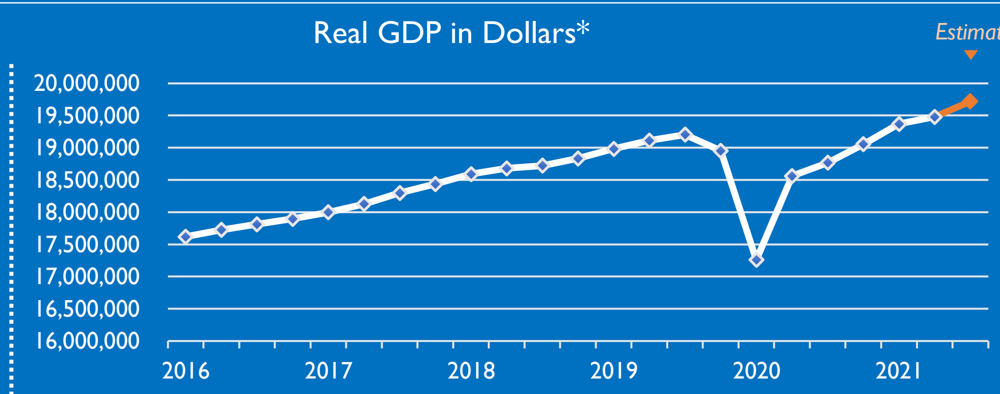
Economic Commentary

As of December 31, 2021

Other Indicators

	CPI	Unemployment	Sentiment	Crude Oil
Q4: 2020	1.3%	6.7%	80.7	$51
Q3: 2021	5.4%	4.7%	72.8	$78
Q4: 2021	7.1%	3.9%	70.6	$77

Real GDP in Dollars*



*Billions

GROWTH

Fourth quarter real growth of GDP is estimated to be 5.0%, compared to 2.3% for the third quarter of 2021. The rapid spread of the Omicron variant in December has caused a slight downward correction to previous estimates. Most economists had assumed that a new "winter wave" of COVID-19 infections would dampen economic growth, but not until Q1 2022. The Omicron variant has spread more rapidly than anticipated and as a result, the associated economic impact in Q1 2022 is unlikely to be as severe as some had feared. However, mass infections are impacting labor supply as workers call in sick or postpone reentering the workforce. Many Americans are not confident in the economic outlook, which could slow consumer spending. The conclusion of most Government stimulus could also dampen consumer spending comparisons.

INFLATION

In December, consumer prices were 7% higher than December 2020, their biggest 12-month jump since 1982. The index was driven by supply constraints connected to the pandemic, government stimulus to support families and businesses through the economic fallout, and higher gasoline and natural gas prices. The Fed in December signaled it's likely to raise interest rates by three-quarters of a percent and begin trimming its $8.9 trillion balance sheet this year, intending to curb inflation. It is improbable that these monetary policy actions alone will get inflation to slow to the Fed's 2% target by the end of 2022. Supply-chain pressures are likely to be present through the end of 2022 and, probably, into 2023 as well.

EMPLOYMENT

In 2021, job growth averaged 537,000 per month. Employment has increased by 18.8 million since April 2020 but is down by 3.6 million, or 2.3%, from its level before the onset of the COVID-19 pandemic. During that time, the economy experienced two historic surprises: 1.) demand for workers came back at a much faster velocity than expected, and 2.) despite companies going all out to hire, millions of workers either retired early or stayed on the sidelines. The U.S. Bureau of Labor Statistics also reported that in 2021, the number of wage and salary workers belonging to unions continued to decline (-241,000) to 14.0 million. The union membership rate was 10.3%. We have rarely seen such a mismatch between so much demand for workers and so few people seeking work.

Fourth Quarter Market Review

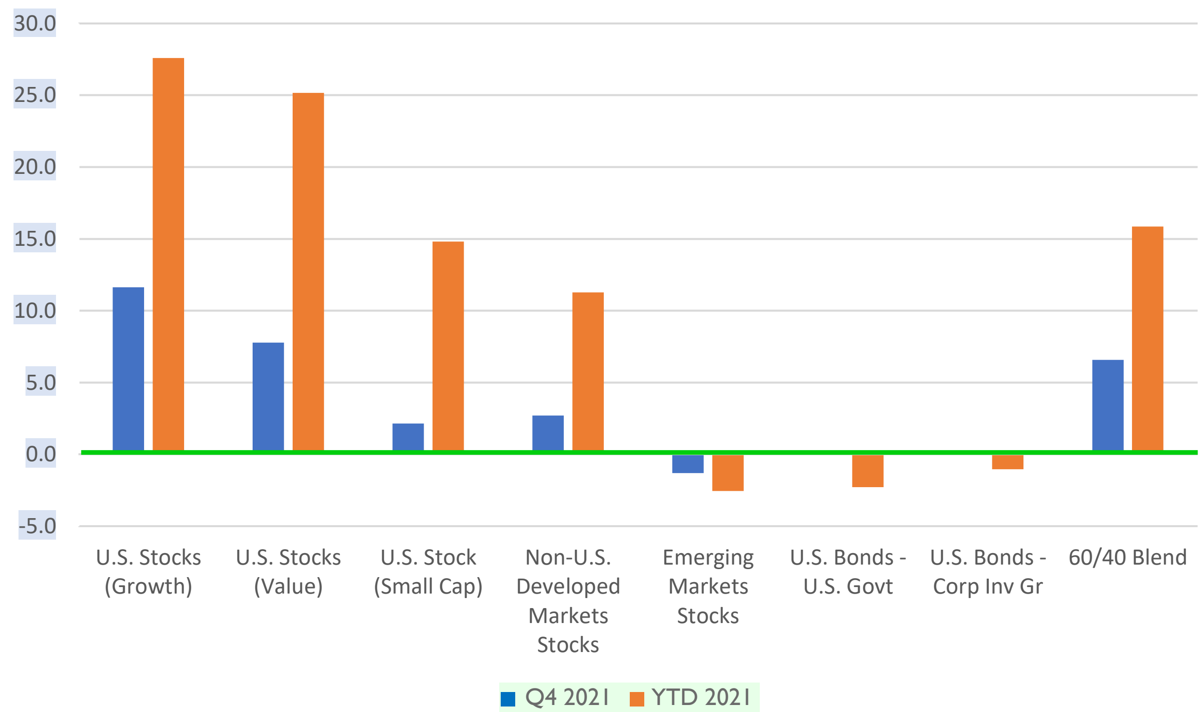
U.S. stocks rose in the fourth quarter, with the S&P 500 closing at 4766, up from 4308 on September 30, and just off its all-time high close of 4793 on December 28. The index returned 7.0% in October, was nearly flat in November, and rose 4.5% in December.

In the U.S., growth and value returns were close among large cap stocks, but among smaller caps, value significantly outperformed.

The top performing sectors in the S&P 500 were Technology and Materials, while Financials and Energy lagged.

Among stocks, the top contributors to the index return were, once again, the large technology-related stocks – Apple, Microsoft and Tesla, along with emerging mega-cap NVIDIA. Detractors included PayPal and Moderna (contribution incorporates the effects of both price change and weight).

- In the U.S., large cap stocks had a positive return, while small caps were mixed.
- Outside the U.S., developed markets recovered, while emerging markets declined again. Within the emerging markets, the Hong Kong-based China 50 Index fell 4.5%.
- Within U.S. fixed income markets, interest rates on U.S. Treasury bonds rose on shorter maturities, while declining modestly for longer. Broad market indexes were mixed, but negative for the year.



Asset class returns are represented by the following indexes: Russell 1000 Growth and Value, and Russell 2000 Index (U.S. Stocks), MSCI EAFE Index (Non-U.S. Developed Stocks), MSCI Emerging Markets Index (Emerging Market Stocks), Bloomberg Barclays U.S. Government Index (U.S. Bonds - Govt), and Bloomberg Barclays US Corporate Bond Index (U.S. Bonds – Corp IG). The Blend is 60% S&P 500/40% US Aggregate.

Drivers of Capital Markets Returns

- Fixed income investments are debt instruments typically issued by governments and corporations. They generally pay a periodic fixed amount of interest until maturity, at which time the principal is repaid. Investors in fixed-income instruments are **lenders**.
- Corporations can also raise capital by selling shares, also known as equity. Equity investors share in a company's success or failures over time. Investors in equity are **owners**.

The price of the S&P 500 Index as of December 31, 2021, was 4,766.18.

Returns to Lenders

Inflation ⬆ 7.1%

- December's CPI level was 7.1% above the month a year ago. Energy prices contributed 1.8% of the increase; the core rate was 5.5%.

Interest Rates ➡ -0.01%

- The yield of a 10-year U.S. Treasury bond was nearly unchanged at 1.51% on December 31. The 2-year rate rose; the 30-year rate declined modestly.

Credit Spreads ⬆ 0.19%

- The yield spread of a generic A/BBB-rated corporate bond rose 19 basis points to 151 basis points. The yield spread measures the yield of 10 – 15-year corporate debt compared to U.S. Treasury Bonds of equivalent maturity.

Returns to Owners

Growth (GDP)

3Q: 2021	4Q: 2021
2.3%	5.0%*

- Fourth quarter real growth of GDP is estimated to have accelerated from the rate in the third quarter, based on higher rates of investment and inventory, while consumer spending growth remains far below 2020.

Profitability

2021E	2022E	%Change22E
$205.02	$223.43	9.0%

- The consensus estimate of 2021 earnings for the S&P 500 rose 2.2% during the third quarter. The estimate for 2022 was 9.0% above 2021.

Valuation

2021E P/E	2022E P/E
23.2	21.3

- On December 31, the price of the S&P 500 was 23.2x its estimated 2021 earnings. The multiple rose as the increase in price exceeded the rise in earnings estimates.

** January 14, 2021 – Atlanta Fed GDPNow estimate*