LaFleur & Godfrey
PRIVATE WEALTH MANAGEMENT

Winter 2022 Commentary

Dan Van Timmeren

John Koczara

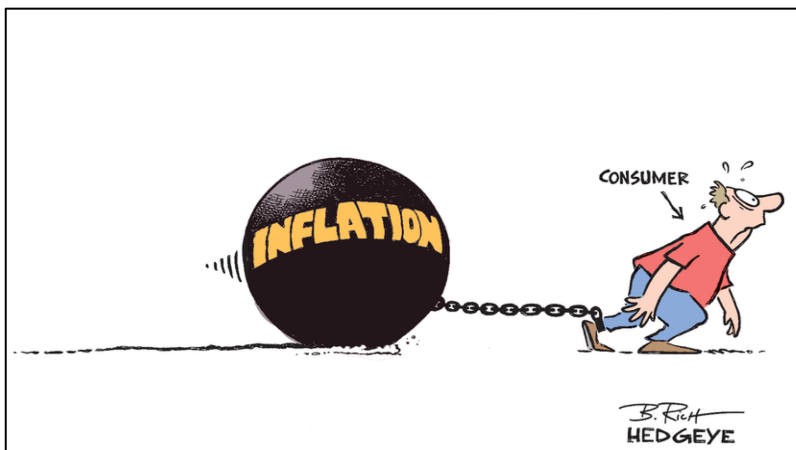
What Can We Expect In The New Year?

Economic Perspective:

The 'sugar high' economic recovery that we experienced during the first half of 2021 was followed by a softening of economic conditions and growth rates during the second half. First and foremost, the second half of 2021 saw much tougher year-over-year comparisons resulting in mid-single digit economic growth declining to low-single digits.

The primary contributor to the slowdown was higher-than-expected inflation permeating throughout our economy. Unfortunately, Fed Chair Jay Powell's transitory hopes were replaced by persistent realities. This resulted in a shift in tone from our monetary leaders to hawkish (i.e. – less monetary stimulus in the future) from dovish (more monetary stimulus). We believe it was necessary as temporary, emergency monetary stimulus from the Fed should never turn into never-ending stimulus measures – especially when it is apparent that our economy can stand on its own two feet! With consistent employment growth now approaching pre-pandemic levels, we feel the Fed's rhetoric change came at just the right time & enables the Fed to focus on the other half of its dual mandate –keeping inflation under control.

A continued improvement in global supply chains would certainly help the Fed out. Increased labor and shipping costs have improved but remain elevated. Traffic jams in our ports are normalizing and are finally opening up. Thankfully, with an important holiday season behind us, most of the much-delayed inventory was delivered before Christmas. Thank you, Santa! This removed a key economic (and market) risk. Many had feared that delayed orders could become lost orders. As a result, recent economic conditions have improved into the New Year. This bodes well for a sustained economic recovery and for market-friendly economic data to continue. It is worth a reminder that the stock market would like an economy that is both not-too-hot & not-too-cold.



Market Perspective:

We believe the keys to solid stock market returns in 2022 depend on three factors: 1.) Will a hawkish Fed drive interest rates up too high/fast? 2.) Will the Omicron COVID variant stall our reopening economy? 3.) Will corporate earnings continue to support higher valuations?

Oftentimes, our biggest fear is that the Fed could be 'behind the curve'. Too-little, too-late monetary policy to address inflation concerns can result in interest rates going up too high & too fast. We don't think that is the case right now. Fed bond purchases will end in early-2022 but we see a high hurdle for the Fed and Chairman Powell to raise rates as aggressively as some believe due to substantial debt levels & potential political opposition going into midterm elections in November.

We are cautiously optimistic regarding the Omicron COVID variant and its potential impact on the economy and stock market. While we certainly are not infectious disease experts, we do have a glass-half-full perspective and are hopeful that vaccination & booster rates will continue to increase, natural immunity will rise and our economy will remain open. So far, the stock market agrees.

Corporate profits should see normalization in 2022. Gone are the days of 30-50%+ profit increases. We expect earnings growth of approximately high-single digits for the upcoming year. This is predicated on a moderation of inflation throughout the year which should lead to lower raw materials and operating costs for corporations. As a result, gross profit & operating margins should expand and increase profitability. We believe a continued improvement in fundamentals will be well-received by Wall Street bulls & conversely concern many of the bears that have been arguing peak profits and stretched valuations.

Looking Ahead:

A good barometer of stock market sentiment is fund flows into exchange traded funds (ETFs). In 2021, total ETF inflows were over $900 billion – with approximately three-quarters of those flows going into stocks. This eclipsed the 2019 and 2020 totals combined! We mentioned in our year-end video emailed to clients that F.O.M.O. (Fear Of Missing Out) and T.I.N.A. (There Is No Alternative / to stocks) were helping drive the markets. Recent flow data certainly make our case. It should continue into 2022 – but we expect a change in market leadership.

It is uncommon for strong market advances not to be broad-based. Case in point, the S&P 500 Index ended last year with its top ten stocks representing an astounding 30% of the overall index. Per Strategas Research, this made the index more top-heavy than ever before (historical average is around 20%)! This is likely to change in 2022. The L&G investment committee expects a reversion-to-the-mean & a broadening of equity returns but sector & stock selection will remain important as ever. Our clients are well-positioned for a 'stock picker's market' and we are optimistic for a solid year ahead. Happy New Year!

This document contains forward-looking statements, predictions, and forecasts ("forward-looking statements") concerning our beliefs and opinions in respect of the future. Forward-looking statements necessarily involve risks and uncertainties, and undue reliance should not be placed on them. There can be no assurance that forward-looking statements will prove to be accurate, and actual results and future events could differ materially from those anticipated in such statements.