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Last Week's S&P 500 Index: +3.8%

Transition year

Key takeaways

- We believe the U.S. should serve as the global economic driver in 2022 as the world transitions from a pandemic-driven economy.
- We see still-strong growth and some easing in price pressures as the year progresses. We believe you should stay invested.

Since March 2020, the global economy has been completely under the influence of a pandemic that has resulted in the deaths of more than 5 million people worldwide. Everything from monetary policy to employment to consumer and business spending has taken its cue from COVID-19. The domestic economy tumbled into a very deep but fortunately brief recession in early 2020 and then rocketed forward at record speed as central bankers and the federal government combined to provide consumers with trillions of dollars of liquidity and transfer payments that helped push consumer spending ahead. As harsh as this reality has been, we believe there is light at the end of the tunnel. Risks certainly remain, but as we look ahead to next year, we do see a number of positives that we believe can benefit equity investors.

One of the key characteristics of the transition we see next year is a moderation in growth relative to 2021. Still, we expect growth to remain well above the historical average. The U.S. consumer should continue to drive the global economy through at least the first half of next year as an easing of pandemic headwinds allows more reopening-based spending on services that have been negatively affected by the coronavirus. In addition, we think inventory rebuilding will be a major part of the growth story for next year as supply chain disruptions begin to ease. Most investors know that inventories of everything from new vehicles to electronic goods to many grocery items have been in short supply for the past 12 months, if not longer. We suspect retailers in a wide swath of industries will be focused on "stocking the shelves" as the opportunity presents itself over the coming year. We also believe that business capital spending will be a noticeable positive growth factor, especially investment in productivity enhancement and automation. The Information Technology sector, which we currently rate as most favorable, should benefit from these trends.

Another transition factor revolves around Federal Reserve (Fed) monetary policy. The emergency policies that have been in place for the past 20 months are in the early stages of being slowly removed. The pace of the Fed's bond tapering effort will likely be faster than initially expected, and based on our current work, we expect one rate hike in the second half of next year. As the economy has recovered and supply chain disruptions and money supply have grown, inflationary pressures have increased to their highest year-over-year levels in nearly 40 years, as measured by the Consumer Price Index (CPI). However, we look for inflation to decelerate next year relative to this year — but overall price pressures should remain above prepandemic levels.

We recommend investors focus on U.S. equites with an emphasis on growth sectors such as Information Technology and Communication Services as well as more economically sensitive sectors such as Industrials and Financials given our positive outlook.

Transition periods in the economic cycle often result in downside equity volatility. We believe investors should seek to take advantage of pullbacks and remain invested.

Risk Considerations

Each asset class has its own risk and return characteristics. The level of risk associated with a particular investment or asset class generally correlates with the level of return the investment or asset class might achieve. **Stock markets**, especially foreign markets, are volatile. Stock values may fluctuate in response to general economic and market conditions, the prospects of individual companies, and industry sectors. **Sector investing** can be more volatile than investments that are broadly diversified over numerous sectors of the economy and will increase a portfolio's vulnerability to any single economic, political, or regulatory development affecting the sector. This can result in greater price volatility.

Definitions

Consumer Price Index (CPI) produces monthly data on changes in the prices paid by urban consumers for a representative basket of goods and services.

S&P 500 Index is a market capitalization-weighted index composed of 500 widely held common stocks that is generally considered representative of the US stock market.

An index is unmanaged and not available for direct investment.

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