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FINANCIAL SERVICES, INC
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989 W Washington St., Suite # 101
Marquette, MI 49855
(906) 226-8711
www.mommaerts-mahaney.com

First Quarter 2022

The Great Same Ol', Same Ol'

Jon C. Mommaerts
Certified Financial Planner®

Robert Kea
Chartered Financial Analyst

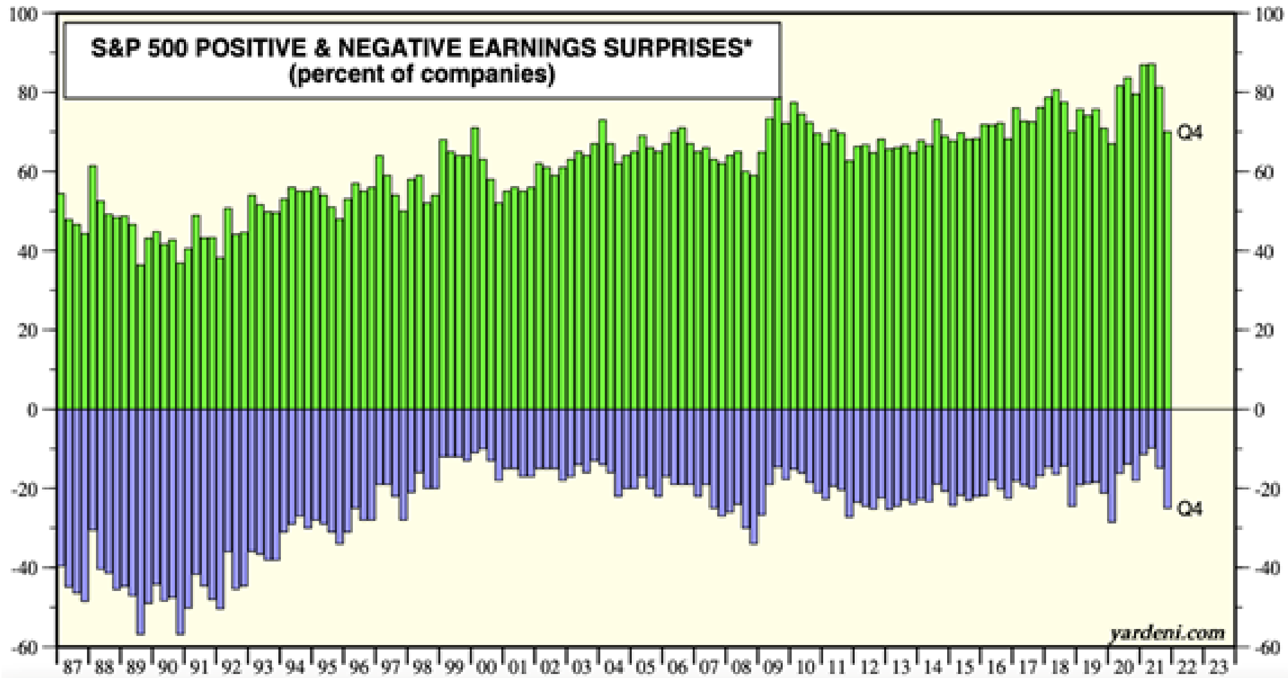
J. Matthew Tuccini
Certified Financial Planner®

Jason J. Rolling
Financial Advisor

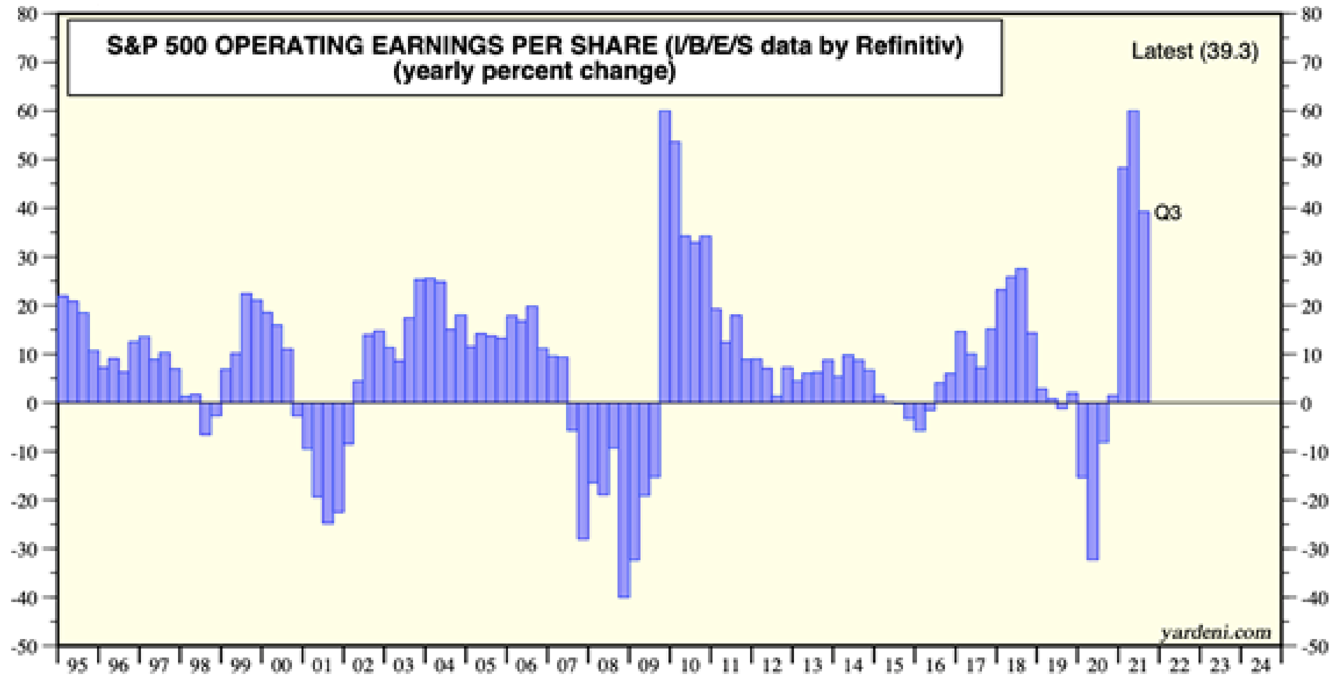
We often mix pop culture references into our market commentaries. We suppose it's our attempt at making mundane economic and market commentary a little more interesting. Truth be told, we do it more for our own entertainment than for yours. As economists and financial professionals, we spend much of our day reading the sanitized commentary of well-respected economists and investment banks. Doing so is an important part of our job. It allows us to not only better understand the economy and markets, but also to contrast and consider differing opinions. We spend many hours reading boilerplate commentaries and crunching numbers in our econometric frameworks. We thank you for tolerating a little bit of creative writing within our commentaries, it allows us to reconnect with our inner-artist.

In fairness to the investment banks, although their commentaries lack creativeness, they are outstanding at coining phrases. Once they coin a phrase or idiom, they relentlessly repeat the words until something better comes along. They've informed us that we've transitioned from the pre-pandemic "Goldilocks Economy" to the "New Normal" during this pandemic. They've now declared the post-pandemic era will forever be known as "The Great Reset". Of course, within each new freshly coined phrase are sub-phrases that play off the new phrase. During the *Great Reset* we have already coined the phrases *Great Resignation* (workers leaving their jobs in record numbers), *Great Reflation* (the comeback of inflation after a 40-year break), and *Great Rotation* (investors shifting from Growth stocks to Value stocks). The general theme is that there have and continue to be a lot of economic changes over the last few years. It's a fair observation but also a misleading one. It implies that investors need to be constantly reallocating their assets to achieve success. We disagree. There is very little explanatory power in short-term market movements. Studies (this is the seminal study) have consistently shown that frequent short-term allocation shifts detract value. There is far more explanatory power in longer-term forecasts, therefore less frequent allocation shifts are more likely to add value. Over the last couple of years, investors have done well by not reacting to short-term volatility or the latest headlines. Of course, that's assuming their longer-term outlook was accurate.

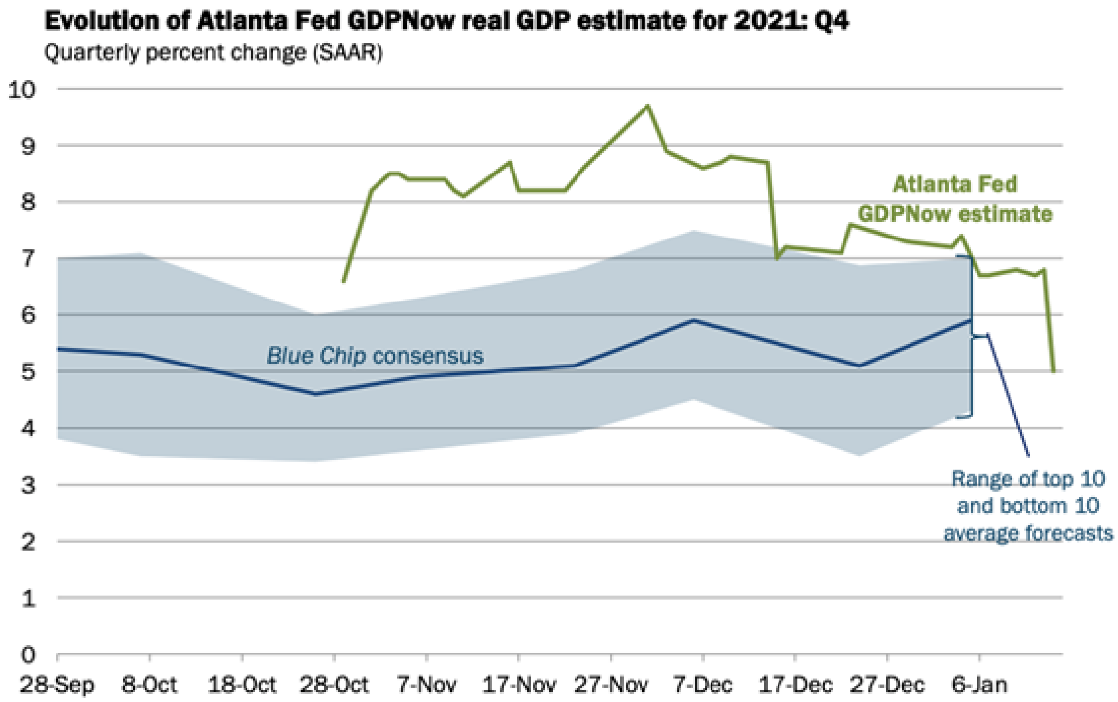
As you've likely surmised, or more likely dreaded, our opening paragraph gives us license to use every investment cliché, pun, idiom, or phrase ever uttered. We may even try to coin a few of our own. Let's start with this, *the more things change the more they stay the same.* Given that we are in the *Great Reset*, we've decided to coin the phrase the *Great Same Ol', Same Ol'* to describe the Q4 earnings season that is just underway. During prior earnings seasons, the tendency has been for analysts to lower their earnings forecasts before the start of each earnings season. Typically, this has resulted in stock markets selling off. Corporations then *beat* these new lower earnings expectations. This is referred to as the *earnings hook.* Stocks then rally. *Here we go again*.



Stock markets have once again become jittery as analysts lower their forecasts. Additionally, the recently released Fed Minutes indicated the Federal Reserve is planning to remove liquidity from the economy at a quicker pace than previously expected. This led to the S&P 500 dropping 2.5% from its January 3rd high. We continue to be a bit perplexed at this repeating pattern we've been witnessing. Troubling headlines drive stock markets lower, then a closer inspection of those headlines eases fears and stocks recover. We understand the business model of the news industry; *comfort the afflicted and afflict the comforted*. Nevertheless, we are surprised that investors' reactions remain the same. Recent headlines declared that earnings growth was slowing and the Fed was lowering their GDP growth forecasts. Troubling headlines indeed. Looking beyond the headlines we realize that Q4 earnings growth forecasts have been lowered to 23%, that's down from Q2's 62% growth rate and Q3's 39% growth rate. A 23% growth rate in earnings is still an outstanding number. Assuming valuation multiples remained constant, this would suggest a 23% increase in stock prices.



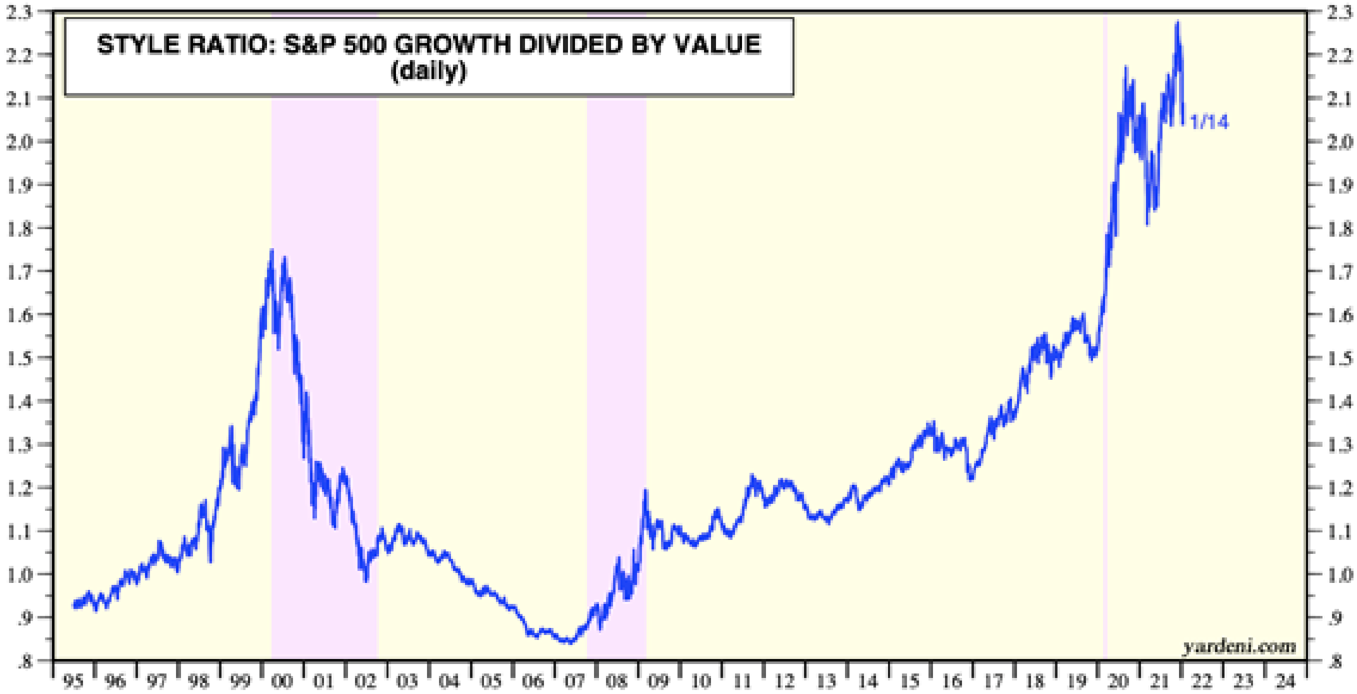
It is also true that the Fed lowered their GDPNow forecast for Q4. They did so in response to their plans to more rapidly remove liquidity and shrink the money supply. Although these changes in monetary policy reflect their inflation concerns, these changes also reflect their concerns that the economy is growing too rapidly for employment to keep pace. The Fed is still forecasting a 5% GDP growth rate for Q4, which also is an outstanding number and well above historical averages.



The hardest decision in investing is to do nothing. Warren Buffet often uses this line. He's known for making trades and not adjusting them for decades. According to Buffet, *an ideal trade never has to be changed.* He invests in the private equity world where that is more true than the public equity world we invest in. Nonetheless, these are *words of wisdom. Variety is the spice of life* but for now, we continue to prefer the *Same Ol', Same Ol'.*

Our belief is that *history will repeat itself.* Okay, we will give you a break from the cliches for a little bit. Our expectations continue to be for volatile stock markets and modest returns. We expect interest rates will rise, but not too much. A 2.25 % yield on the 10-Year Treasury is our end of the year target. After the base effect wears off and supply chain issues moderate, headline inflation numbers should drop and start trending a little north of 3%. Most importantly, the odds of a recession remain low. This means the odds of a bear market remain low.

We do expect to become more active in our asset allocation shifts during the first half of 2022. Our plan is to send out topical commentaries about why or why not we are making shifts. Several investors have inquired about the Growth vs. Value trade. Specifically, Growth appears overvalued and higher interest rates historically have favored Value stocks. This is an accurate observation, but also an observation that has cost investors dearly over the last 15 years.



This potential shift deserves a deeper look, we are on it. We are also closely watching the U.S. Dollar for signs it may be time to dip our toes back into International waters. We might even consider Commodities if inflation remains more persistent than we expect and economic growth rates decline more than we anticipate. The most likely shift in the near term will be a decrease in Large Cap Stock exposure in favor of more Mid and Small Cap Stock exposure. As for now though, it's the same ol', ol'.

All that glitters isn't gold (which is actually a good thing because Gold has been a lousy investment),
The Mommaerts Mahaney Team

Jon C Mommaerts, CFP®: Jon is a Principal of Mommaerts Mahaney Financial Services, Inc. He has over 30 years of experience working with professionals and those about to retire. He is a member of the Financial Planning Association, as well as a member of the Preferred Financial Advisors.

J. Matthew Tuccini, CFP®: Matt has over 17 years of experience working in the financial services industry with vast experience in retirement planning, tax strategies, and financial planning.

Robert Kea, CFA: Bob has over 30 years of experience in portfolio management. He was a founding member and Co-Head on Putnam's Asset Allocation Group, which managed $12Bn in both retail and institutional assets.

Jason Rolling, Financial Advisor: Jason has been in the financial services industry for the past 15 years. His financial experience includes retail banking, consumer & commercial lending, bank management at the local, regional and SVP level, wealth management, and financial planning.

FPA FINANCIAL PLANNING ASSOCIATION PROUD MEMBER

Mommaerts Mahaney Financial Services, Inc. provides advisory services through ERTS Wealth Advisors, LLC, a registered investment advisor.
989 W. Washington Street, Suite 101 Marquette, MI 49855
(906) 226-8711