OUR THOUGHTS

The New Year always brings new beginnings. We strive to set new goals, we relish new challenges, and we embrace new opportunities. One year ago, we stated our positive outlook for 2021 and are very pleased with the outcomes. While 2021 was an incredible year for both the economy and for investors, we maintain this positive attitude going forward. While we expect volatility, we believe the future remains bright for 2022.

First, a brief summary on actions in the market and with the Federal Reserve (Fed) over the last few months:

1) 2021 was a very healthy year for almost all domestic equities. General returns for most stock market benchmarks were between 20% and 30%.
2) While there were two market pullbacks late in 2021, in September and November, prices continued to rise into year end.
3) The S&P 500 hit new all-time highs 70 times during the course of the year. Every month saw at least one new all-time high reached.
4) The market had been concerned that new capital gains tax increases could be enacted for 2021. When it became apparent that no new tax increases would be voted on in 2021, taxable investors delayed any sales until 2022.
5) Starting in the fall of 2021, the Federal Reserve made it clear that their short-term mission changed from supporting the economy due to the Covid pandemic, to waging a more powerful war on inflation.
6) The Fed started their "taper" efforts in November of 2021 by buying fewer government bonds in the open market, thus reducing liquidity. Initially, this meant reducing monthly $120B purchases by $15B per month for the first 2 months.
7) Soon thereafter, the Fed further stated that they intended to complete the entire taper effort by the summer of 2022. They also might begin to increase short term rates sooner than the fall/winter of 2022 as anticipated.
8) The Fed further stated that they might raise the number of times they increase rates in 2022, going from two times to three times.
9) The Fed, in the first week of January 2022, stated that they may need to increase rates a fourth time in 2022.
10) The market speculated that not only may the Fed increase rates four times in 2022, but that their initial rate increase may be 50 basis points, rather than 25 basis points. In addition, a total of 125 basis points may occur, not 100 basis points.

In short, equity markets have observed the Fed's statements and initial actions as being less consistent and behind the curve in dealing with inflation. We have also already seen CPI at 7% for 2021. So, the actions being contemplated by the Fed are being seen as playing "catch up" and reactive vs. proactive. This is a position that is not particularly respected by the markets. The recent geopolitical concerns between Ukraine and Russia are also contributing to market uncertainty.

As the markets react to the Fed moving toward higher interest rates, a significant percentage of this increase has already been digested in the market. Currently, the 2-year Treasury rate stands at 1.00%. On November 30th, this rate was 0.57%. So, the short end of the interest rate curve has increased rapidly due to the new Fed conversation and likely direction. Therefore, what we are currently experiencing is equity volatility caused by this re-pricing of risk in the market. We imagine a lot of this risk has already been digested in the market, but we will continue to monitor the Fed and their remarks going forward.

Lastly, earnings are strong, and we expect them to continue to be strong as Q4 2021 earnings are finalized. 79% of companies reporting earnings have beaten estimates, which significantly outpaces historical averages. Earnings for 2022 are still forecasted to grow by 9%. As we have suggested, volatility will pick up in 2022, but the economy remains strong. As the market continues to digest the uncertainty with the Fed/geopolitical concerns, and barring any unknowns entering the market, we anticipate continued growth in equities, particularly in the U.S. In fact, this current volatility may turn out to be a great entry point for future returns.

We are grateful for your continued trust and we look forward to a very healthy and prosperous new year.

Sincerely,
Your United Wealth Management Team

MARKET INSIGHT MONTHLY

January Update

MONTHLY COMMENTARY

UNITED BANK Wealth Management

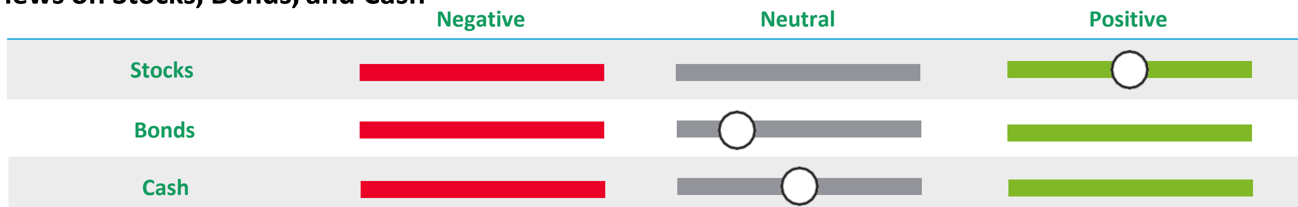
After an impressive U.S. economic recovery in 2021, we expect that economic growth will normalize, but is likely to remain above its historic trend in 2022. Both corporate and consumer balance sheets are strong, wages are rising for the lowest portion of earners, and employment continues to increase – all signs of a healthy economy. The primary headwind to economic progress is sustained, elevated inflation. The Fed is projected to end their asset purchases by the summer, all while increasing the federal funds rate in order to combat inflation and stem excessive price increases. While the Fed’s position is dominating the news at present and causing some early volatility, the eventual outcome is a welcome reduction in the threat of an overheating economy. We do expect inflation to normalize over the course of 2022 as supply bottlenecks ease and product availability is unconstrained. December’s inflation reports indicate the worst of price increases may be over. In 2021, most domestic equity indexes set all-time highs almost every month. S&P 500 earnings set record highs and look to grow even higher in 2022. The economic momentum is not easily reversed despite a modestly higher rate environment. Increased volatility is likely as investors navigate less government stimulus, but we see select opportunity among several asset classes with equities once again being our favored asset class.

INVESTMENT TAKEAWAYS

- Despite starting the year with higher interest rates, 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 in 2021. We expect this growth will extend well into 2022.
- We favor a combination of growth and value large cap stocks. Our value bias protects portfolios during volatile cycles while our growth position takes advantage of economically sensitive sectors. We favor companies that currently generate strong earnings and possess strong future earnings growth potential.
- Our positive view of mid and small cap stocks is supported by historical evidence from prior recoveries. Our analysis shows that the current mid-cycle economic position should prompt investors to remain favorably disposed to these segments. They typically perform well from the early onset of economic growth through more mature stages. Valuations are in line with historical averages.
- Cyclical stocks have established leadership across the globe. Developed nations have emerged from 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 market has been dominant.
- Emerging markets have had a dual dilemma. The pandemic has contributed to lessened trade and political winds in China have been less than favorable for risk assets. We expect the pandemic to be less of a factor moving forward as vaccination rates rise and expect the Chinese government will slightly modify it’s stance.
- We continue to underweight our allocation to fixed income. Rates have recently moved appreciably higher since December of 2021, which has contributed to fixed income underperformance. We expect rates will only modestly move higher from here. We believe much of the anticipated rate increases have already been seen.
- 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 has been maintained as we move into 2022 despite escalating interest rates. The record setting domestic earnings of 2021 will carry forward into 2022. We see little evidence suggesting earnings growth will be curtailed, but the rate of earnings growth will be well less than last year. Our U.S. equity preference has proven to be both prudent and profitable through much of the COVID pandemic and subsequent recovery. We continue to favor the U.S. but are encouraged by economic growth globally. Emerging markets are showing early signs of more consistent growth. We continue to monitor political/ corporate activities in China as authorities continue to exert pressure on several of their domestic sectors. In 2021, investor enthusiasm waned for emerging markets, but now appears to be more positive.

	Sector	Overall View	Relative Trend	Rationale
Market Capitalization	Large Caps			After the initial COVID-induced correction in Q1 2020, U.S. large cap stocks have been the most predictable and reliable equity segment. The record setting earnings generated in 2021 influenced investors to continue holding and buying large-cap cyclical and growth stocks throughout the year. 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 was among the strongest performers of 2021. Continued economic expansion and strong earnings growth generated increased investor demand. Valuations remain 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 revenue expectations. We are mindful that all growth-oriented equity segments are somewhat restricted by inflation and a higher interest rate environment. We do not feel rates will move high enough to be a long-term obstacle.
	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 believe a reversion to the mean began in late 2020 with both mid and small-cap companies experiencing this transition more rapidly.
Region	United States			We see the potential for more gains in the U.S. stock market well into 2022. In response to the pandemic, the U.S. government disseminated trillions of dollars to stimulate the economy. This will have long reaching effects. Despite occasional uncertainty and with somewhat higher interest rates a certainty, the economy will maintain its forward momentum. For these reasons we continue to favor U.S. equities as our dominant position in portfolios.
	Developed International			Developed countries around the world have struggled with health and economic concerns since the COVID pandemic started. Though most of the world is now in a sustainable recovery, investors have clearly favored countries with stringent health protocols that did not severely compromise trade. Developed nations have finally achieved reliable economic momentum and investors are beginning to reward companies with consistent earnings.
	Emerging Markets			Chinese government intervention and continued pandemic health concerns cast a large and looming shadow over EM in 2021. A strong U.S. Dollar also hampered equity performance for U.S investors. However, EM vaccination rates should see a considerable increase over the next year and recent political activity in China might suggest a more moderate stance. This could favor emerging markets. We have a slight overweight to EM.

FIXED INCOME

Limit Rate Sensitivity with Intermediate Focus

The 10-year Treasury yield now stands above 1.8%, having increased rather dramatically since just last month. The 40 basis-point rise has been mainly attributed to comments from the Federal Reserve related to potentially more aggressive short-term rate rises to stem inflationary pressures. As we have stated and suggested for some time, we believe the 10-Year Treasury rate would eventually rise and find stability between 1.75%—2.00%. We are now at that level. The Federal Reserve continues to enact their "taper" policy which should be completed this summer. Fixed income investors have responded rather quickly to Fed statements and decisively moved both short and long rates higher. We believe that bond market investors are reacting exactly as the Fed intended. Rates have already risen in anticipation of eventual Fed action. This, in fact, will stem some growth and lessen inflationary concerns. In our view, compensation for longer-maturity and rate-sensitive bonds remains unattractive as rates move modestly, bunot substantially higher from current levels. We continue to suggest a blend of high-quality short-to-intermediate bonds in all fixed income portfolios

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. As previously stated, inflation has risen as the expanding global economy has experienced many COVID related supply chain shortages. We believe this will continue for the time being, but will lessen at some point in 2022. Thus, we 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.

		Low / Medium / High	Rationale
Positioning	Credit Quality	High-Medium	Credit spreads have increased slightly of late and still suggest stable, but not excessive, economic growth.
		Short / Int. / Long	
	Duration	Short	Concerns over rising interest rates/inflation remain viable with the prospect of a return to normalized economic growth with reduced government stimulus.

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 moderate relative 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. After a slight pullback late in 2021, West Texas Intermediate Oil has once again risen to multi-year highs at slightly over $85 per barrel. Unless severe constraints occur, we feel oil is somewhat range bound and is closer to a peak price.

CONCLUSION

In most 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.

Disclosures

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual security. To determine which investment(s) may be appropriate for you, consult your financial advisor prior to investing.

All performance referenced is historical and is no guarantee of future results. All indexes are unmanaged and cannot be invested into directly. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment.

Economic forecasts set forth may not develop as predicted.

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