

THE 2022 OUTLOOK

Volatility Returns with the Fed
Poised to Tighten

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2021 SURPRISES

- Economic recovery was strong even though the Covid-19 pandemic was not brought under control
- Bond yields were remarkably steady as inflation surged
- The stock market continued a remarkable run.



INVESTMENT RETURNS BY ASSET CLASS

Stocks	2021	3/31/2020 12/31/2021
US (S&P 500)	28.68	89.48
NASDAQ	22.21	105.91
Russell 2000	14.78	98.43
International (EAFE \$)	11.86	56.93
Emerging Markets (MSCI \$)	-2.51	51.57
Bonds		
Treasuries	-2.32	-2.50
IG Credit	-1.08	11.68
High Yield	5.28	29.15
MSCI EM	-2.29	41.41



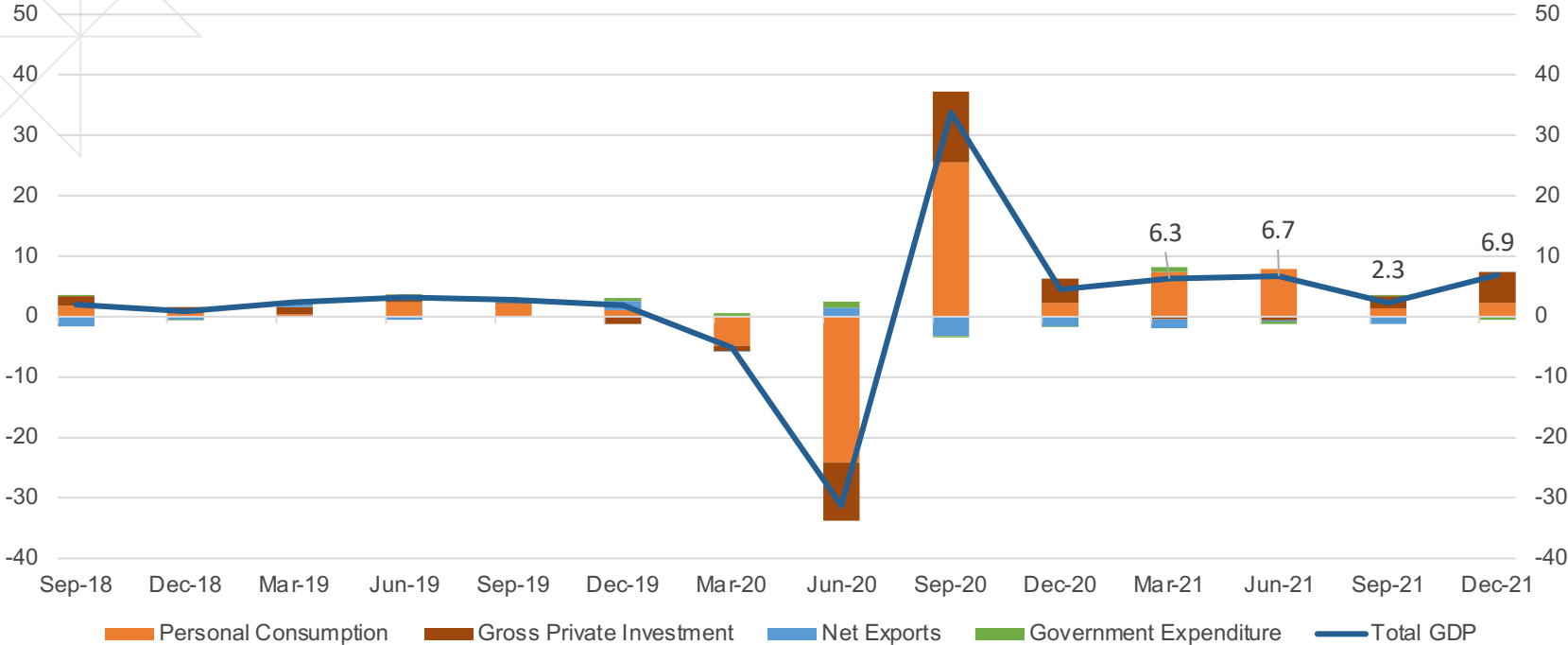
Source: Bloomberg

KEY ISSUES FOR INVESTORS IN 2022

- Will the Impact of the Pandemic Wane?
- Will Inflation Recede or Stay Elevated?
- How Vulnerable are Markets to Fed Tightening?
- What Impact Will Russia's Invasion of Ukraine Have?



THE ECONOMY HAS FULLY RECOVERED FROM PANDEMIC



Category	Contribution to GDP
Net Exports	0.00
Personal Consumption	2.25
Residential Investment	-0.03
Private Inventories	4.90
Nonresidential Investment	0.28
Government Spending	-0.51

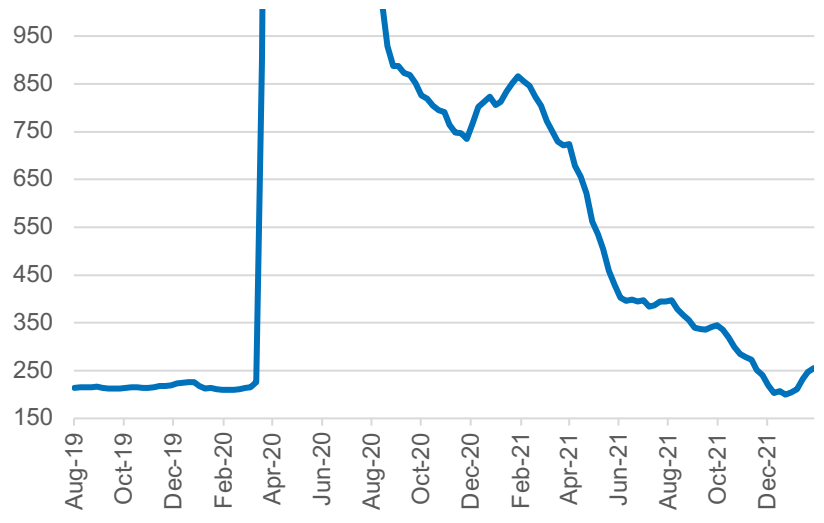


Source: Bloomberg. This is for informational purposes only and should not be construed as investment advice.

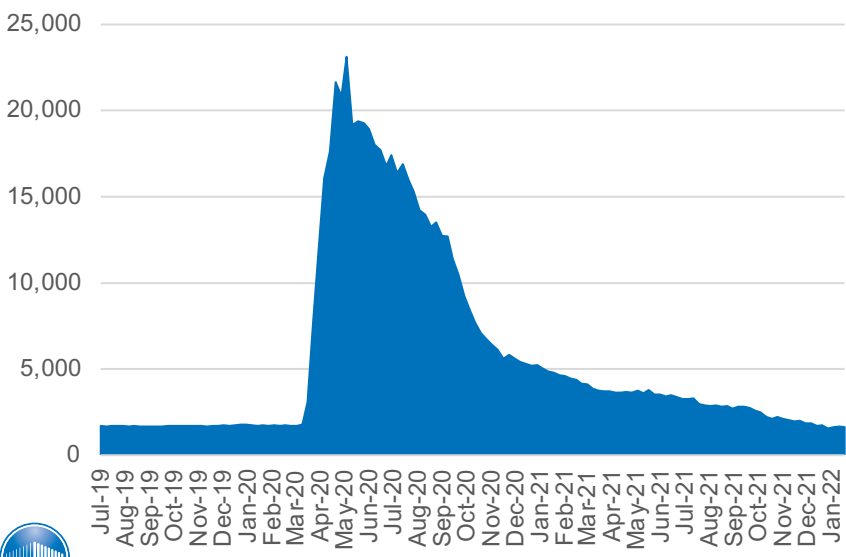
THE LABOR MARKET IS APPROACHING FULL EMPLOYMENT

- Improvement in jobless claims below pre-pandemic levels indicate a healthy labor market. Labor supply appears to be easing.
- January employment report showed little impact from Omicron, positive revisions, and increasing labor force participation.
- Fed likely encouraged by increasing participation, but progress toward full employment is significant

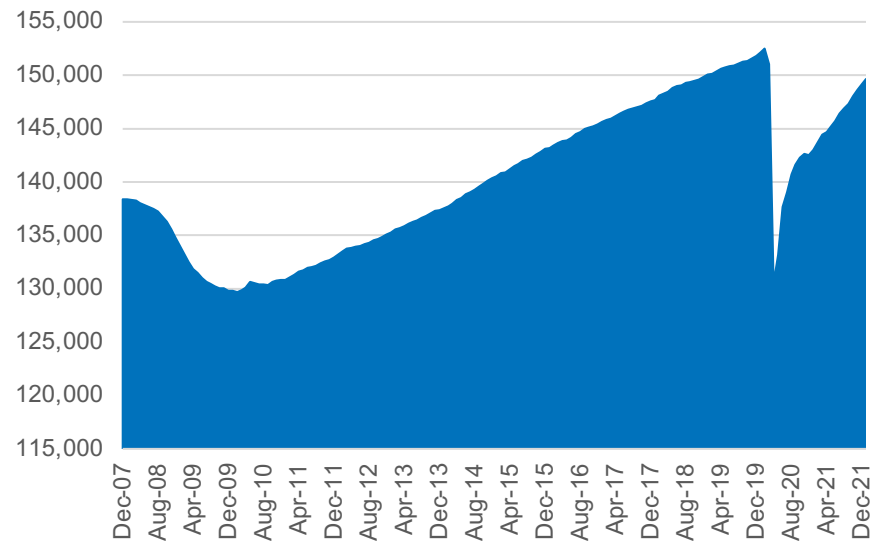
Jobless Claims (000) - 4wk avg



Continuing Jobless Claims (000)

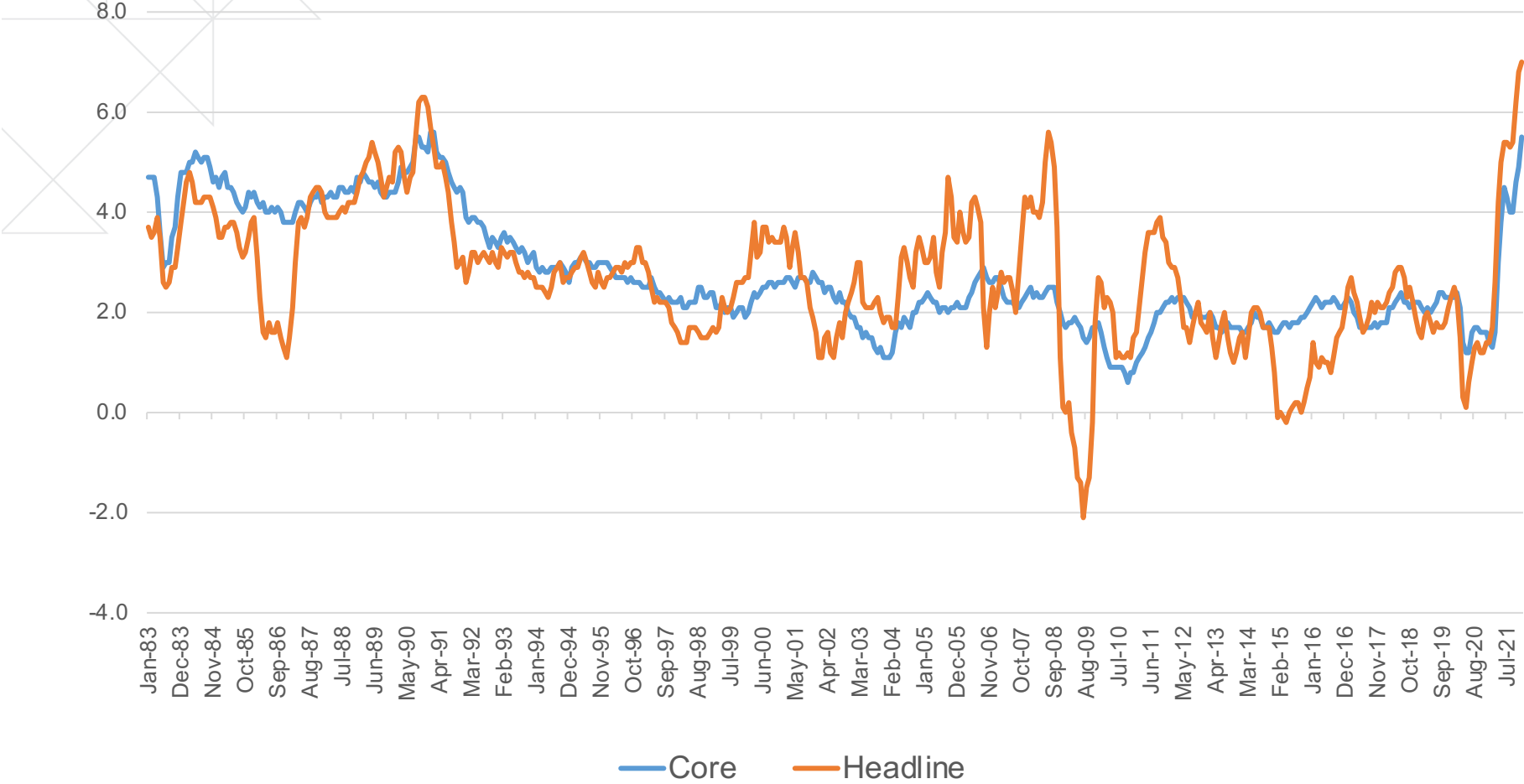


US Employees on Nonfarm Payrolls



Source: Bloomberg. For informational purposes only.

CONSUMER PRICE INFLATION AT FOUR DECADE HIGHS



Source: Bloomberg



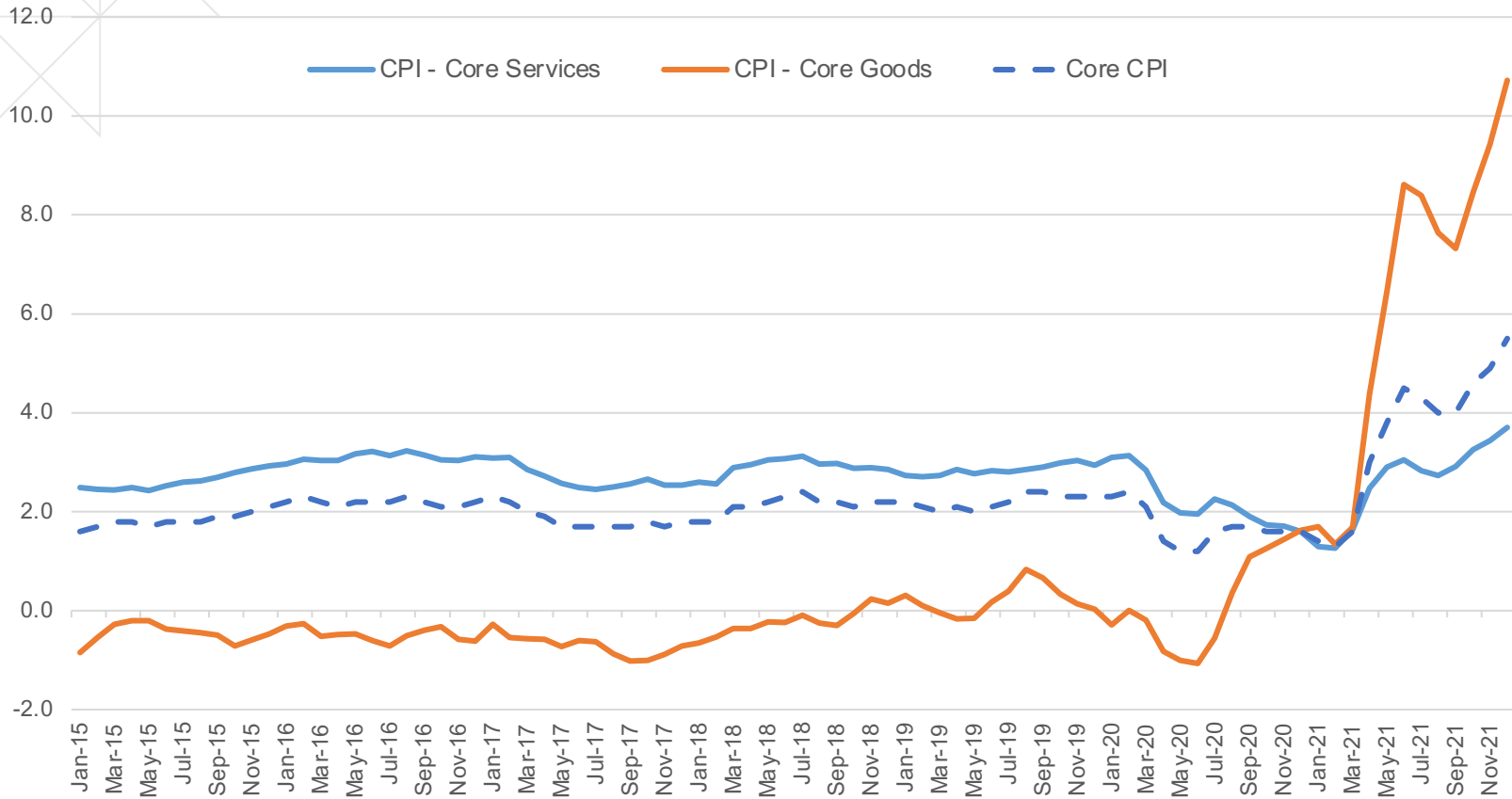
WHICH VIEW SHOULD YOU BELIEVE ABOUT INFLATION?

- It is transitory due to supply chain disruptions
- It is ongoing because policy has been too accommodative
- Both of the above



CORE CPI MODERATION WILL BE DRIVEN BY CORE GOODS PRICES

SHELTER INFLATION WILL KEEP CORE SERVICES ELEVATED RELATIVE TO HISTORY

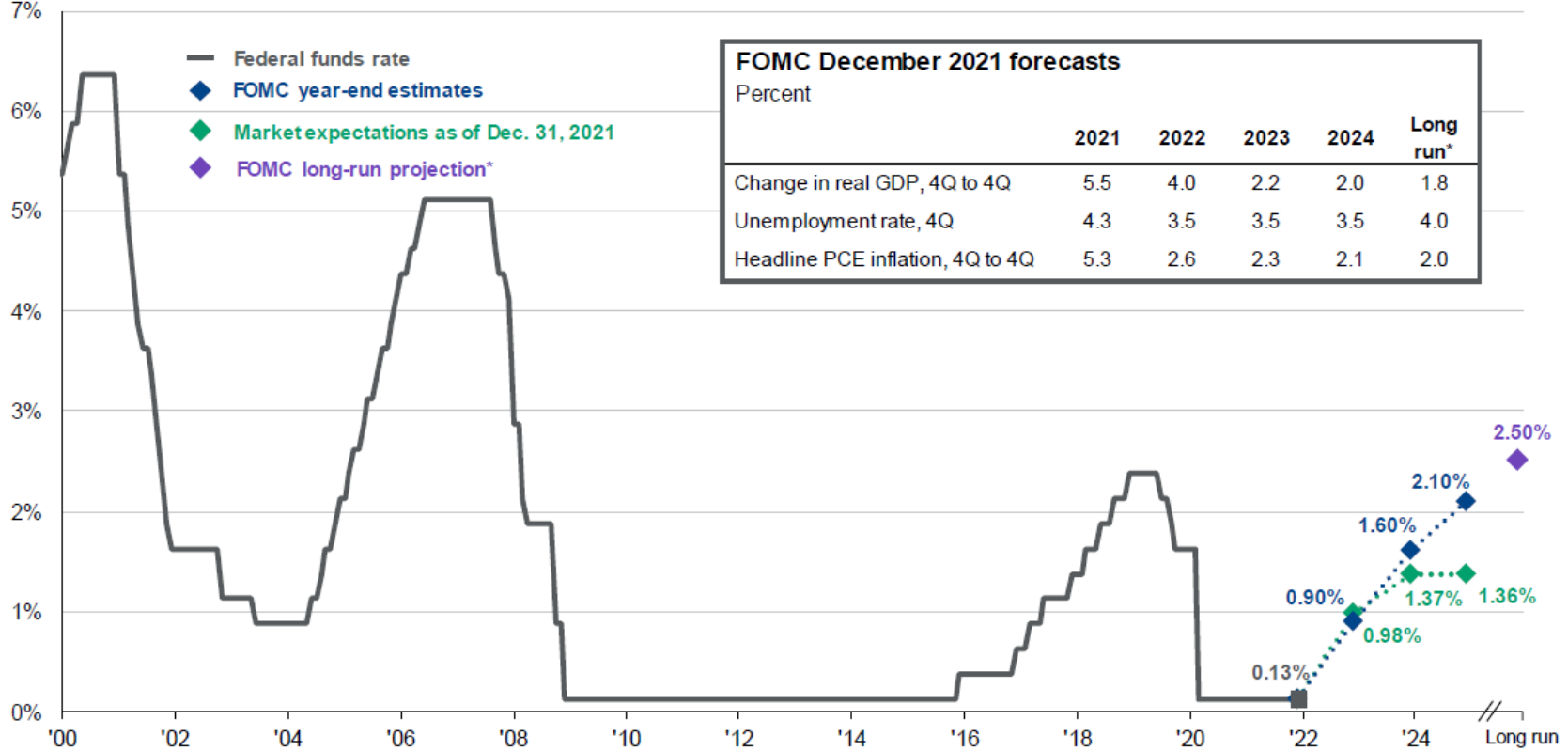


Source: Bloomberg. For informational purposes only.

THE FED HAS CHANGED ITS VIEW ON INFLATION MORE THAN INVESTORS

Federal funds rate expectations

FOMC and market expectations for the federal funds rate



Source: Bloomberg, FactSet, Federal Reserve, J.P. Morgan Asset Management.

Market expectations are based off of the USD Overnight Index Forward Swap rates. *Long-run projections are the rates of growth, unemployment and inflation to which a policymaker expects the economy to converge over the next five to six years in absence of further shocks and under appropriate monetary policy. Forecasts are not a reliable indicator of future performance. Forecasts, projections and other forward-looking statements are based upon current beliefs and expectations. They are for illustrative purposes only and serve as an indication of what may occur. Given the inherent uncertainties and risks associated with forecasts, projections or other forward-looking statements, actual events, results or performance may differ materially from those reflected or contemplated.

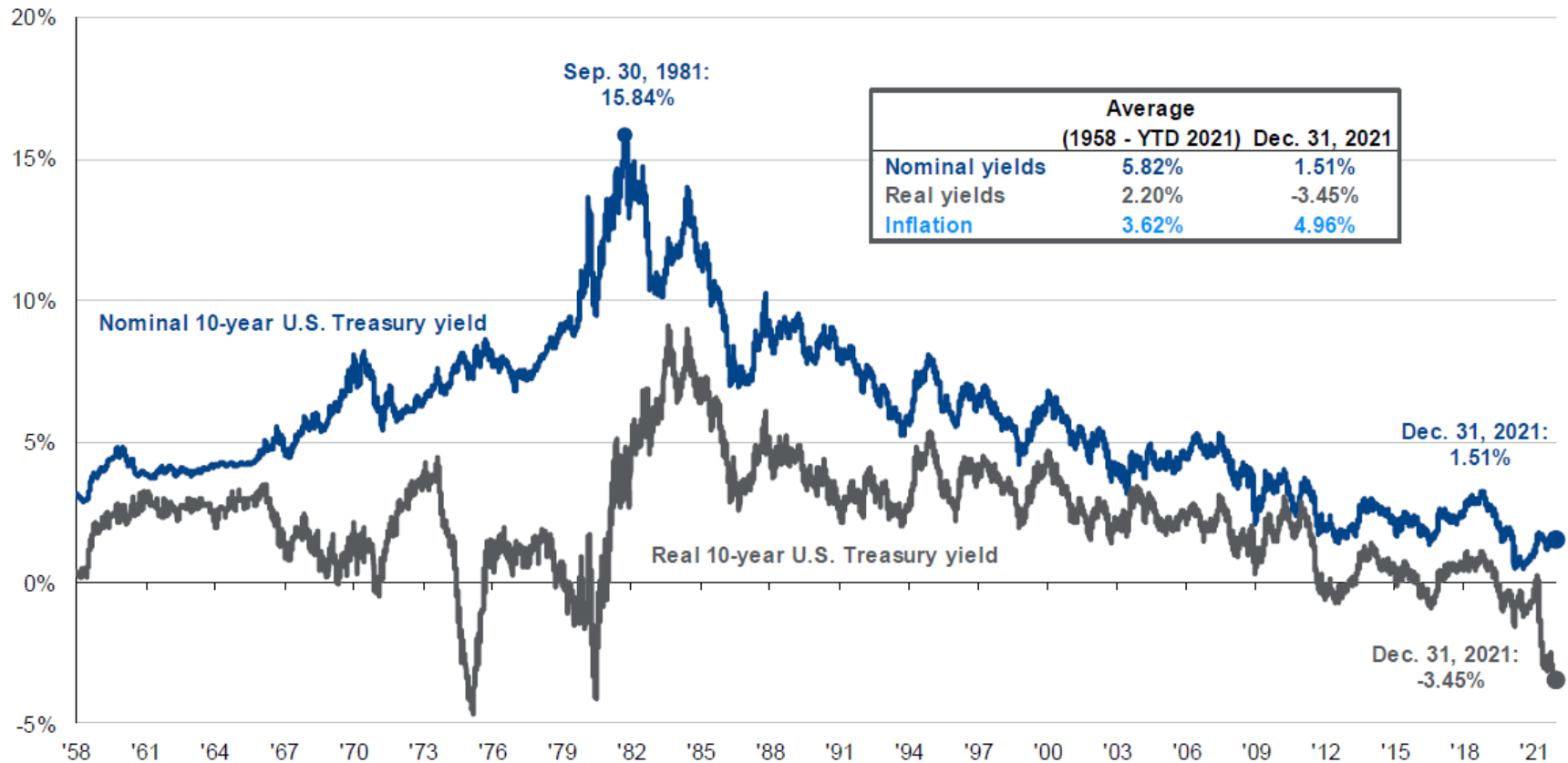
Guide to the Markets – U.S. Data are as of December 31, 2021.

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REAL INTEREST RATES ARE NEGATIVE

Nominal and real U.S. 10-year Treasury yields



Source: BLS, FactSet, Federal Reserve, J.P. Morgan Asset Management.
 Real 10-year Treasury yields are calculated as the daily Treasury yield less year-over-year core CPI inflation for that month. For the current month, we use the prior month's core CPI figures until the latest data is available.
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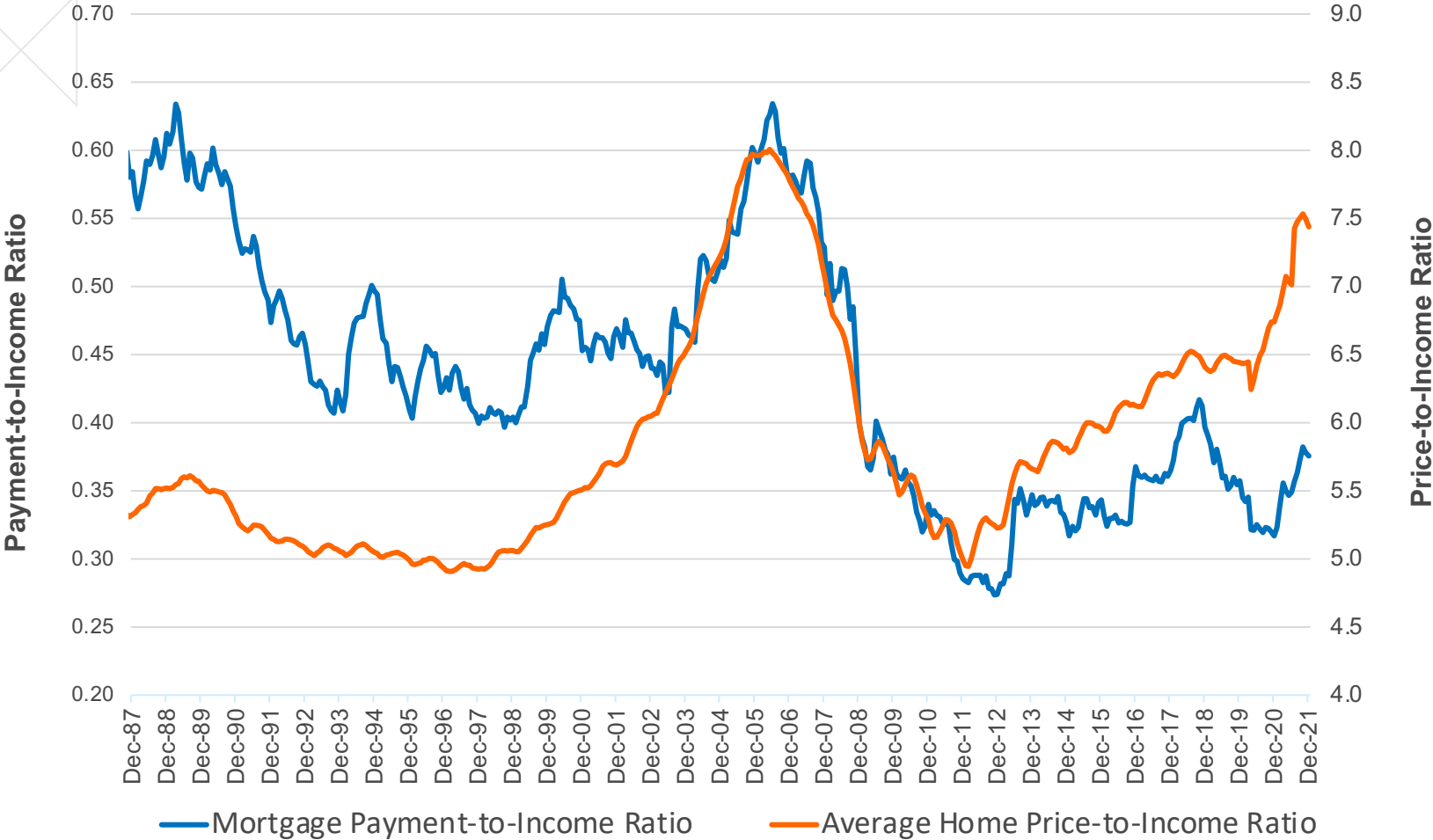
FINANCIAL MARKET CONDITIONS ARE STILL ACCOMMODATIVE



Source: Bloomberg

THE HOUSING MARKET IS VERY STRONG BUT COULD SLOW

Two measures of Housing Affordability



Source: Bloomberg

EQUITY VALUATIONS ARE HIGH

S&P 500 Index: Forward P/E ratio



Source: FactSet, FRB, Robert Shiller, Refinitiv Datastream, Standard & Poor's, Thomson Reuters, J.P. Morgan Asset Management. Price-to-earnings is price divided by consensus analyst estimates of earnings per share for the next 12 months as provided by IBES since December 1996, and J.P. Morgan Asset Management for December 31, 2021. Current next 12-months consensus earnings estimates are \$228. Average P/E and standard deviations are calculated using 25 years of IBES history. Shiller's P/E uses trailing 10-years of inflation-adjusted earnings as reported by companies. Dividend yield is calculated as the next 12-months consensus dividend divided by most recent price. Price-to-book ratio is the price divided by book value per share. Price-to-cash flow is price divided by NTM cash flow. EY minus Baa yield is the forward earnings yield (consensus analyst estimates of EPS over the next 12 months divided by price) minus the Moody's Baa seasoned corporate bond yield. Std. dev. over-/under-valued is calculated using the average and standard deviation over 25 years for each measure. *P/CF is a 20-year average due to cash flow availability. Guide to the Markets – U.S. Data are as of December 31, 2021.

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Source: Bloomberg



THE WILDCARD IS RUSSIA'S INVASION OF UKRAINE

- It is causing energy prices to spike
- It will complicate Fed policy making
- It could cause US growth to moderate and hurt Europe





CONCLUSION

- Markets have turned volatile amid uncertainty about Fed tightening
- If inflation eases to 3%, the Fed is likely to raise rates gradually
- If inflation stays elevated the Fed will be compelled to raise rates faster
- Investors need to have a plan to hedge interest rate risk.

