

“Life is like riding a bicycle. To keep your balance, you must keep moving.”

— Albert Einstein

The markets ended 2021 with strong gains even in the face of uncertainties regarding inflation, supply chain disruptions, and the outbreaks of more contagious Covid 19 variants such as Delta and Omicron. **The question on many investors’ minds is how can the market do this well given this current tumultuous environment and the potential future prospects of higher inflation and higher interest rates?**

It didn’t start out so positive, as markets suffered a full-blown panic in March of 2020, as the initial spread of Covid-19 precipitated declines in the S&P 500 and Dow Jones Industrial Average of 36% and 38% respectively from their highs. Since then, investors have decided to look through these uncertainties as vaccines and an extremely accommodative Federal Reserve stabilized the markets and helped provide a positive backdrop for stocks in 2021. **Looking past short-term disruptions to an eventual economic recovery has served investors well.** However, a less accommodative Federal Reserve going forward has made investors question whether the good times may be close to ending.

As we begin 2022, the Federal Reserve is moving to end “tapering” as their

purchases of US Treasuries will be completed. They will then embark on raising short-term interest rates, which are currently standing at the emergency level of 0%. Inflation, which is running at a 40 year high, will have to be addressed. There is concern by some participants that the Federal Reserve may be running too far behind with regards to raising interest rates and, therefore, this current inflation upswing will be hard to contain. Investors will be watching closely on whether these high inflationary readings are transitory or more entrenched. As if this weren’t enough, market participants will also be looking at the mid-term election and its future implications.

Though 2022 has challenges ahead, there are positive offsets as well. There is a huge demographic tailwind for

markets longer-term, as the Millennial generation is just beginning to spend money and their peak in consumption may not be seen for 10 or more years. **Markets tend to do very well longer-term as the next younger generation moves into these big spending years.** There is also ample money on the sidelines that could eventually make its way into stocks over time. We are also optimistic that Covid's negative impact will continue to abate in 2022.

In conclusion, the longer-term backdrop for investors is positive. Markets have been quite good at self-correction, rotating out of areas of overvaluation and

speculation and into new opportunities. **A self-correcting market is a healthy market and we have seen this now for many years.** 2022 will certainly bring its ups and downs, but we continue to seek out value in individual companies and industry specific sectors that can do well in an environment of higher inflation and interest rates.

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