1st Quarter 2022 Newsletter
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MARKET UPDATE

By JOSEPH SROKA, CFA, CMT

Equity markets rallied into year-end, then the realization of higher interest rates set in and created a rough start to 2022.

The Federal Reserve has made it clear that economic conditions have recovered from the COVID-induced recession of the first half of 2020. Prior to COVID, the U.S. economy was experiencing good growth with low inflation, and unemployment was at record lows. The economic fallout of COVID produced two quarters of GDP contraction and sent unemployment soaring to 14.7% in April of 2020.

	Jan-20	Jan-22
GDP ($ Trillion)	$21.734	$23.992
Unemployment	3.60%	3.90%
CPI	2.30%	7.00%
Fed funds	1.25%	0.00%
10-year Treasury yield	1.60%	1.77%

GDP is annualized GDP from 4Q of the prior year
Unemployment rates and CPI from Dec of prior year

The Fed responded to the economic fallout by lowering the Fed funds rate to zero and injecting liquidity into the financial system by purchasing treasury bonds, mortgage-backed securities, and exchange traded funds that held similar instruments. This crisis management helped return the economy to growth in the third quarter of 2020 and brought unemployment back to 6.7% by year-end.

The time has now arrived for the Fed to reverse the crisis period monetary accommodation. The tapering of bond purchases has begun and should be completed by March. At the March Federal Open Market Committee (FOMC) meeting, the Fed is widely expected to raise its target for the Fed funds rate by 0.25% in the first of multiple increases over the course of 2022. Sometime in the second half of the year, the Fed will likely begin reducing the size of its $9 trillion balance sheet. This combination of actions should moderate economic growth and remove liquidity from the financial system in an effort to slow inflation.

Corporate earnings rebounded sharply in 2021, especially in sectors that were hit hard by shutdowns and other COVID-related pressures. With a handful of S&P 500 Index companies still left to report fourth quarter 2021 earnings, overall 2021 earnings growth should grow 50.5% versus 2020. Earnings for 2022 should normalize to a more traditional comparison with earnings growth of approximately 8.4% versus 2021.

Looking forward volatility is likely to persists. The pace and magnitude of the Fed's monetary policy actions, inflation, the war for talent as companies ramp back operations post-COVID could all impact investor sentiment. The lead-up to the mid-term elections are likely to be a verbal battleground for many economic and policy positions and could also keep volatility elevated.

Our equity holdings are well-diversified across sectors. We favor high-quality stocks with a demonstrated track-record of increasing dividends as we believe they are more durable through economic cycles, while the growth of the dividends can help offset the impact of inflation.

	4Q21 Return	2021 Return
S&P 500 Index	11.0%	28.7%
Dow Jones Industrial Average	7.9%	20.9%
NASDAQ 100	11.3%	27.5%
Russell 2000 (Small Cap Index)	2.1%	14.8%
International Stocks (MSCI ex-US)	0.3%	4.8%

	4Q21 Return	2021 Return
Aggregate Bond Index	-0.1%	-1.4%
U.S. Dollar Index	1.8%	6.7%
WTI Crude Oil	0.2%	55.0%
Gold	4.1%	-3.6%
Real Estate (US REIT Index)	15.6%	38.8%

Sources: S&P Global, Thomson Reuters

Consider It All

"It takes as much energy to wish as it does to plan." Eleanor Roosevelt

Increases in inflation and interest rate expectations have caused concern to some investors. This concern is felt when individuals see inflation impact their daily lives with prices of goods and services.

All things equal, if prices increase thereby eroding spending power, concern could be warranted. However, there are other macro-economic factors that can offset inflation in whole or in part, and investors can pursue strategies to minimize the risk of inflation negatively impacting their long-term objectives.

Importantly, inflation is not increasing in isolation. The economy continues to recover from the pandemic-induced recession of 2020. GDP growth finished 2021 at a 6.9% annualized rate in the fourth quarter, and wages are also growing for most Americans. According to the Employment Cost Index, compensation grew by 4.4% in 2021, the highest in 20 years. The coincidence of these factors should be expected, as a growing economy leads to higher wages and increased demand, which leads to higher prices in areas where there has not been an adequate supply response.

With regard to long-term wealth and financial planning, investors can make strategic adjustments to mitigate inflation risk.

Generally speaking, the components to a private wealth plan are income, spending, and assets, with income and assets providing for expenditures. Inflation could influence the spending side of the equation. Therefore a prudent plan analyzes all inputs accordingly.

For instance, it is likely that an investor's earnings are increasing. If they are still in the workforce, they may have experienced the effects of the aforementioned wage growth. If they are retired, they may benefit from the 5.9% cost of living adjustment (COLA) in Social Security, the highest increase since 1983.

Historically, the equity markets are the most effective inflation hedge as stocks have a long-term track record of returns in excess of inflation. Income-seeking investors can benefit from companies that pay growing dividends to increase their cash flow for expenditures.

It may become necessary to make some spending adjustments as well, but in conjunction with a holistic plan, we are not defenseless to inflation.

Stay the Course, but Know your Course First.

Do You Know Your Risk Number?

Individuals often classify their investment risk tolerance with adjectives such as "Conservative", "Moderate", or "Aggressive".

These can be highly subjective and may not correctly identify the amount of risk someone is actually comfortable taking.

One self-described Moderate investor may feel uncomfortable if their portfolio fell 5%, while another may not feel uncomfortable until their portfolio falls more than 20%.

While investors understand that the purpose of taking risk is to achieve investment returns, they may not have a realistic sense of how much risk is required to achieve a targeted level of return. In this case, they may not be taking enough risk and are left wondering why they are unable to achieve the returns they are targeting.

We work with clients to identify the level of risk they are comfortable taking and balance it with the investment objectives they are seeking to achieve.

Follow this link to take our complimentary risk analysis questionnaire.

BUSINESS RETIREMENT PLANS

By ALAN J. CONNER

Time is Running Out.....to Lower Your 2021 Taxes

While we are now living in 2022, it is not too late to reduce your taxes for 2021. You still have several options, and depending on whether or not you own a business, this can have a significant impact on your taxes.

IRA – Investors have until April 15th, 2022, to make an IRA contribution. You can contribute up to $6,000, or $7,000 if you are age 50 or older. Depending on your income, the contribution may not be tax-deductible, but it can grow tax-deferred until you reach age 72.

SEP-IRA – The SEP-IRA is a basic business retirement plan and can be appropriate if you are an independent contractor or sole proprietor. The plan allows you to contribute up to $58,000, and you may be able to add an additional $6,500 if you are over age 50. You have until your tax filing deadline (with extensions) to open this plan. The contribution is an expense to the business and lowers its taxable income.

401(k) Profit Sharing Contribution – While the contributory component of a 401(k) needs to take place during the calendar year, the profit sharing contribution for 2021 can be made until the end of the first quarter. If you don't have a plan in place, getting one started is also a good way to lower taxes for 2022.

Defined Benefit / Cash Balance Plan – For business owners with a high level of tax liability, the defined benefit plan can be a great opportunity to both lower taxes and create substantial retirement savings. Depending on a variety of actuarial factors, the plan can enable you to contribute hundreds of thousands of dollars (yes, you read that correctly). For 2021, a plan needs to be established by March 31, but doesn't need to be fully funded until September 15th, provided you extend your 2021 tax return.

Set it......But don't forget it

It is not uncommon for a plan sponsor to establish a 401(k) plan and forget it. All plans should undergo an annual or biennial review.

Investment options – Investment options available through the plan may change from year-to-year. This can be due to consolidation or the closing of a particular fund. Reviewing investment options can ensure you have the best possible choices for your participants at the lowest possible cost.

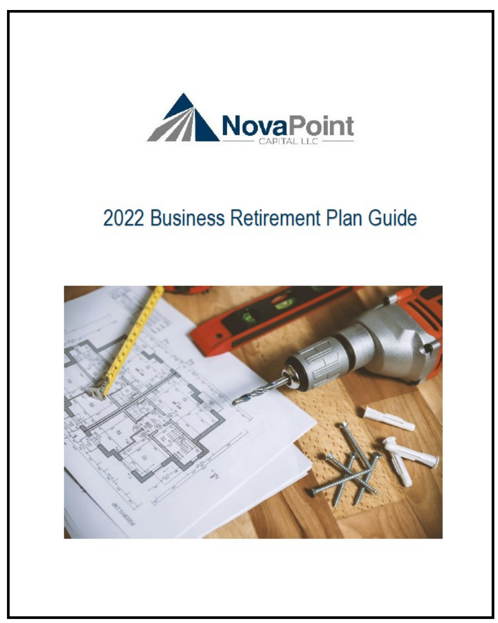
Expenses – There are many types of plan expenses, and the common theme is usually that they go up more often than they go down. Undertaking a benchmarking of expenses for your plan can potentially reduce cost and increase efficiency.

Participation – Employee participation rates can significantly impact the highly compensated persons in the plan. We can provide the education to better inform participants about your plan and how it can help them achieve their retirement savings goals. This can help increase participation rates and allow highly compensated persons to contribute more.

Audit – If your plan has more than 120 participants, you are required to have an annual audit. If some participants are no longer employed, you may be able to remove them and avoid an audit.

Please contact us if we can help with a fiduciary review of an existing plan or help with the design of a new one. If you would like a copy of our 2021 Business Retirement Plan Guide, please use the link below or contact us and we can send you a copy.

[Download the Guide]



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2022 Business Retirement Plan Guide

BLT Pasta

Ingredients

- 8 slices of bacon (or more)
- 1 chopped red onion
- 3 sliced garlic cloves
- 5 cups grape tomatoes
- 1/3 cup cream
- 12 ounces penne pasta
- 4 cups arugula
- Red pepper flakes
- Salt
- Basil
- Parmesan cheese

Directions

Cook bacon and chop.

Cook red pepper flakes, garlic, and salt in bacon drippings. Add grape tomatoes and cook for 12 minutes. Add cream and cook 2 minutes.

Toss with cooked penne pasta, arugula, bacon. Top with basil and parmesan to taste.

Enjoy!

Courtesy of the Food Network

Follow our Weekly Blog Posts

Each Monday, we publish a report on the NovaPoint website blog highlighting important financial and investment issues for the week. You can find the blog on the website on the News dropdown menu or at https://novapointcapital.com/blog/

If you'd like to receive the blog each week, please send an email to info@novapointcapital.com

Welcome Allan Duncan!

Allan Duncan joined NovaPoint in January 2022. He works with both individual and institutional clients. Allan began his investment advisory career in 2014. Allan earned his BA from the University of West Georgia. He lives in Peachtree City and is NovaPoint's first native Atlantan!

NovaPoint CAPITAL LLC

Visit our website: www.novapointcapital.com

NovaPoint Capital is an investment management and advisory firm. We manage investment portfolios for individuals, family offices, businesses and their retirement plans, nonprofit organizations, and institutions.

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