CURBSTONE FINANCIAL
MANAGEMENT CORPORATION

From the Curb

Letter to Clients
Quarter Ending December 31, 2021

Markets exhibited impressive resilience in 2021. The economy's ability to adapt to the pandemic, the rollout of vaccines, the passing of additional stimulus and easy monetary policy all supported strong market returns. In fact, the last decade of stock returns has been remarkable, with the S&P 500 averaging 13.9% year-over-year. The only down year in this period was 2018 when the index fell a modest 4.38%. This translates into a very good decade for investors, especially for those relying on their asset base in retirement.

We enter 2022 with the potential for another good year, based on lingering fiscal and monetary stimulus, strong corporate profitability, low unemployment, higher wages, and the acceptance of living in a new normal. These factors, along with others should continue to support economic growth, albeit at a lower rate than what we saw in 2021.

This is a year, however, that may be characterized by increased market volatility. For potential challenges, we are focused on corporate earnings, a reduction in global stimulus, high inflation pressures, political uncertainty and the ongoing pandemic. Global central banks, led by the Federal Reserve, have already begun to reverse the historically accommodative policies that were enacted in response to the pandemic. The Federal Reserve expects to end its quantitative easing (QE) program by mid-March, with the first of three planned interest-rate increases for 2022. This transition to a more normal monetary policy has the potential to create headwinds for the economy and corporate profits. The Fed will also closely monitor inflation, which surged to a 30-plus year high in 2021. Higher prices could have a negative impact on consumer spending, as well as a dampening effect on corporate earnings.

While the Biden administration's Build Back Better bill failed to pass in 2021, legislatures could bring a new version forward later this year. Provided any new legislation avoids unpopular tax increases to individuals and corporations, we would expect this revised version to pass. The run-up to mid-term elections in November could result in increased market volatility, which we think would be short-term in nature. Passage will stimulate the demand for goods and services, but simultaneously aggravate inflation, which may put more pressure on interest rates.

Finally, COVID is not over. The Omicron variant, which is surging across the globe, does not appear to be nearly as severe as originally anticipated, and therefore, potentially less disruptive to businesses and everyday living. That said, its impact still has the potential for shut-downs, worker shortages and supply chain disruptions.

While these challenges are a backdrop to the New Year, positive tailwinds from 2021 remain. Corporate America is well-positioned, and earnings, for the moment, remain strong. Interest rates, while likely to rise, are still historically very low and not yet at levels that would be considered a headwind on economic growth. Personal savings remain high, and unemployment remains low, with the prospect for rising wages further enhancing the financial strength of most Americans.

741 Chestnut Street | Manchester, NH 03104 | voice 603.624.8462 | fax 603.624.8274 | curbstonefinancial.com

The strong performance of markets in 2021 notwithstanding, we are focused on this year's challenges and the risks to the assets under our management. Know that our entire team is dedicated to helping you achieve your financial objectives.