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First Quarter 2022

It's All Relative

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Happy New Year Everyone! Although there's nothing magical about turning the calendar page from one year to the next, many of us hit our personal reset buttons on January 1st. The world looks remarkably similar on January 1st as it did on December 31st, but our human tendency is to turn our minds to the limitless possibilities of what the year ahead might hold, perhaps after shaking off the night before. Television shows and podcasts give their predictions about cultural, fashion, and political shifts, sportscasters tell us who will win championships in 2022, celebrities tell us their New Year resolutions and their plans to improve upon their already fabulous selves, and most importantly, financial market gurus tell us exactly where to put our money in the new year.

Okay, it's a bit of a silly game but we will play anyway. We think mullets will make a comeback in 2022. A great mullet is timeless, it's still a mystery why this look ever went out of fashion. The Packers will win their 2nd Super Bowl with Aaron "I'm immunized" Rodgers. Our New Year's resolution is to become even better dancers than we already are, a tall task indeed. As far as our predictions for the economy and financial markets, that's a little more involved.

As we mentioned at the onset, the changing of a calendar year doesn't actually change anything. The economy on January 1st is the same as the economy we had on December 31st. We suppose what does change is that capital markets reset their YTD numbers. Stock markets are up 0% on January 1. Interest rates are neither higher nor lower for the year. The U.S. Dollar has neither strengthened nor weakened. Before we move on to what 2022 may hold in store, let's recall the great Scottish poet Robert Burns' plea to first reflect upon and celebrate the past year.

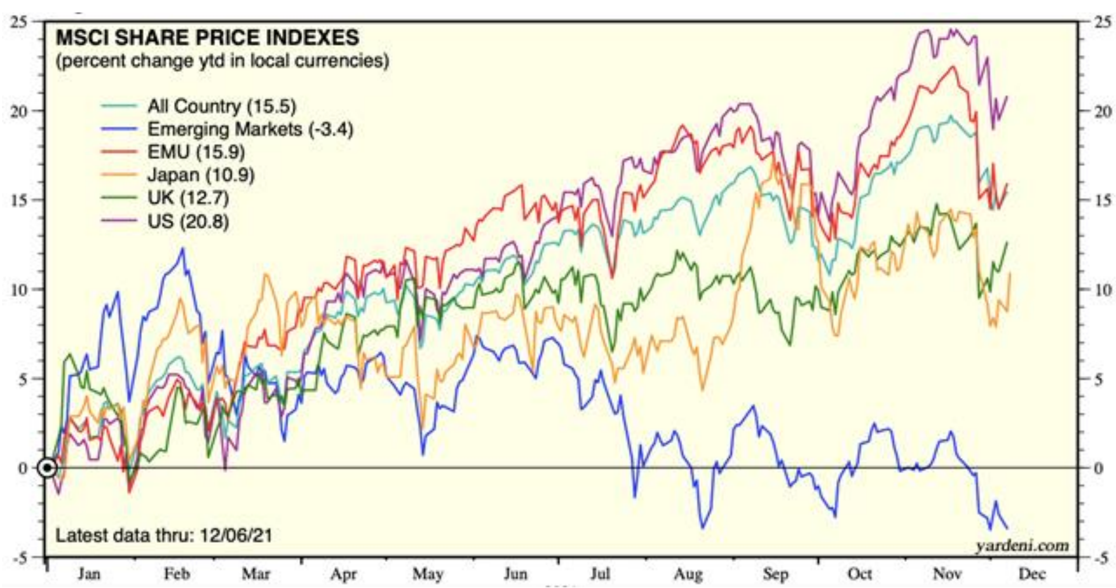
Should Auld Acquaintance be forgot,
On auld lang syne.
That thou canst never once reflect
that loving Breast of thine;
Is thy sweet Heart now grown so cold,
and fully past and gone:
The flames of Love extinguished,
and never thought upon;

Domestic equity investors had a lot to celebrate this past year while International stock investors also made some money, but far less. High Yield had modest gains while the rest of the Fixed Income asset classes lost money. The themes of 2021 were that risk paid off, being overly cautious proved costly, and investing locally instead of globally was very beneficial.

Asset Class	YTD
Large Cap Growth	32.01
Small Cap Value	30.60
Mid Cap Value	28.76
Large Cap Value	24.92
Small Cap Growth	22.42
Mid Cap Growth	20.50
European Equity	16.57
High Yield	5.01
Asian Equity	2.77
Cash	-0.64
Investment Grade	-1.24
Gov't Bond	-2.54

When we examine our investment frameworks for 2022 we find a lot to be concerned about. High valuations, large government deficits, and inflation are just a few of the variables that concern us. What's important to remember as an investor is that *it's all relative.*

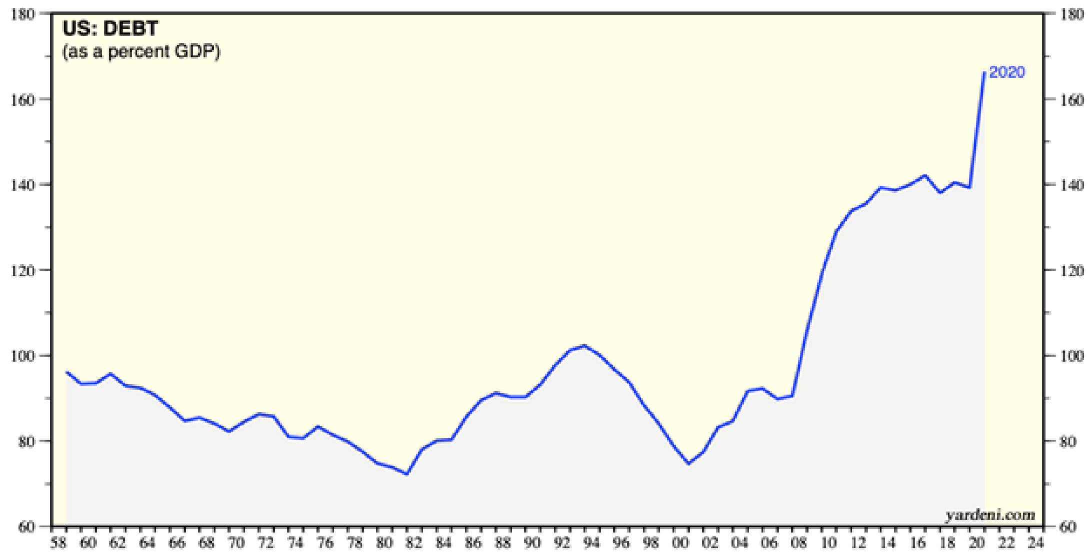
There are 2 reasons why Domestic Stocks strongly outperformed International Stocks in 2021. The first reason is straightforward, U.S. stock markets outperformed International Stock markets. This is referred to as the "local" market returns.

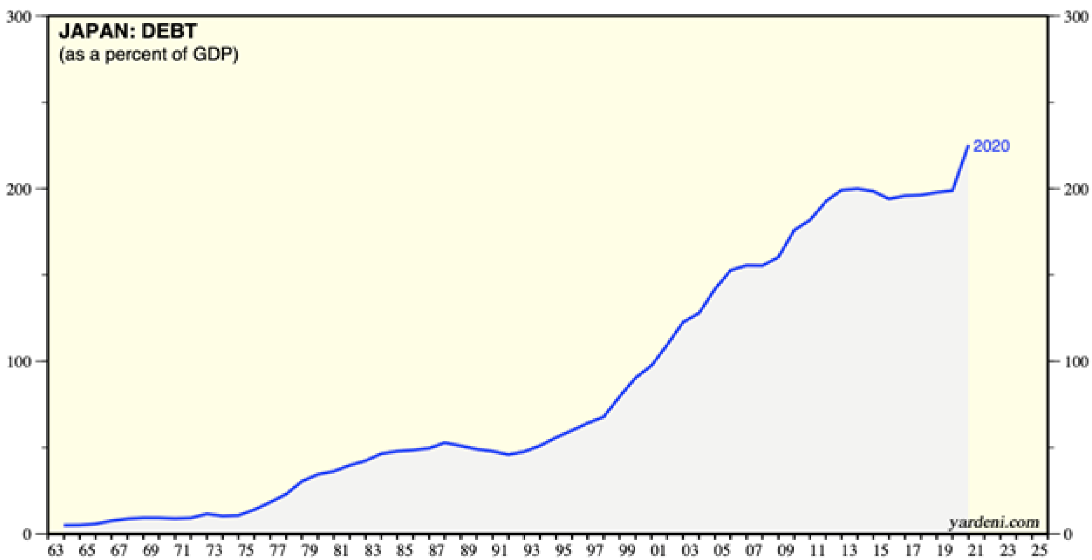


The second reason is far less obvious but equally important. The U.S. Dollar strengthened considerably against the Euro, Pound, and Yen during 2021. When an investor invests internationally the return on their investment is comprised of 2 components, the local market return and the currency return. When we repatriated investor assets at the beginning of this pandemic, we explained that our expectation was for U.S. Markets to outperform and for the U.S. Dollar to strengthen. Our reasoning for the U.S. Stock Market's *local* outperformance was that U.S. monetary policy could target the specific needs of the U.S. economy. The European Central Bank sets one broad monetary policy for all countries in the European Union. Their inability to target the specific needs of each country was going to be a detriment. Additionally, as global trade seized up, the domestic size and demand of the U.S. economy was far greater than any other country. This allows the U.S. economy to continue to function despite the loss of global trade.

Another equally important thought was that during periods of global turmoil, the U.S. Dollar usually strengthens. A strengthening Dollar decreases the return of a U.S. domiciled Investor investing abroad. The U.S. Dollar is considered the world's reserve currency and a safe haven during tumultuous times. The Dollar lived up to its reputation. (For those of you interested in what FRED label on our graph stands for, it's [Federal Reserve Economic Database](). There are enormous amounts of economic data and it's all free. Have fun!)

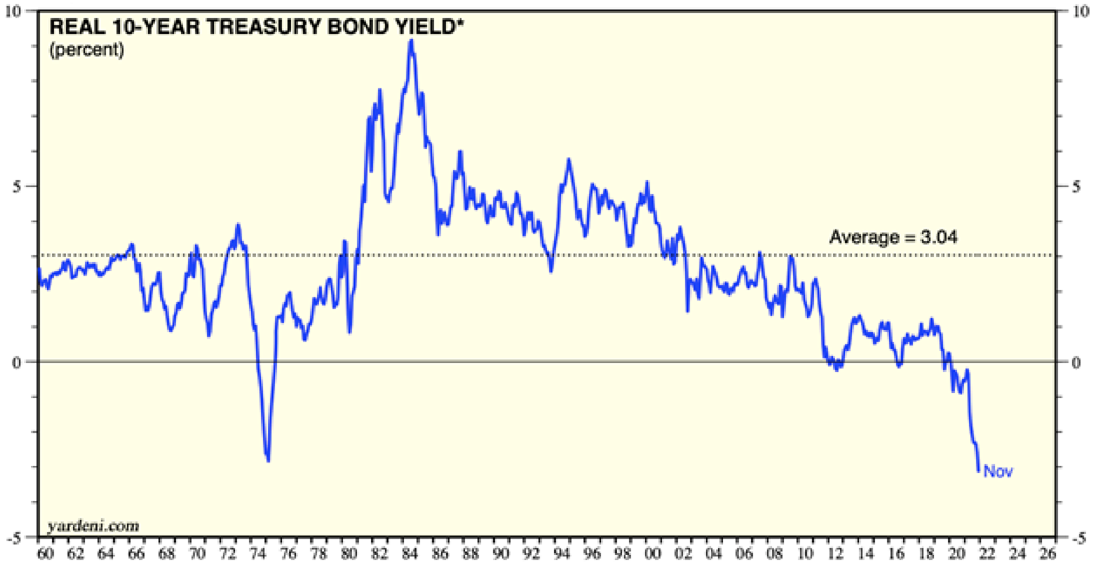
You have undoubtedly heard numerous complaints about our deficit spending and how it will weaken the Dollar. We agree with this argument, deficit spending weakens a currency. Here's the catch; for a currency to weaken another currency must strengthen. Our deficit spending is at record levels, however, *it's all relative*. European and Asian economies also have record deficit spending.



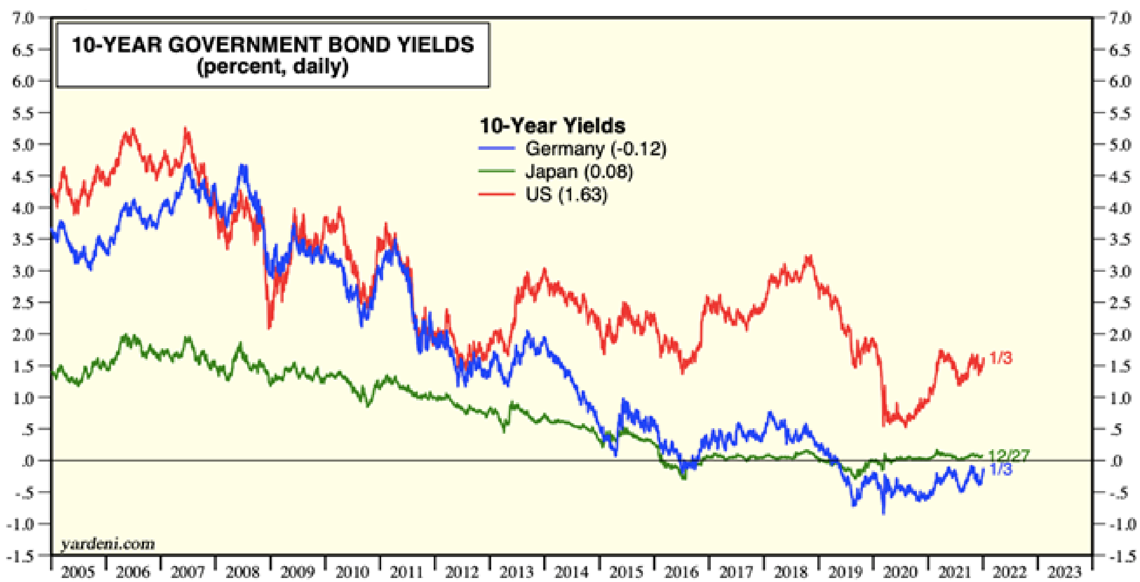


Although we don't expect the Dollar to strengthen at the same magnitude it did in 2021, we do expect the Dollar to continue to maintain its strength among global currencies. As the pandemic eases and global trade reopens, we will reassess our zero International Equity exposure. For now, we remain 100% Domestic.

Bonds yields are another interesting case of *it's all relative*. Countless pundits have been promising higher yields for many years, and although we've disagreed with them, we are sympathetic to their reasoning. By all traditional econometric measures, bond yields should be dramatically higher. The U.S.10-Year Treasury Bond Yield has always traded at a 2% to 3% premium to inflation. That relationship has been blown out of the water over the last decade, in particular the last couple of years. Below is a chart showing the U.S. 10-Year Treasury Bond Yield minus the inflation rate.



We believe the biggest reason (other than the Fed buying $120,000,000,000 a month in bonds) that domestic yields remain low despite increasing inflation is that there are no other viable options for investors that are seeking yield. 1.5% may not seem like a great return, but it's better than earning a negative yield in Germany or next to nothing in Japan. It's also important to recognize this is the reason why foreign investors are such big buyers of U.S. Bonds, further pushing our yields lower than inflation would traditionally suggest.



There will likely be plenty of changes to your investment allocations during 2022 but as for now, 2022 looks a whole lot like 2021. As the pandemic wanes and economies continue to reopen, there will be meaningful changes to economic growth, inflation, and corporate earnings. We will continue to monitor these changes, communicate them to you, and adjust your portfolios accordingly. Have a safe, wonderful, and fun 2022!

Happy New Year,

The Mommaerts Mahaney Team

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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.

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