will continue to garner investor support from strong current earnings and positive expectations. Mid and small-cap growth stocks have been hampered by inflation and higher interest rate assumptions.
	Value			We expect most domestic cyclical value stocks to outperform defensive value stocks as the economy expands. Value stocks have lagged their growth counterparts for over a decade. We expect a reversion to the mean will eventually occur. Mid and small-cap companies are currently experiencing this transition.
Region	United States			We see the potential for more gains in the U.S. stock market well into 2022. Over the past 18 months, the U.S. government has deployed trillions of dollars to stimulate the economy. This will have long reaching effects. The U.S. economy will remain strong and versatile. Despite occasional uncertainty, the economy will maintain its forward momentum. For these reasons we continue to favor U.S. equities as our dominant equity position in portfolios.
	Developed International			Developed countries around the world have struggled with health concerns since the COVID pandemic started. Though many have achieved reasonable recoveries, investors have clearly favored countries with sustainable economic plans and health protocols that did not severely compromise trade and growth. Though the rest of the world will likely achieve more reliable economic momentum moving forward, investors will require more evidence before the demand for international equities overtakes that of the U.S..
	Emerging Markets			Emerging market economies have lagged other global regions this year. China accounts for 40% of the emerging markets and Chinese equities have suffered due to government oversight regarding certain corporate activities. A strong U.S. Dollar has also hampered returns. Vaccination rates,which have been comparatively low, should rise worldwide over the next year. Resolution in China combined with vaccinations should eventually favor emerging markets. We are slightly overweight EM.

FIXED INCOME

Limit Rate Sensitivity with Intermediate Focus

The 10-year Treasury yield now stands at 1.42%, having decreased over 25 basis points the past several months. As we have suggested for some time, we believe interest rates will eventually rise and the 10-year will find stability between 1.75%—2.00%. The Federal Reserve has indicated that first, their newly enacted "taper" policy will be completed during the summer of 2022 and second, they may start to increase short term interest rates earlier than had been anticipated to stem an overheating economy. Global supply-chain bottlenecks are contributing to inflationary pressures adding to investor-driven increases in short rates. In our view, compensation for longer-maturity and rate-sensitive bonds remains unattractive. We continue to suggest a blend of high-quality short-to-intermediate bonds in all portfolios with fixed income exposure.

The continued economic expansion allows for high yield bonds issued by stable but growing companies to be a productive use of fixed income capital. We remain committed to a modest high yield position in both corporate and municipal bonds. Inflation has been rising as the expanding global economy has endured many supply chain shortages and logistical obstacles. We believe this will continue into 2022 and, therefore, will continue to promote inflation protection in fixed income portfolios.

We favor municipal bonds for tax-sensitive accounts. Federal stimulus, infrastructure spending and the potential for higher personal tax rates provide support to municipal markets.

Positioning		Low / Medium / High	Rationale
	Credit Quality		Credit spreads have returned to levels suggesting stable, but not excessive, economic growth.
		Short / Int. / Long	
	Duration		Concerns over rising interest rates/inflation remain viable with the prospect of a return to non-stimulative, normalized economic growth. These concerns are not as alarming as rates have recently risen to levels seen in early 2021.

COMMODITIES

Our precious metals view remains neutral with gold prices seemingly range bound between the mid-1700s and the mid-1800s. The attractiveness of precious metals is further reduced by the improving economic outlook, rising interest rates, and the strength of the U.S. Dollar.

The global demand for goods and services has clearly improved over the last year. Energy prices rapidly escalated in late 2020 and continued moving higher for much of 2021 due to relatively low and controlled supply, and limited worldwide availability. Most recently, West Texas Intermediate Oil has fallen to around $70 per barrel having lost about 15-20% from its recent high due to increased availability. As stated last month, we felt oil process were likely closer to a peak than a trough. Unless severe constraints occur, we feel oil is also somewhat range bound.

CONCLUSION

In many respects, a full economic recovery has been obtained. The Fed would not be reducing financial support and contemplating rate increases should significant peril be anticipated. The Fed is quickly transitioning from support to control. We know inflation and tightening monetary policy may contribute to bouts of uncertainty. However, the U.S. consumer and the corporate world have been steadfast in their resolve to move forward.

As we examine market risks, we continue to believe these risks are generally known, manageable and will not likely impact the continued expansion. The market will continue to look forward to a prosperous, post-pandemic environment.

UNITED BANK
Wealth Management

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