

Setting the Stage

The U.S. equity markets closed out the year with a positive week. The S&P 500 Index was higher for the week by +0.9%, the Dow was +1.1%, and the NASDAQ was +0.1%. All three major U.S. indices closed the year with solid double-digit gains. Two particular asset class winners this year were oil and real estate, both of which were hard hit in 2021 by the economic impact of COVID but bounced back as the economy re-opened. The U.S. 10-year Treasury bond yield increased to 1.512% at Friday's close versus 1.493% the previous week.

Looking ahead, fourth quarter 2021 earnings are expected to grow 22.3% on 12.0% revenue growth.

In our *Dissecting Headlines* section, we look at the base case for the economy and financial markets heading into 2022.

Financial Market Update

	<u>Weekly Return</u>	<u>YTD Return</u>		<u>Weekly Return</u>	<u>YTD Return</u>
S&P 500 Index	0.9%	28.7%	Aggregate Bond Index	0.0%	-1.4%
Dow Jones Industrial Average	1.1%	20.9%	U.S. Dollar Index	-0.1%	6.7%
NASDAQ 100	0.1%	27.5%	WTI Crude Oil	1.9%	55.0%
Russell 2000 (Small Cap Index)	0.2%	14.8%	Gold	1.1%	-3.6%
International Stocks (MSCI ex-US)	0.2%	4.8%	Real Estate (US REIT Index)	3.0%	38.8%

Sources: S&P Global, Thomson Reuters

Dissecting Headlines: Setting the Stage for 2022

The backdrop for the economy and financial markets for 2022 is a Federal Reserve tightening posture with a tapering of monthly bond purchases projected to be complete by the end of the first quarter of the year. This should result in some upward pressure to intermediate term interest rates and initially steepen the yield curve. Once the taper is complete, the Fed has indicated it intends to increase the Fed funds target rate in three 0.25% increments over the balance of the year. Higher interest rates are a general indicator of economic growth and signal that the economy has moved forward from the economic shock in 2020 caused by the pandemic.

The Fed's actions were laid out during the December Federal Open Market Committee Meeting. The 2022 economic scenario base case for the Fed's actions are real Gross Domestic Product (GDP) growth of 3.6% to 4.5%, an unemployment rate of 3.4% to 3.7%, and Personal Consumption Expenditures (PCE) Inflation of 2.2% to 3.0%. We mention this base case because it helps us interpret potential changes in Fed policy over the course of the year by monitoring these economic data points.

We will start seeing fourth quarter earnings reports in a few weeks. The current expectation for the S&P 500 Index is 22.3% earnings growth year-over-year on 12.0% revenue growth. Factoring this in, full year 2021 earnings for the S&P 500 Index are expected to grow 49.7% on 16.6% revenue growth. The current forecast for full year 2022 is 8.4% earnings growth on 6.5% revenue growth. The 2022 forecast reflects a normalization after the earnings catch-up year in 2021 versus 2020, which was negatively impacted by the opening phases of the pandemic.

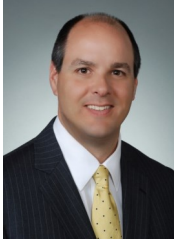
A new year can be cause for optimism. For stock market investors this is probabilistically true. Using the S&P 500 Index as a proxy, since 1926 the Index has produced a positive annual return 71-years out of that 96-year span, or 74% of the time. Still, we should expect volatility as the economy and financial markets adjust to a higher interest rate environment and uncertainty potentially unfolds as we head into the mid-term election cycle.

The NovaPoint Team



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Joe has over 20 years of experience in the investment management industry. Prior to founding NovaPoint, he was a portfolio manager at Spectrum Advisory Services and GMT Capital in Atlanta, and Epoch Investment Partners in New York. He has also worked as an equity research analyst at Merrill Lynch and ABN Amro. Before beginning his investment career, Joe was an Infantry officer in the U.S. Army. Joe holds a BS from the U.S. Military Academy at West Point and an MBA from the University of Chicago. He is both a Chartered Financial Analyst (CFA) and a Chartered Market Technician (CMT).



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Alan has over 20 years of experience in the investment management industry. Prior to founding NovaPoint, he was a fixed income manager at both Spectrum Advisory Services and a private family office. Alan was also with the Bank Group division of Countrywide Capital Markets where he developed balance sheet strategies for depository institutions. He holds a BS in Banking and an MBA in Finance from Nova Southeastern University. Alan is an endurance athlete and three-time IRONMAN finisher.



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Jeff has 10 years of industry experience. Prior to joining NovaPoint, Jeff was a Vice President in the Private Banking and Investment Group at Merrill Lynch. Jeff also worked at Booz Allen Hamilton and the Department of Defense. Prior to his private sector career, Jeff was a Field Artillery officer in the U.S. Army. He holds a BA from the University of Texas and an MBA from the University of Maryland. Jeff is Chartered Financial Analyst (CFA).



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Frederick has over 30 years of experience in the investment management industry. Prior to joining NovaPoint, Frederick was a Partner and Investment Advisor at Brightworth where he advised high net worth investors. Frederick began his investment career in 1991 at Balentine & Co where he rose to Partner. He also co-founded and served as Chief Investment Officer at Wright Investment Management and at Smith & Howard Wealth Management. Prior to beginning his investment career, Frederick served as an Engineer officer in the U.S. Army. He holds a BS from the U.S. Military Academy at West Point and an MBA from Emory University. Frederick is a Chartered Financial Analyst (CFA).



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Tim has over 15 years of experience in the investment management industry. Prior to joining NovaPoint, Tim was the managing partner of Bull's Eye Wealth Management. Tim began his investment career at Raymond James & Associates and was a co-founder of Black Diamond Investment Partners. Following Black Diamond's merger with Waterloo Capital Management, Tim left to found Bull's Eye. He holds a BS from the University of South Carolina and an MBA from the University of Rochester. Tim is a Certified Financial Planner (CFP).

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