Market & Economic Outlook – 2022: We Expect Growth, Along With Inflation and Fed Volatility

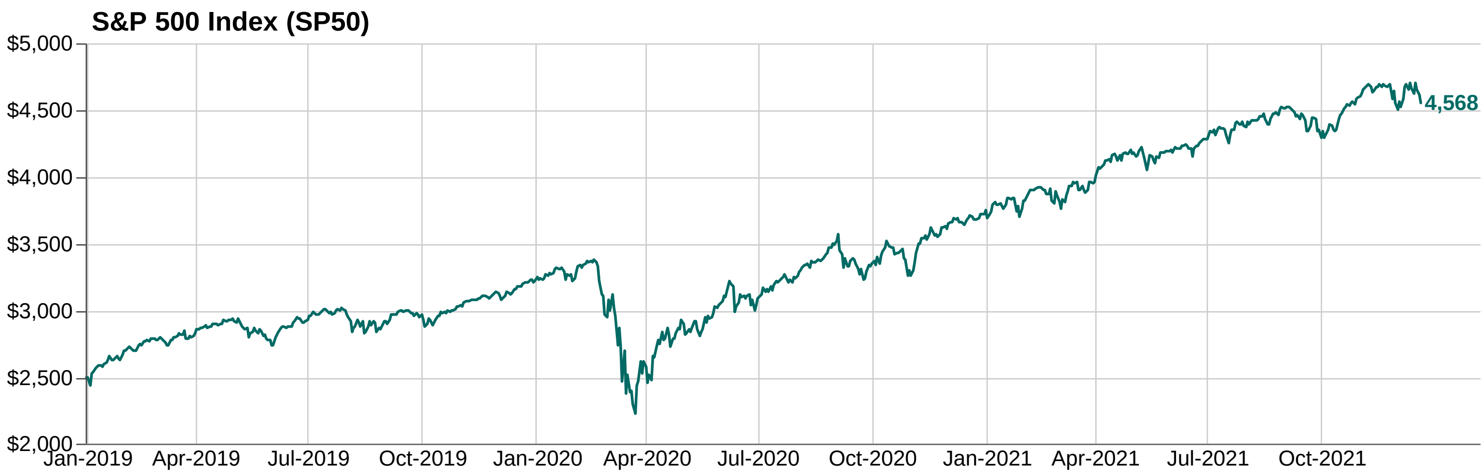
2021 Returns*	Value	Price Return	Total Return	All-Time High	% from High
S&P 500	4,568.02	21.6%	23.3%	4,536.95	0.0%
Dow Jones Industrial Average	34,932.16	14.1%	16.3%	35,625.40	2.0%
NASDAQ Composite	14,980.94	16.2%	17.0%	15,374.33	2.6%
Russell 2000	2,139.88	8.4%	9.4%	2,360.17	10.3%
MSCI EAFE (USD)	2,247.76	4.7%	7.5%	2,398.71	6.7%
MSCI Emerging Markets (USD)	1,190.08	-7.8%	-5.7%	1,444.93	21.4%
Bloomberg Commodity Index	95.38	22.2%	22.3%	237.95	149.5%
Barclays U.S. Aggregate Bond	104.96	-4.5%	-1.5%	112.07	6.8%

**From 12/31/2020 through 12/20/2021; Total returns Include dividends paid* *Data Source: FactSet*

Outlook Summary:

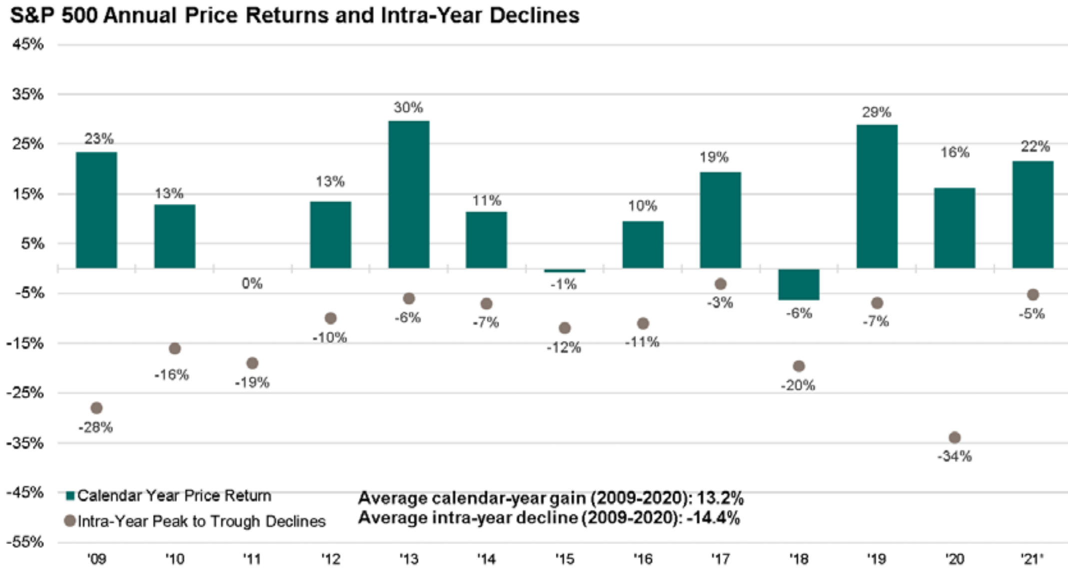
Investors face multiple headwinds entering 2022, but we continue to see a positive environment for U.S. economic growth and corporate earnings that can support modest gains in equities. Our S&P 500 fair value estimate is 4,900, which is 7.3% above the index's closing value on 12/20/21. We believe that equity market gains in 2022 will more closely follow earnings growth (not from higher valuation multiples), and that investors should scale back return expectations from the high levels enjoyed since the end of 2018 (from 12/31/18 to 12/17/21 the S&P 500 compounded annual total return was 25.1%). Driven by ongoing contributions from consumer spending and business investment, along with strength in housing, we see 2022 gross domestic product (GDP) growth of 3.5% to 4.0%, representing a continued recovery from the COVID-19-driven recession in 2020. In our view, this can provide a solid backdrop for continued earnings growth that can meet or exceed the FactSet consensus earnings growth estimate of 9.0%. These results are possible despite persistent inflation that is expected to lead to higher interest rates from the Federal Reserve Bank (Fed), equity valuations that remain elevated compared to historical averages, and renewed economic worries as COVID-19 will soon impact behavior for the third consecutive year. We reiterate our recommendation that investors stay with high-quality companies and build portfolios that are diversified across sectors. While defensive sectors could benefit during periods of market volatility, we believe that cyclical sectors and companies that successfully deliver earnings growth despite inflationary pressures can outperform the broader market in 2022.

U.S. equities, led by the large capitalization S&P 500 index, delivered strong gains for investors in 2021 (through 12/20/21), broadly outperforming foreign equities in developed markets (MSCI EAFE), emerging markets (MSCI Emerging Markets), and domestic small-cap stocks (Russell 2000). The S&P 500 gained 23.3%, including dividends, in 2021 through 12/20/21, on pace to finish a strong year following total returns in 2020 and 2019 of 18.4% and 31.5%, respectively. Despite entering 2021 at an above-average price-to-earnings (P/E) valuation of 22.8x the FactSet consensus estimated earnings for 2021 (vs. the average P/E ratio since 2000 of 16.3x), the S&P 500 rallied as earnings exceeded expectations. The S&P 500's total return was 6.2% in 1Q21 and 8.2% in 2Q21 as earnings in the first half of the year significantly outperformed expectations. Equity gains paused in 3Q21 (S&P 500 +0.6%) as consumer activity slowed due to the emergence of the COVID-19 Delta variant, but 3Q earnings again exceeded expectations and consumer spending data rebounded strongly beginning in October. This drove equity gains in October, and the S&P 500 was up 6.0% in 4Q through 12/20/21. Market volatility has increased approaching year-end; the S&P 500 dropped 3.0% from 12/10/21 to 12/20/21, and the small cap Russell 2000 index declined 12.3% from early November through 12/20/21. We attribute this recent equity market uncertainty to the Federal Reserve Bank (Fed) contemplating raising interest rates to combat inflation trends, and to yet another COVID-19 scare, this time from the Omicron variant. In our view, the U.S. is now better prepared to reduce the economic impact of new COVID-19 variants, as government officials resist shutdowns and restrictions, and short-term pockets of consumer spending weakness have turned around quickly throughout the pandemic.



Data Source: FactSet as of 12/20/21. S&P 500 Daily Closing Prices 12/31/18 to 12/20/21

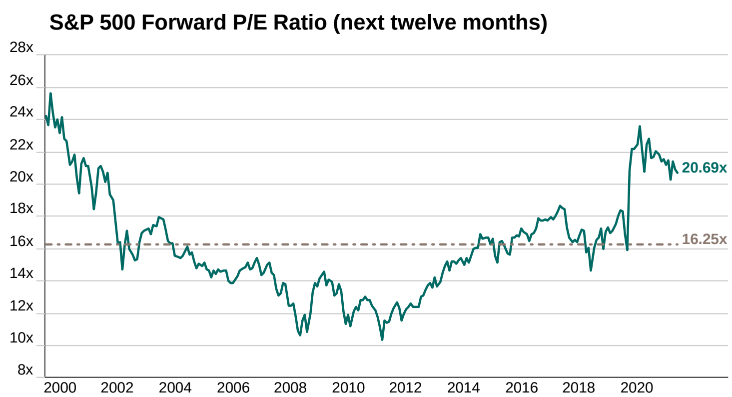
Market declines for the S&P 500 in 2021 remained well below the average intra-year peak-to-trough decline over the past 13 years. The S&P 500 pulled back from highs of 3.8% in December, 4.0% in May, and 5.2% in December. This was significantly below the average intra-year decline of 14.4% since 2009. Only 2017 (down 3%) saw a smaller peak-to-trough decline during the calendar year. We expect more volatility ahead, despite a relatively positive macro-environment, as investors assess risks of inflation, slowing GDP growth, and Fed tightening. While we are not predicting a 14% market correction over the near-term, investors should expect market pullbacks greater than we saw in 2021 and much closer to the long-term average.

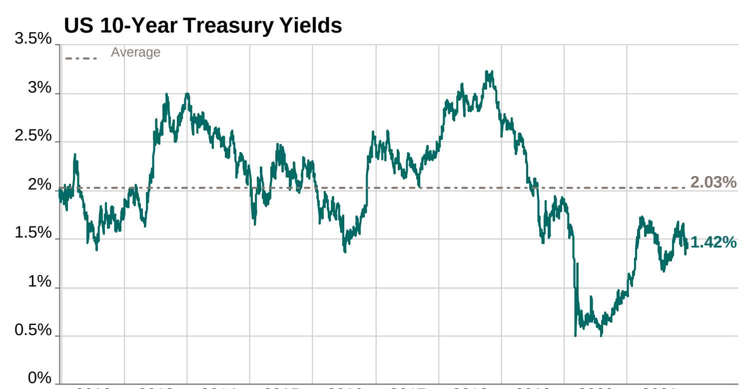


Data source: FactSet and D.A. Davidson using daily closing prices of the S&P 500 index. As of 12/20/21. Column labels are rounded.

Our S&P 500 fair value estimate of 4,900 represents a P/E of 22.2x the FactSet consensus 2022 S&P 500 EPS estimate of $221 and 20.2x the 2023 EPS estimate of $243. The market (S&P 500) P/E valuation as of 12/20/21 of 20.7x forward EPS estimates remains above the 16.3x average forward P/E ratio since 2000 (the average forward P/E over the past 5 years is 18.3x). Throughout 2021, reported earnings exceeded pre-report estimates, and forward estimates have continued to move higher. The 2022 consensus earnings estimate of $221 was $192 one year ago (on 12/31/20), indicating the estimate for next year increased 15% over the past twelve months. We believe that earnings and interest rates are important components of deriving stock price valuations. Holding other variables constant, higher earnings can drive higher stock prices, and lower interest rates should also lead to higher stock prices (because the present value of future cash flows is higher when discounted at a lower rate). In 2021, both earnings and the 10-year U.S. Treasury rate were higher, and equity indices in the U.S posted gains. But because earnings growth was greater than the gain in the S&P 500, the index P/E has moved modestly lower in 2021 (20.7x 2022 estimated earnings as of 12/20/21).

As of 12/20/21, the 10-year U.S. Treasury yield was 1.42%. While the 10-year Treasury yield has increased from both the pandemic lows of 2020 (0.51% on 8/4/20) and 3Q21 lows (1.17% on 8/4/21), yields remain below the average 10-year Treasury yield of 2.03% over the past ten years. P/E ratios have remained elevated for more than two years since the 10-year Treasury yield dropped below 2.0% and stayed there. We see the potential for higher interest rates in 2022, due to ongoing post-recession GDP growth, but not dramatically higher. We could see the 10-year Treasury yield move to 2.00% to 2.25%, close to the average over the past decade, but rising interest rates remain a risk for market valuations; while interest rates remain relatively low (compared to the historical average) we do not expect the S&P 500 P/E valuation multiple to expand in this environment. If interest rates rise more than we expect, P/E multiples could move lower and would create risk to our estimate of fair value for the S&P 500 and other equity indices.



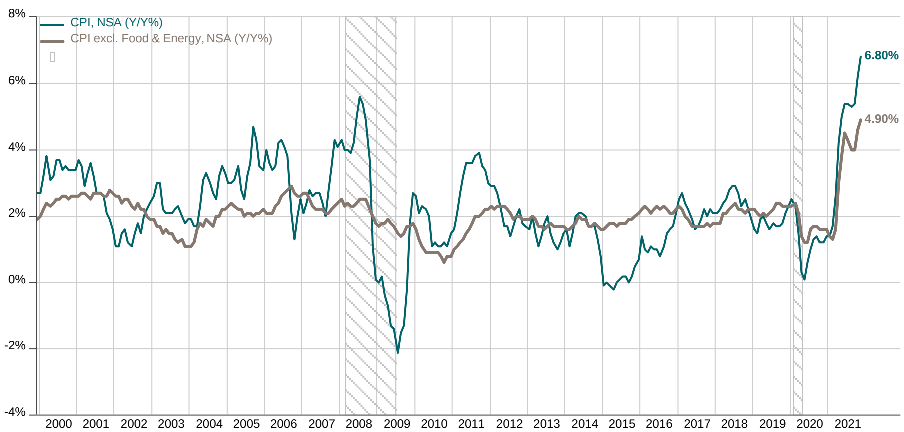


Data source: FactSet, using exchange data, as of 12/20/21 (see Other Disclosures on page 8 for further discussion of P/Es and Treasury yields)

Inflation has surged to a multi-decade high, creating risk for investors. Consumers faced higher price levels throughout most of 2021 as the consumer price index (CPI), spiked higher by 2.6% year-over-year (Y/Y) in March 2021, moved above 4.0% Y/Y for the first time since 2008 in April 2021, and by November reached 6.8%, the highest Y/Y monthly increase since 1982. The Department of Labor reports inflation statistics monthly and measures the change in prices paid by consumers for goods and services. Key components of the CPI include shelter, transportation, food and beverage, and medical care. Through November, among the largest Y/Y increases in CPI were energy (gasoline, fuel oil, natural gas for the home), food at grocery stores and restaurants, new and used cars, and motor vehicle repair and insurance. We have noted that some inflationary pressure was driven by a V-shaped economic recovery, including accelerating consumer demand fueled by businesses reopening and substantial COVID relief transfer payments to individuals from the Federal government. Strong demand in 2021 following factory and production shutdowns in 2020 has led to severe supply chain constraints and higher prices where demand exceeds supply. Through most of 2021, the Fed used the term "transitory" to reflect inflation pressures that were likely to ease as bottlenecks diminished, but in November, the Fed said it would no longer use that word. We view this as an indication that inflationary pressures are likely to remain elevated, but we do –forecast relief from normalizing supply chains and as price levels compare against higher levels beginning in March 2021. Additionally, the COVID-19 Omicron variant could have a slight moderating effect on consumer demand, which would also dampen inflationary pressures in the near-term.

Core-CPI, (the gray line in the chart below) measures price changes excluding food and energy. Because food and energy prices tend to be more volatile from month-to-month, the core number is a solid complimentary gauge of underlying inflation trends, and, on that basis, core inflation is also elevated. While we believe that continued inflationary pressures could weigh on GDP growth by curtailing consumer spending and business investment, the recent data does not reflect a slowdown - yet. Consumer spending growth rates slowed in the third quarter, but have resumed in 4Q, indicating that inflation to this point has not been a significant headwind to growth.

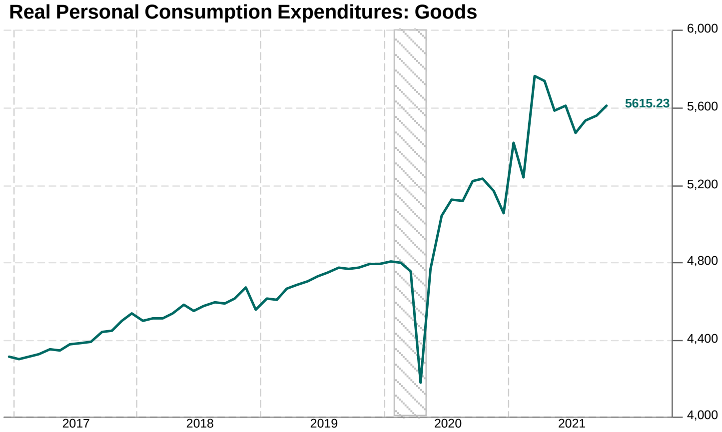
Consumer Price Index (Monthly)



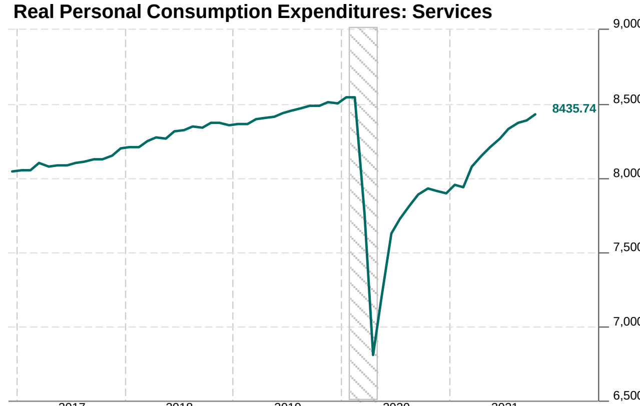
Source: FactSet, Bureau of Labor Statistics as of 11/30/21. The consumer price index (CPI) is a measure of average change over time in the prices paid by urban consumers for a market basket of goods and services.

Consumer spending patterns changed during the pandemic. The U.S. economy recovered quickly from the COVID-19 recession in 2020, with annualized GDP growth turning positive in 3Q20 and both nominal and real (adjusted for inflation) GDP exceeding pre-pandemic levels by 2Q21. Consumer spending (personal consumption expenditures, or PCE) remains the largest component of U.S. GDP (comprising 71% of real GDP in 3Q21) and real PCE in 3Q21 was 2.8% higher than in 4Q19 (pre-pandemic). Consumer spending on Goods (40% of 3Q21 real GDP) grew 15% from pre-pandemic annual levels, while spending on Services (60% of 3Q21 real GDP) remained down 2.4% over that period. From the charts below, PCE on Goods is significantly above the pre-pandemic trend line, while PCE on Services is below that trend growth. This squares with the stay-at-home and work-from-home economy, as U.S. consumers have replaced services (travel, restaurants, doctors' visits), with tangible goods for the home. This has intensified supply chain bottlenecks and contributed to elevated inflation.

Real Personal Consumption Expenditures: Goods



Real Personal Consumption Expenditures: Services

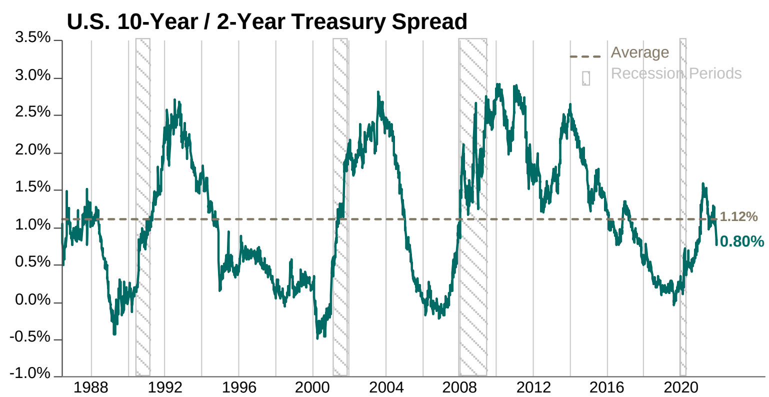


Source: Bureau of Economic Analysis (BEA); data as of 10/31/21. GDP and PCE data can be found at bea.gov (recessions shaded).

We expect spending on goods and services to normalize in 2022, indicating that growth in goods should slow, while services spending growth accelerates. While this shift could be volatile depending on new COVID-19 variants, (new outbreaks have favored goods over services), we expect the steady increase in services spending to improve. As spending on goods normalizes, along with supply chain improvements, some of the extreme inflation pressure in recent months should ease, leading to lower inflation in 2022 vs. 2021. The Fed watches an alternative measure of inflation to complement the CPI, which is PCE inflation, tied to the monthly spending data that feeds into GDP. PCE inflation in November 2021 was 5.7% and core-PCE inflation (excludes food and energy) was 4.7%. While we expect lower inflation numbers in 2022, levels are expected to remain above the Fed's 2.0% goal over time. Factors that could contribute to higher sustained inflation are ongoing wage pressures, higher housing costs, including rent, and longer-than-expected supply chain disruptions.

We expect the Federal Reserve Bank to raise its fed funds overnight lending rate by 50 to 75 basis points (bp) in 2022. The Fed's Open Market Committee (FOMC) concluded its final meeting of 2022 (on 12/15/21) and provided more clarity on its 2022 policy path in an environment of solid GDP growth and elevated inflation. The Fed indicated that it would accelerate its reduction of monthly purchases of Treasury bonds and mortgage securities (i.e. tapering), potentially ending those purchases as early as mid-March. Fed Chair Jerome Powell also reiterated the position that the Fed would not consider raising its overnight fed funds interest rate target range (currently at 0% to 0.25%) until the tapering was completed. The fed funds target range was 1.50% to 1.75% at the end of February 2020 (pre-pandemic), and at the onset of the pandemic, the Fed moved the target rate range to 0% to 0.25% in March. In June 2020, the Fed restarted its Quantitative Easing (QE) program and committed to monthly purchases of $120 billion of Treasury bonds and mortgage securities. The monthly purchases provided substantial liquidity to the Treasury and mortgage markets and helped to keep interest rates low across the yield curve. However, with strong GDP growth throughout 2021, the QE is no longer needed, in our view. The Fed began tapering in November 2021 and will accelerate the decline in purchases beginning in January 2022. Although the tapering is underway, the Fed's policy remains accommodative (it is still purchasing securities each month, just at a declining volume). With 4Q21 U.S. GDP expected to grow 5.5% and inflation having accelerated in October and November, the Fed should have in its toolkit the ability to tighten (raise) interest rates, which it will not consider until its monthly Treasury bond and mortgage purchase program is at zero.

According to the CME FedWatch Tool, which analyzes the fed funds futures market to determine probabilities that investors are assigning to changes in the fed funds rate, investors are assigning a 52% (as of 12/22/21) chance of at least a 25bp rate hike at the 3/16/22 FOMC meeting. By the May 2022 FOMC meeting, investors are pricing in a 67% probability of at least one 25bp rate hike. By year-end 2022, investors have priced in a 90% chance of two 25bp rate hikes and a 67% probability of three hikes, for a year-end fed funds target range of 0.75% to 1.00%. We believe that three 25bp fed funds rate hikes are possible, but those increases will be data-dependent and the Fed must balance fending off inflation while still supporting above-trend GDP growth. In November, President Biden announced the nomination of current Federal Reserve Bank Chair Jerome Powell for a second term as leader of the Fed. In addition, he nominated Lael Brainard (current Fed Board member) for the open Vice Chair of the Board position. We believe that both Mr. Powell and Ms. Brainard hold similar dovish (lower interest rates for longer) views on monetary policy, which suggests a more measured approach to monetary tightening (i.e. mid-March 2022 at the earliest). Given our expectation of three fed funds rate hikes (which should lead to higher rates for other short-term Treasury securities), and outlook for the 10-year Treasury yield of 2.00% to 2.25% (2.125% at the mid-point), the yield curve is expected to remain positively sloped (suggesting a view of continued economic growth) and the spread between the 10-year and 2-year Treasury yield should remain close to current levels (about 80bp). Going back to 1988, that 10-year/2-year spread has turned negative prior to all four recessions over the period. We continue to see solid GDP growth potential in 2022 and 2023.

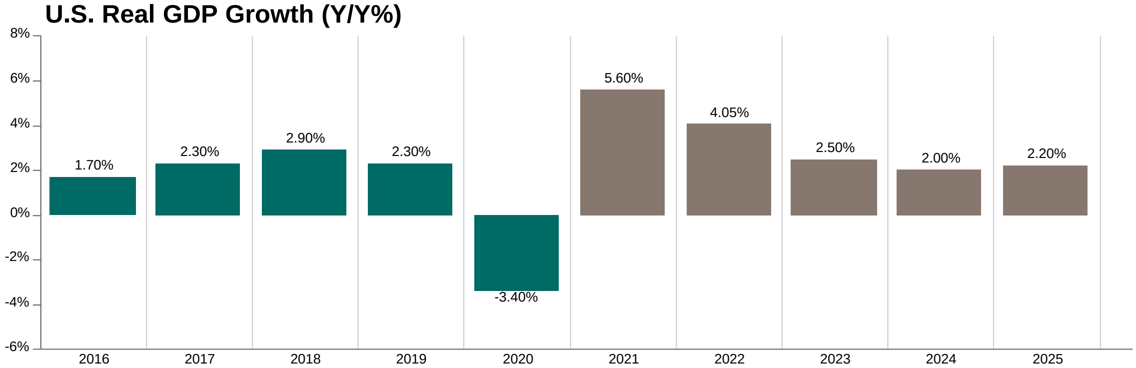


Data source: FactSet as of 12/21/21

We look for above-trend U.S. GDP growth in 2022. The U.S. economy posted a strong 2021 recovery from the 3.4% decline in 2020. While final 2021 GDP numbers are not expected until late January, the consensus estimate as of 12/21/21 is for 5.6% real growth as the 2020 recession appears in the rear-view mirror. According to the National Bureau of Economic Research (NBER), the 2020 recession was the shortest on record, lasting just two months from peak-to-trough and ending in April 2020. Nonetheless, the disruption was severe and led to a sharp decline in output for the calendar year. By contrast, recessions in 2008/2009 lasted 18 months peak-to-trough (ending in June 2009), and 2001 lasted 8 months (ending in November 2001). Since the economic trough in 2Q20, U.S. GDP has recovered rapidly, with GDP growth over five consecutive quarters through 3Q21. Over that period, consumer spending and business investment were positive each quarter, with a more uneven contribution from housing investment and government spending (includes federal, state and local). In addition, quarter-to-quarter inventory adjustments were volatile as inventory drawdowns subtracted from GDP growth in 1Q21 and 2Q21, but then rebounded in 3Q21 (adding 220bp to GDP growth) as companies replenished inventories that were depleted in the first half of the year. Despite overall growth for five quarters, the U.S. has imported more than it has exported (BEA; GDP Report) each quarter of the recovery, which has subtracted from GDP growth (as the U.S. consumes goods that are produced abroad).

Looking ahead, the FactSet consensus estimate for 2022 U.S. GDP growth is 4.1%, which remains above average growth of 2.3% from 2016 to 2019 (pre-pandemic). We believe that growth could fall modestly below that estimate, but can remain elevated in the 3.5% to 4.0% range. We look for consumer spending to remain solid, with continued employment growth, higher wages, and improving consumer confidence if and when inflation readings moderate. With companies in strong financial position, business investment in R&D, technology and equipment is positioned to increase. Industrial production data from the Fed in 4Q21 suggests that business investment has softened to close the year, but as virus fears subside, we expect an uptick, and later in 2022 we should see some spending from the infrastructure bill, the Infrastructure Investment and Jobs Act, passed in November. We also look for positive contribution from housing investment and government spending; while Federal government spending should move lower as COVID-relief packages end, state and local budgets across the country are flush and should contribute to GDP growth as government agencies return to full capacity. Recent supply chain constraints will likely restrict some expected inventory replenishment, which can be a drag on GDP, but over time we expect inventory levels to normalize, which is good for U.S. production. Finally, U.S. exports are a wild card in 2022; import demand was high in 2021 as the U.S. economy rebounded stronger than many of our trading partners, and we expect that to continue. As other economies rebound from the pandemic, however, demand for U.S. goods (our exports) should surge, and create tailwinds for U.S. producers. This could help GDP growth in the second half of 2022, and heading into 2023, in our view.

U.S. Real GDP Growth (Y/Y%)

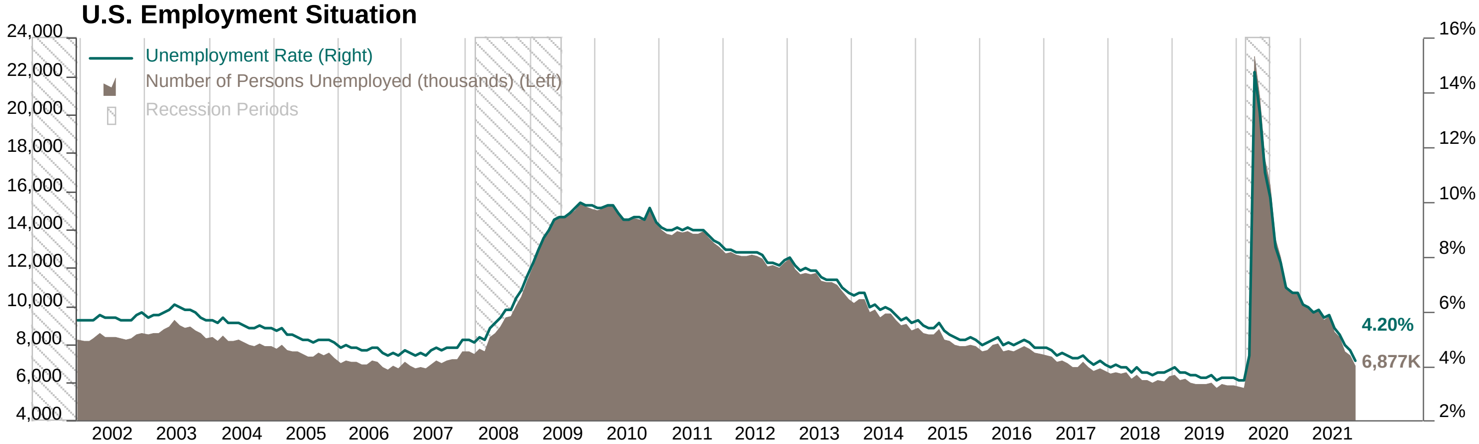


U.S. Quarterly Real GDP Actual / Estimates (Q/Q%)	
1Q21A	6.3%
2Q21A	6.7%
3Q21A	2.3%
4Q21E	5.5%
1Q22E	3.8%

Data Source: FactSet consensus estimates and Bureau of Economic Analysis, as of 12/21/21 (green are actual reported numbers)

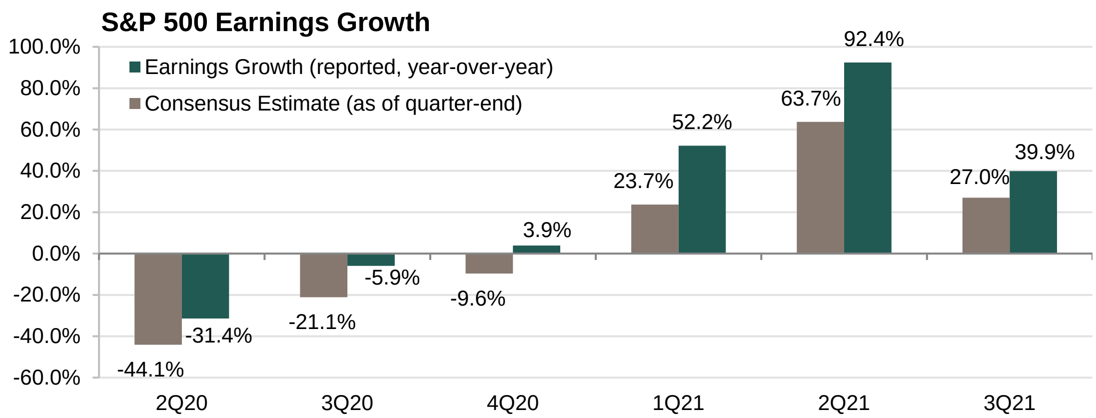
U.S. nonfarm payrolls (jobs) increased 6.1 million (M) in 2021 through November. This is compared to 9.5M lost jobs in 2020, according to the Bureau of Labor Statistics (BLS). Job creation averaged 554 thousand (K) per month in 2021, and by the end of November, unemployment of 6.9M compared to 5.8M in February 2020 (pre-pandemic) with the unemployment rate in November 2021 standing at 4.2% compared to 3.5% in February 2020. The number of people employed remained 3.6M below pre-pandemic levels, and the November 2021 labor participation rate was 61.8% compared to 63.4% in February 2020. We calculate another 4.0M people who have left the workforce during the pandemic (assuming the current population had a 63.4% participation rate). Monthly new jobs growth slowed to 378K over the three-month period from September 2021 to November 2021, and at that pace, it will take another nine months to return to full employment (and perhaps longer if some of the additional 4.0M return to the workforce). The BLS' monthly Job Openings and Labor Turnover survey (JOLTS) reflected a record 11.0M job openings in October, with more than 1.0M openings in manufacturing, retail trade, professional and business services, healthcare, and hotels and restaurants. This dichotomy between the labor market remaining significantly below full-employment levels despite huge job openings reflects a complex environment that has resulted from many factors. This includes virus fears, school closure-related childcare issues, generous government benefits, early retirements, mortality, and worker mobility. On one level, it reflects worker confidence in that people are leaving one job to take another, or to take time off before the next move. In our view, this bodes well for jobs growth in 2022, although it likely will drive an increase in wages. We believe that monthly nonfarm payroll gains can approach 500K in early 2022.

U.S. Employment Situation



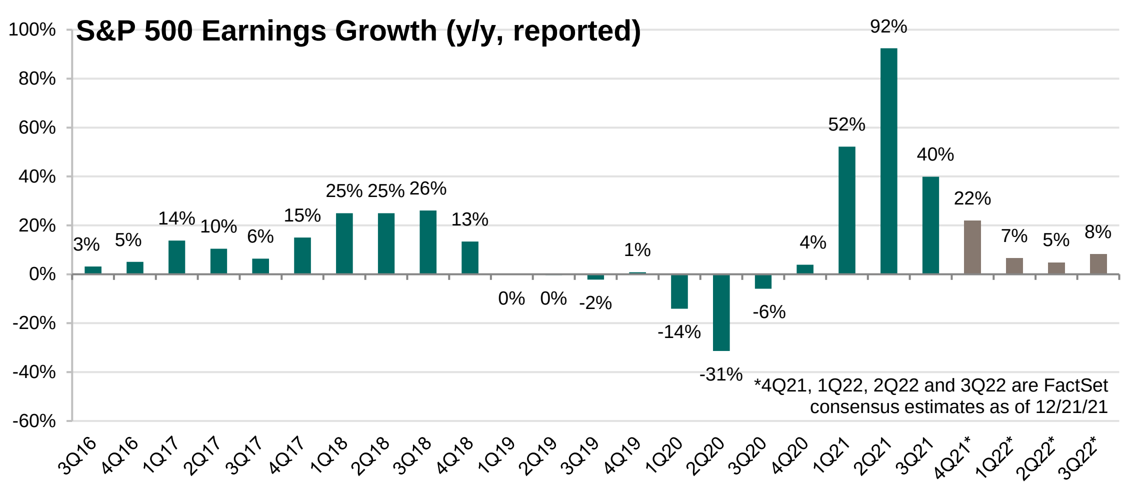
Data source: FactSet and U.S. Bureau of Labor Statistics, unemployment rate as of 11/30/21, unemployed persons as of 11/30/21.

Earnings growth with positive surprises was a big story in 2021. Following the shutdown-driven earnings declines for the S&P 500 in 2Q20 and 3Q20, Y/Y quarterly earnings growth resumed for four consecutive quarters, peaking at 92.4% Y/Y growth in 2Q21. Not only has growth been solidly positive, but the earnings growth each quarter exceeded expectations, even as earnings estimates were consistently revised higher. Earnings growth and positive surprises were driven by key factors, including better-than-expected revenue and margin expansion, as in many cases companies have raised prices, while also reducing or optimizing expenses. The data on large numbers of job openings indicates that many companies are understaffed, which can help margins in the short run. At the same time, companies have invested in software and technology, which has elevated productivity. According to the BEA, annualized real spending on software and research and development in 3Q21 increased 9.6% Y/Y from 3Q20. We expect productivity investments to continue, which should help margins, but offsetting that is an expected increase in labor costs going forward. Some of the late-2021 rise in supply chain costs (transportation, warehousing and logistics) other than labor should stabilize in 2022 and minimize as a long-term drag on margins.



Data source: FactSet as of 12/21/21, earnings estimates are compiled by FactSet from Wall Street analyst estimates

Earnings growth is expected to slow but remain positive. Over time, quarterly Y/Y earnings growth for the S&P 500 is much more volatile than GDP growth. This was the case in 2020 and 2021, as earnings declined throughout the first three quarters of 2020, then rebounded strongly in 2021. For the full year 2021, S&P 500 earnings are estimated to grow 48.2% (FactSet consensus as of 12/21/21), but estimated growth in 4Q21 reflects a slowing growth rate exiting the year. From 2019 to 2021, earnings are estimated to grow at 26.9%, so, just as the U.S. economy rebounded to move above pre-pandemic output levels, S&P 500 earnings have done even better. However, investors are likely facing a single-digit percentage growth in 2022, and that growth is expected to be larger in the second half of the year. We believe that the S&P 500 is currently pricing in the expectation for 9.0% earnings growth next year, and that further gains ahead are dependent upon expectations for continued earnings growth in 2023. As 2023 remains more than a year out, expectations are likely to change along the way, creating the potential for market volatility. This is why we expect more volatility in 2022, with the likelihood of a market pullback or correction that is closer to the average 14% intra-year decline we have seen over the past 13 years.

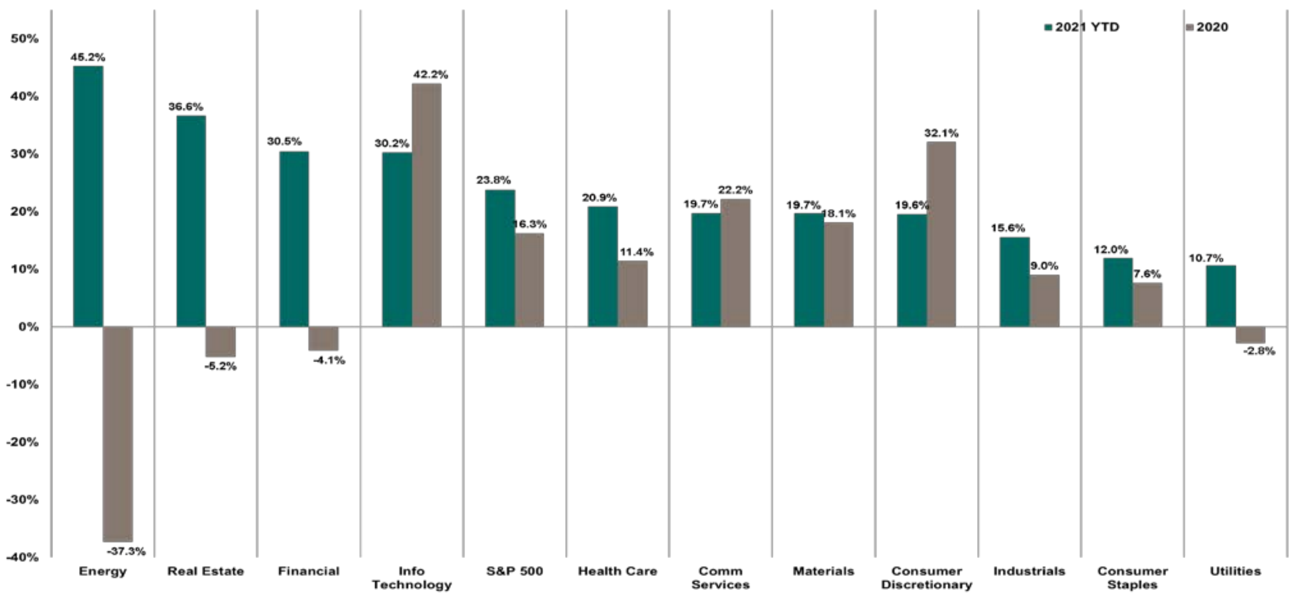


S&P 500 Year Earnings Estimates (Y/Y%) (FactSet consensus 12/21/21)	
2021E	48.2%
2022E	9.0%
2023E	10.0%
2019 to 2021E	26.9%

Data source: FactSet as of 12/21/21

All 11 S&P 500 sectors were positive in 2021 through late December. With the S&P 500 index up 23.8% on a price basis in 2021 through 12/21/21, all Global Industry Classification Standard (GICS) sectors were higher (2021 green bars). This was a contrast to 2020 (gray bars) when S&P 500 gains were 16.3%, but only seven sectors were positive, while four declined. The top three performing sectors in 2021, Energy, Real Estate (REITs), and Financials, were three of the four decliners in 2020 (the fourth decliner last year, Utilities, was the worst performer in 2021). The reversal in the top three sectors was due to a Y/Y rotation into cyclical sectors, as more sectors were able to participate in the post-recession recovery, and also reflected the tendency for sector leadership to change from year-to-year. Changing sector leadership has not impacted the Information Technology (Technology) sector, which followed up a 42.2% market-leading gain in 2020 with a 30.2% YTD increase in 2021, and was the fourth sector this year to exceed the return of the S&P 500. Technology is the largest S&P 500 sector by market capitalization, comprising 29.2% of the index capitalization as of 12/21/21, significantly larger than the second-largest sector, Health Care, at 13.3%. Leading Technology stocks have benefitted greatly from the changing pandemic economy, providing remote access, cloud computing, data storage and analytics, and next-generation technologies including artificial intelligence and 5G that are used across all sectors. The Technology sector was the leading S&P 500 sector for three of the past five years and has been at least a top-four performer for each of those five years (2017 to 2021). Just two years ago, on 12/31/19, the Technology sector comprised just 23.2% of total S&P 500 market capitalization. The underperformance of Utilities and Consumer Staples in 2021 is evidence that defensive sectors were out of favor, which makes sense in a post-recession environment as cyclical stocks tend to outperform. Those sectors performed relatively better in 4Q21, however, as market volatility increased.

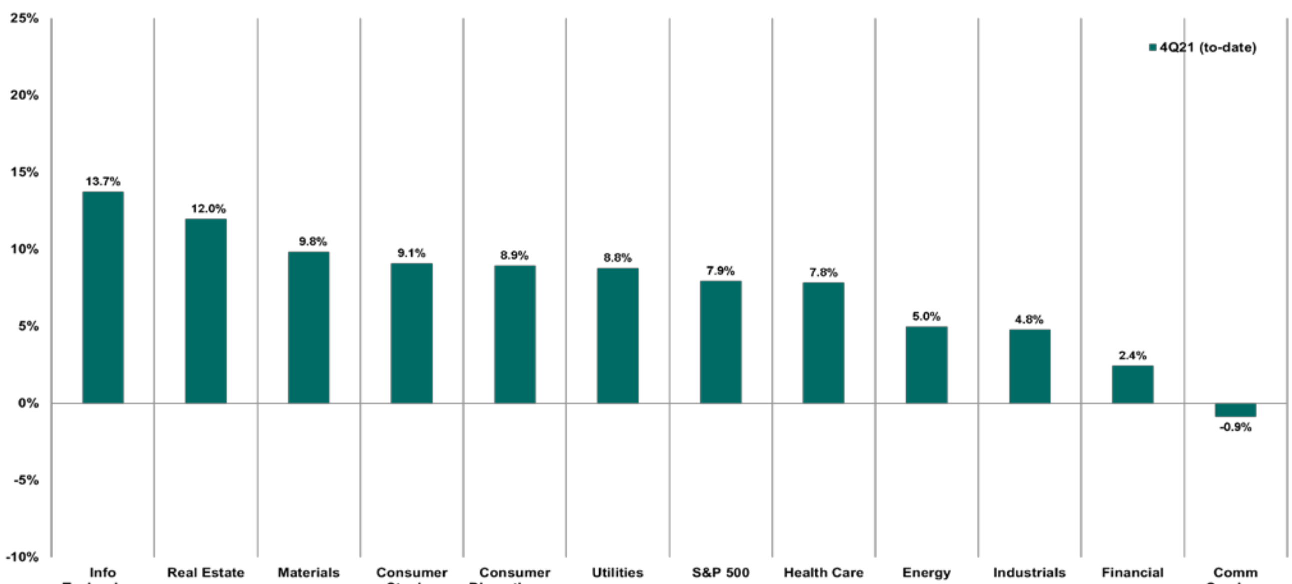
S&P 500 Sector Performance – 2021 Year-to-Date price returns (12/31/20 to 12/21/21))



Data source: FactSet as of 12/21/21, S&P 500 GICS sector indices maintained by S&P Global & MSCI

Sector leadership broadened in 4Q21. The fourth quarter began with a strong equity market rally when consumer activity rebounded as the COVID-19 Delta variant eased, and then encountered another selloff on fears of Omicron (yet another COVID variant) and Fed tightening, but leading to the abbreviated Christmas week, cyclical sectors were rallying again. Through 12/21/21, six S&P 500 macro sectors were beating the index in the quarter, led by Technology and Real Estate (REITs), which many view as defensive due to strong cash flows and dividends. Overall, in our view, in 4Q, cyclical sectors (Financials and Industrials) underperformed and we see some evidence of portfolio managers preparing for more volatility ahead as money flowed to Technology and defensive sectors.

S&P 500 Sector Performance – 4Q21 to-Date price returns (9/30/21 to 12/21/21)



Data source: FactSet as of 12/21/21, S&P 500 GICS sector indices maintained by S&P Global & MSCI

We made a few changes to our sector weighting recommendations since our October outlook; we remain overweight Industrials and have increased Health Care to overweight; while Real Estate and Financials, both overweight in October, are now marketweight. Health Care stocks have performed well in 2021, but have lagged the S&P 500. We see attractive valuations and strong demand for non-COVID-related health care services. After a strong year in 2021, Financials are unlikely to enjoy a steepening yield curve in 2022, but remain well-capitalized and will benefit from ongoing GDP growth. We remain underweight Consumer Staples, as we do not believe investors should become overly defensive in the current environment, but we have moved utilities to marketweight from underweight following two years of wide underperformance. We see several secular winners in the utilities space as companies provide renewable energy sources that receive a favorable regulatory process. For the S&P 500, we do not expect P/E multiple expansion from current elevated levels, and believe equity market gains ahead will be tied to earnings growth. We believe that companies with market-leading products that can gain market share and hold or expand margins can do well in the current environment. Diversification is important to help minimize risk, and although we continue to favor cyclicals, we suggest balancing exposure across both value cyclical and growth sectors.

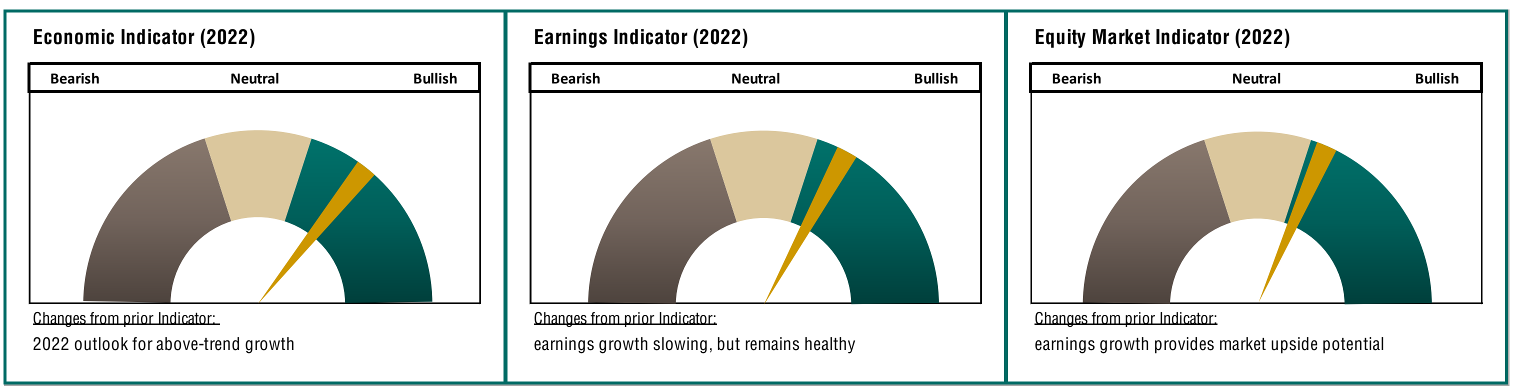
Our S&P sector recommendations are updated below.

S&P 500 Sector Recommendations - December 2021

GICS Sector	S&P 500 Weight by Market Cap	WM Research 2022 Outlook	Notes (reflect current expectations and are subject to change)	Change
Technology	29.0%	marketweight	focus on high quality names; we see valuation risk in high price/sales valuations	
Health Care	13.4%	overweight	improved performance in 2021; valuations remain attractive as economy reopens	was marketweight
Consumer Discretionary	12.3%	marketweight	consumer finances healthy; look for growth in services and housing expenditures	
Financials	10.8%	marketweight	well positioned for GDP growth, but we don't expect steeper yield curve	was overweight
Communications Services	10.4%	marketweight	ad spending driven by two companies, increased regulatory risk	
Industrials	7.7%	overweight	supply chain recovery in 2022 helps margins, weaker dollar helps multinationals	
Consumer Staples	5.9%	underweight	safe haven in down market, but will lag the recovery, some good values	
Real Estate (REITs)	2.8%	marketweight	focus on faster turnover of assets where capacity is tight (limited supply)	was overweight
Energy	2.7%	marketweight	GDP recovers but oil prices vulnerable to increased supply	
Materials	2.5%	marketweight	specialty chemicals and electric-vehicle companies well-positioned	
Utilities	2.5%	marketweight	two years of underperformance, not super cheap but some secular winners	was underweight

Data source: D.A. Davidson Wealth Management Research as of 12/21/21.

Wealth Management Research Investment Cycle Gauge



Source data: D.A. Davidson & Co. as of 12/21/21

James D. Ragan, CFA
Director of WM Research
(206)389-4070
jragan@dadco.com

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Market Indices: The information on indices is presented for illustrative purposes only and is not intended to imply the potential performance of any fund or investment. Indices provide a general source of information on how various market segments and types of investments have performed in the past. Index performance assumes the reinvestment of all distributions, but does not assume any transaction costs, taxes, management fees, or other expenses. You may not invest directly in an index. Past performance is not an indicator of future results. The S&P 500 Index is a market cap weighted index that is designed to measure the US large-cap equity performance. The index is composed of the 500 leading publically traded US companies based on size, liquidity, industry, and profitability criteria. The Dow Jones Industrial Average is a price weighted index that tracks 30 large, publicly-owned companies trading on the New York Stock Exchange (NYSE) and the NASDAQ. The NASDAQ Composite Index measures all NASDAQ domestic and international based common type stocks listed on The NASDAQ Stock Market. Today the NASDAQ Composite includes over 3,000 companies. The Russell 2000® Index is a market cap weighted index that measures the performance of the 2,000 smallest companies in the Russell 3000® Index. The MSCI EAFE® Index (Europe, Austral, Asia, Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the US and Canada. The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. Bloomberg Commodity Index (BCOM) is calculated on an excess return basis and reflects commodity futures price movements. The index rebalances annually weighted 2/3 by trading volume and 1/3 by world production and weight-caps are applied at the commodity, sector and group level for diversification. The Bloomberg Barclays U.S. Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market.

Other Disclosures:

The forward S&P 500 price-to-earnings ratio (P/E) is a valuation measure, calculated by dividing the price of the S&P 500 index over the weighted average earnings per share (EPS) estimate of each company in the index. Earnings are based on "forward" consensus estimates expected over the next 12 months (NTM), using quarterly analyst estimates as provided by FactSet.

Fair value refers to a valuation method based on our view of the intrinsic value of an asset or index, determined by macroeconomic factors and earnings expectations rather than current market prices. This is our view of intrinsic value as of the date of this report.

Gross domestic product (GDP) refers to the monetary measure of the market value of all final goods and services produced within a country's borders within a specific time period.

FactSet is a data aggregation software utilized by D.A. Davidson's Wealth Management Research. The FactSet Consensus refers to the aggregate of all analyst estimates from firms that submit estimates to FactSet for a given financial metric.

The annual price returns of the S&P 500 index are calculated using index closing value on 12/31 of one year to 12/31 of the next year. 2021 returns are calculated as of 12/20/2021. Intra-year peak-to-trough percentage declines are calculated using the index closing prices from an intra-year high date to a subsequent low date. Closing prices are provided by S&P Global through FactSet. Averages across years are calculated using the arithmetic mean.

The yield of the 10-year U.S. Treasury bond is a widely followed barometer of the current U.S. interest rate environment.

S&P 500 earnings growth reflect the year over year change in operating earnings on a per share basis. Earnings data are aggregated for all S&P 500 constituents and are measured according to the relative market capitalization weights for each company. Estimated earnings are the combined FactSet estimates of analysts covering each company included in the index.

The Federal Reserve Bank's Open Market Committee (FOMC) consists of twelve members--the seven members of the Board of Governors of the Federal Reserve System; the president of the Federal Reserve Bank of New York; and four of the remaining eleven Reserve Bank presidents, who serve one-year terms on a rotating basis. The FOMC holds eight regularly scheduled meetings per year. At these meetings, the Committee reviews economic and financial conditions, determines the appropriate stance of monetary policy, and assesses the risks to its long-run goals of price stability and sustainable economic growth.

The Treasury yield curve displays the market interest rate across different contract lengths for U.S. Treasury bonds, indicating the relationship between the interest rate and the time ("term") to maturity.

U.S. Personal Consumption Expenditures (PCE) is an indicator of the growth in consumer spending and measures the value of goods and services purchased by persons who reside in the U.S. It is reported monthly by the Bureau of Economic Analysis.

The Advance Monthly Sales for Retail is a survey of 5,500 employer firms by the U.S. Census Bureau. Its statistical analysis from the respondents is weighted and benchmarked to represent the complete universe of over three million retail and food service firms.

The Bureau of Economic Analysis reports monthly sales of cars and light trucks in the U.S. Most outlets follow the monthly seasonally adjusted at annual rates data.

The U.S. Census reports annualized monthly data on housing starts, permits and completions. It is a widely followed measure to track construction activity in the residential housing market. New Home sales measures sales of new single family homes and is a measure of the demand for housing.

The Transportation Security Administration (TSA) reports the daily number of travelers that pass through its U.S. security checkpoints. It is used a measure to track daily airline passenger traffic across the U.S.

The Drewry World Container Index is compiled by London-based Drewry Maritime Research, and it reflects a composite of 40-foot ocean container rates on 8 major global trade routes. It is used to measure global freight costs for shipping containers.

STR, a division of CoStar Group provides data analytics for the global hospitality industry. STR provides a weekly composite of hotel data across 25 top markets to measure, occupancy, average daily rates, and revenue per available room.

The Atlanta Fed GDPNow is not an official Fed forecast of GDP growth, but is a running estimate of real GDP growth based upon available economic data for the current measured quarter.

The Global Industry Classification Standard (GICS) is a four-tiered, hierarchical industry classification system. Companies are classified quantitatively and qualitatively. Each company is assigned a single GICS classification at the Sub-Industry level according to its principal business activity. MSCI and S&P Dow Jones Indices use revenues as a key factor in determining a firm's principal business activity.