

# Market Outlook for 2022:

Regime Change?

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# The Year Ahead: Moderate Growth, Rising Volatility

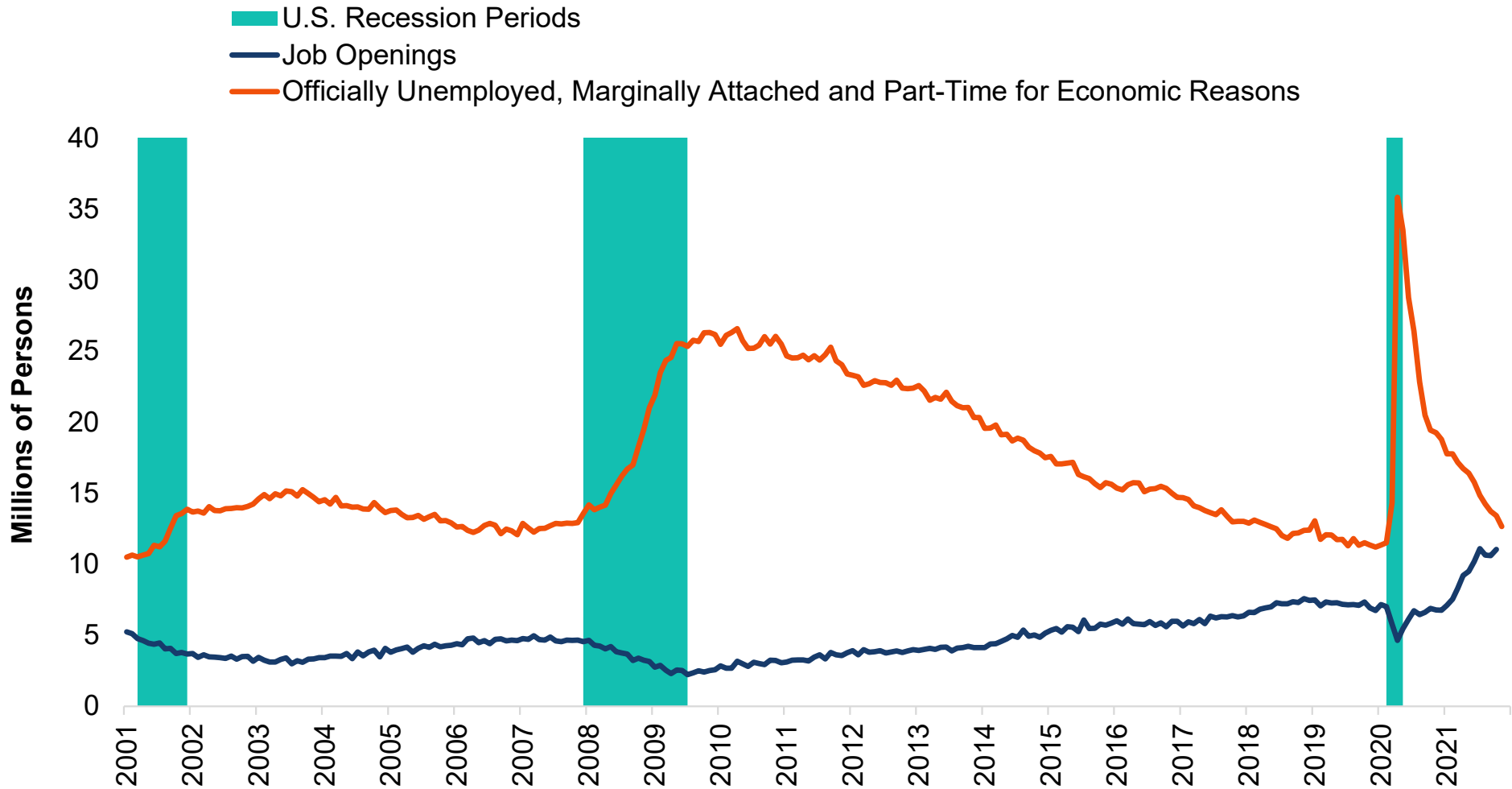
## The good news

- The global economy is expected to post another year of above-average growth, despite stresses caused by the current COVID wave.
- Households in the U.S. and Europe still have a sizable share of excess savings that can be used now that pandemic-related fiscal spending is fading away.
- Corporate profit margins remain at all-time highs in the U.S. The trajectory of profit growth will slow from last year's surprisingly strong performance but should be robust enough to extend the bull market in risk assets through 2022.
- Although the U.S. mid-term elections point to more political gridlock if Congress changes hands, equities have often performed well when power is split between the two parties.

## The bad news

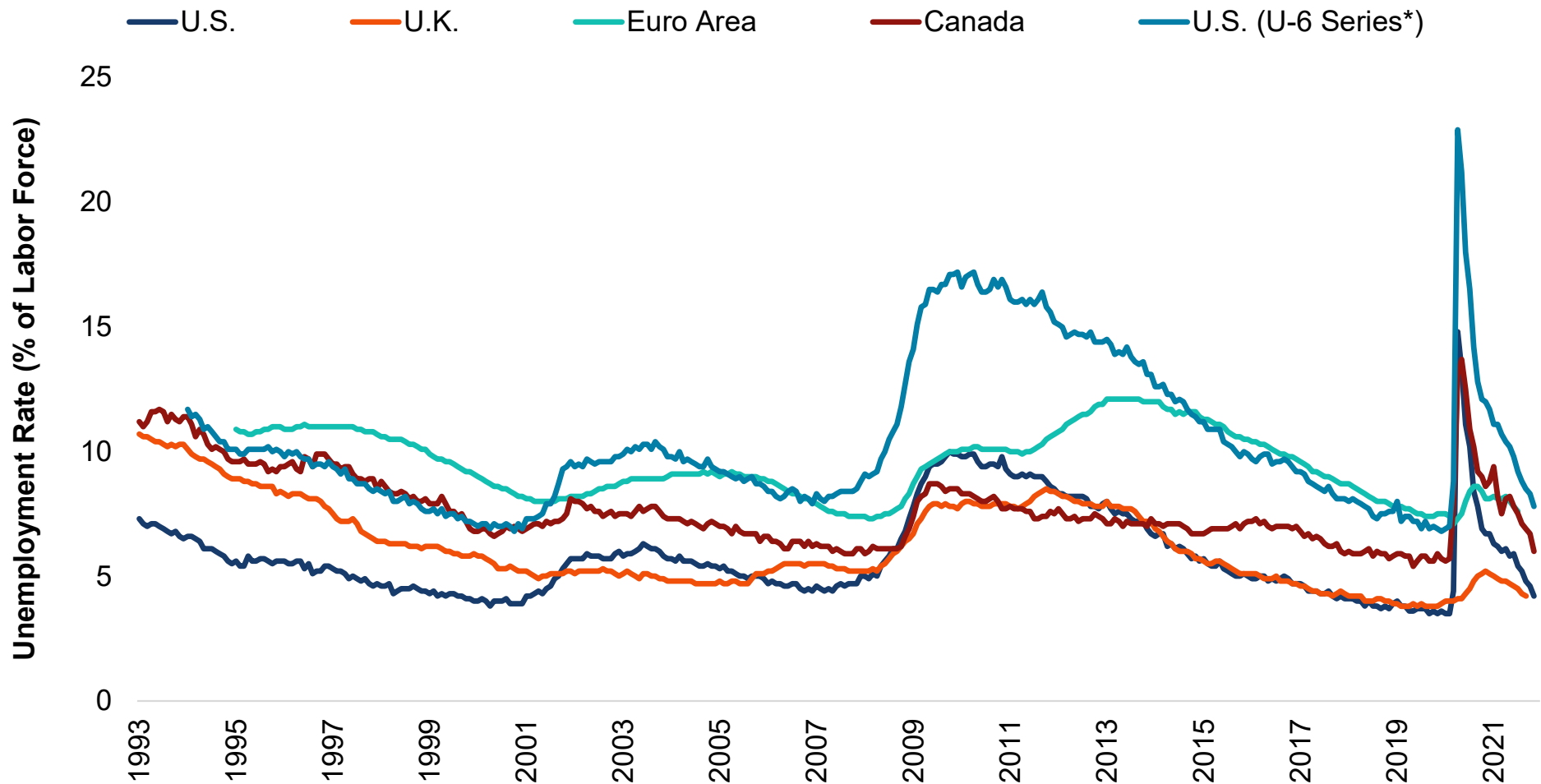
- Inflation will likely continue to run above expectations. Supply-chain disruptions could linger while labor-cost pressures accelerate.
- Both fiscal and monetary policy are transitioning away from extraordinary ease to a more neutral policy setting. A new interest-rate up-cycle has already begun in emerging economies. The Bank of England raised rates in December of 2022. The U.S. and other advanced countries are expected to follow.
- Rising interest rates are expected to put further downward pressure on earnings multiples. Stock-market performance, especially in high-priced sectors, may lag earnings gains.
- Geopolitical tensions could be a negative factor if Russia invades Ukraine or talks with Iran over its nuclear program break down.

# The U.S. labor market is as tight as a drum



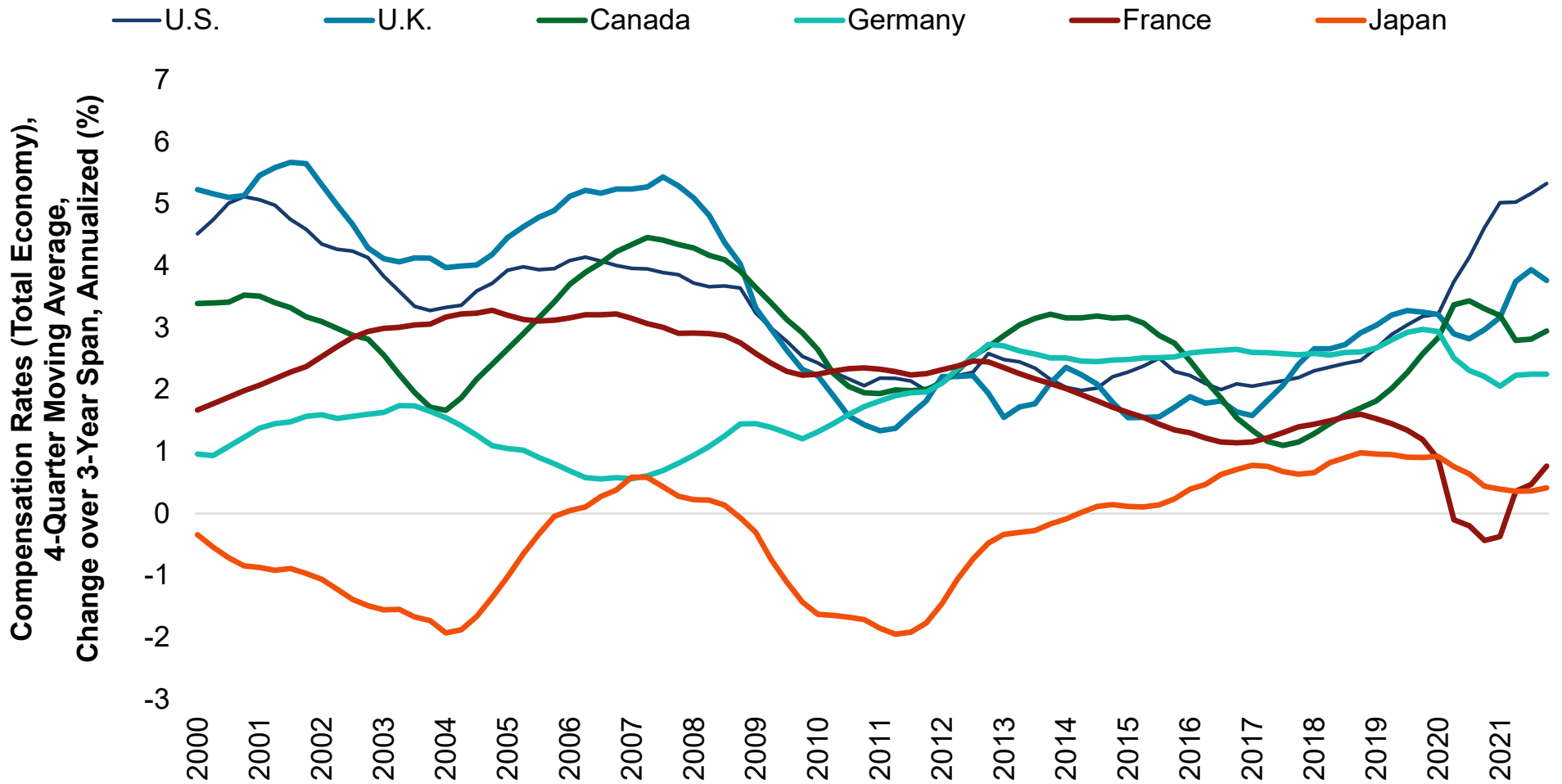
Source: BLS, Eurostat, SEI. Data as of 11/30/2021.

# Hey buddy, can you spare a body?



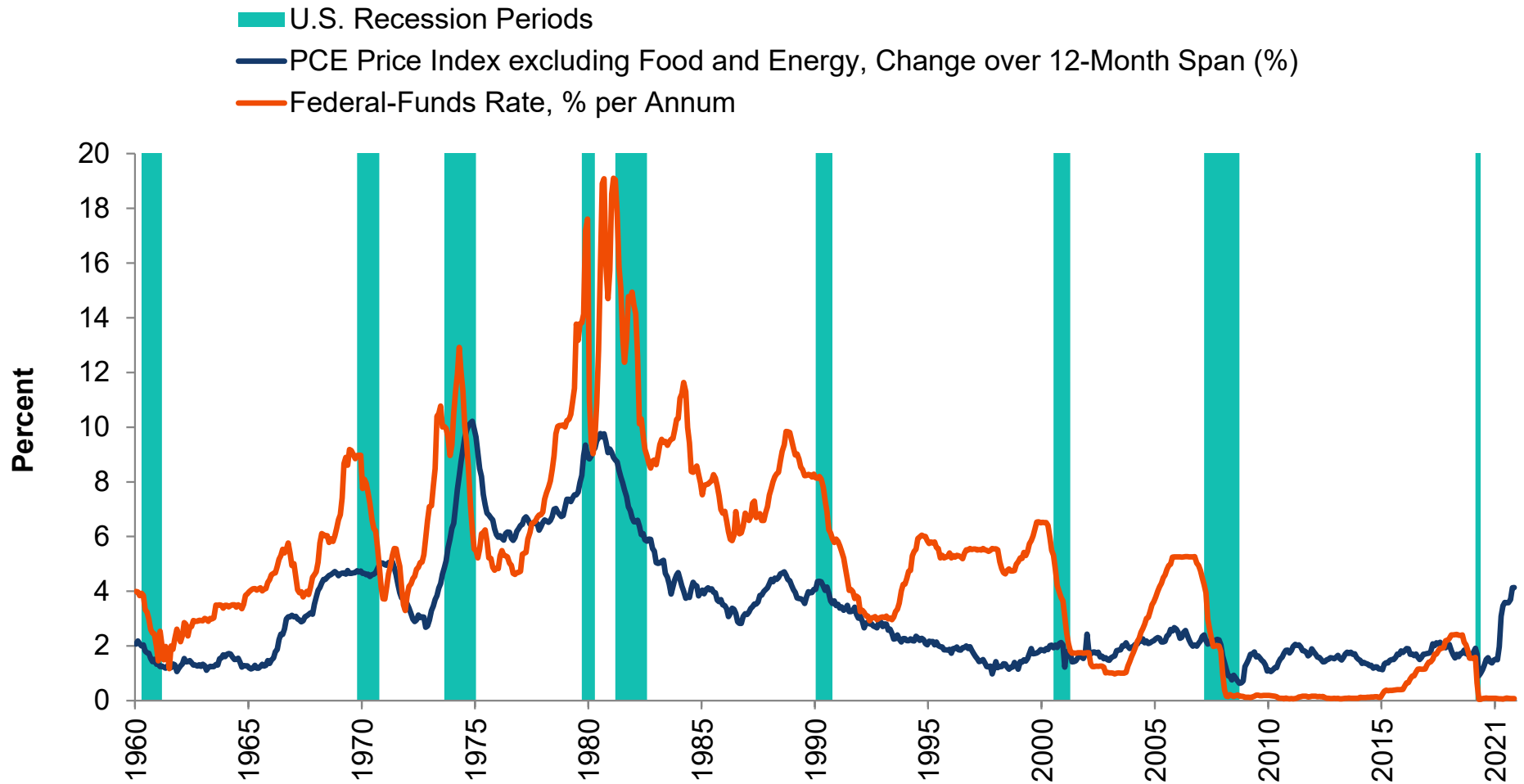
Source: Bureau of Labor Statistics (BLS), Eurostat, Office for National Statistics, Statistics Canada, SEI. The U-6 unemployment rate includes the total unemployed, plus all marginally attached workers and total employed part time for economic reasons. Data as of 11/30/2021.

# I want a raise



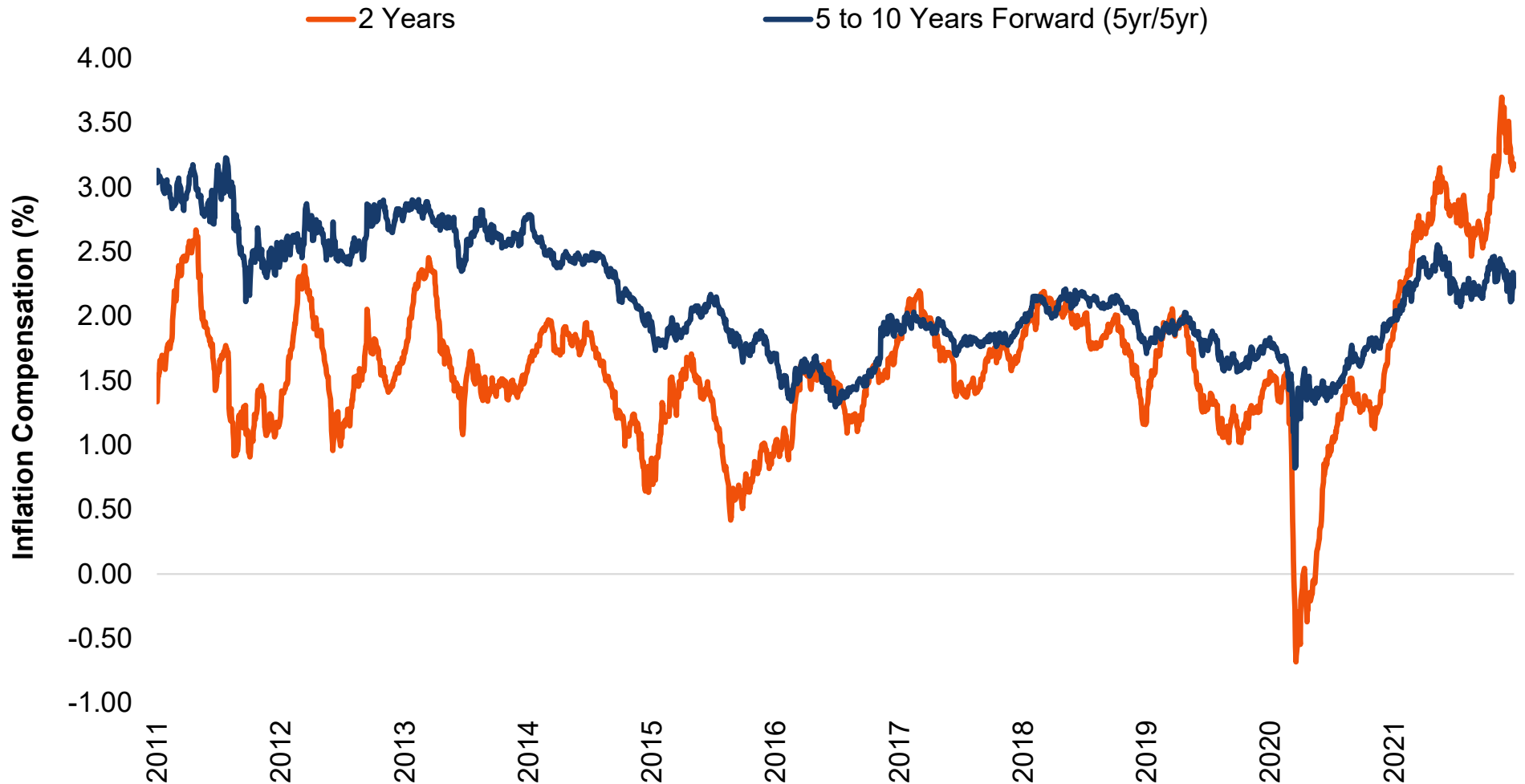
Source: OECD, SEI.

# A federal-funds rate consistently below inflation is a recent phenomenon



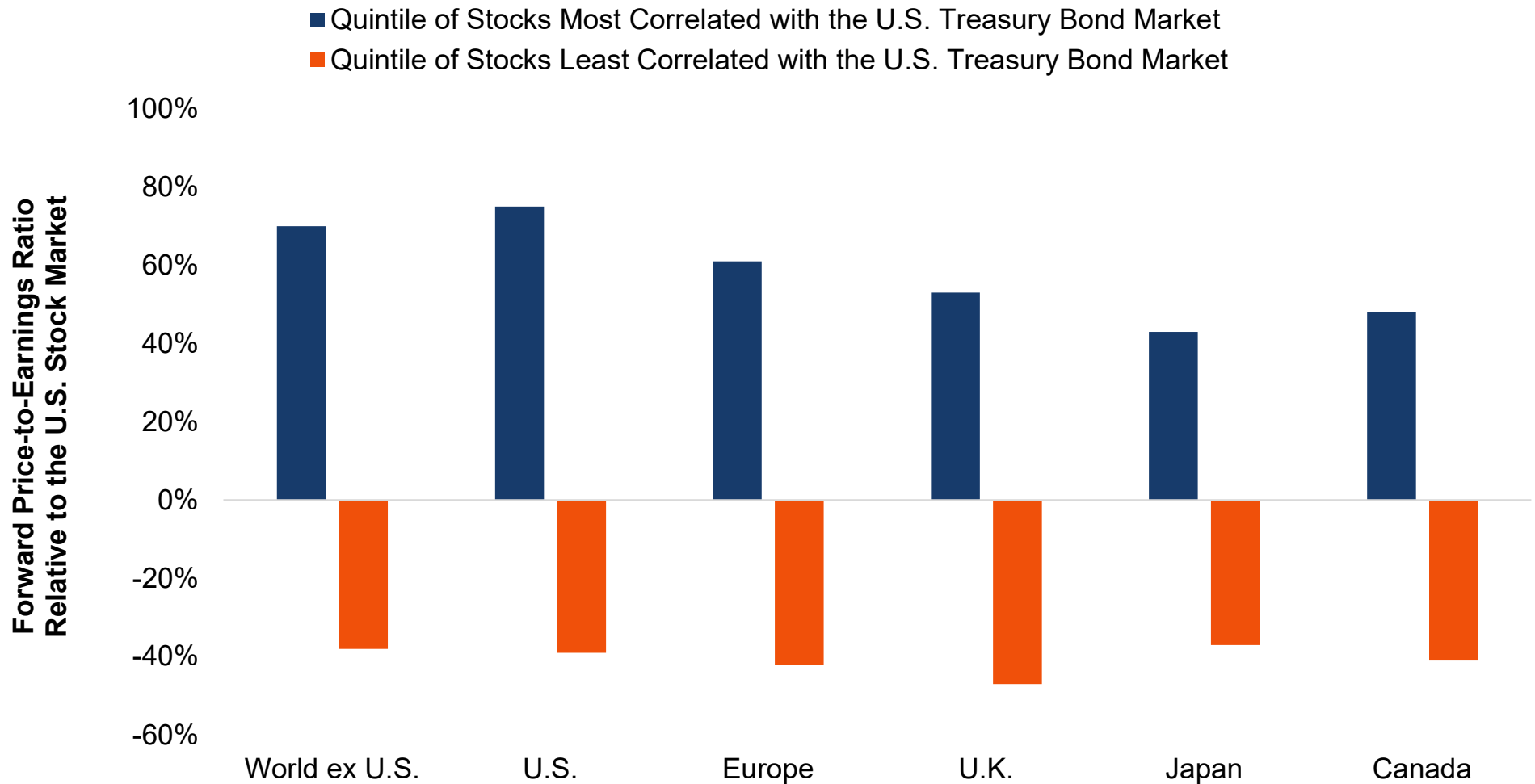
Source: Bureau of Economic Analysis, Federal Reserve Board, SEI. Data as of 11/30/2021.

# Transitory may be a bad word, but investors still think it



Source: Federal Reserve System, SEI. Data as of 12/23/2021.

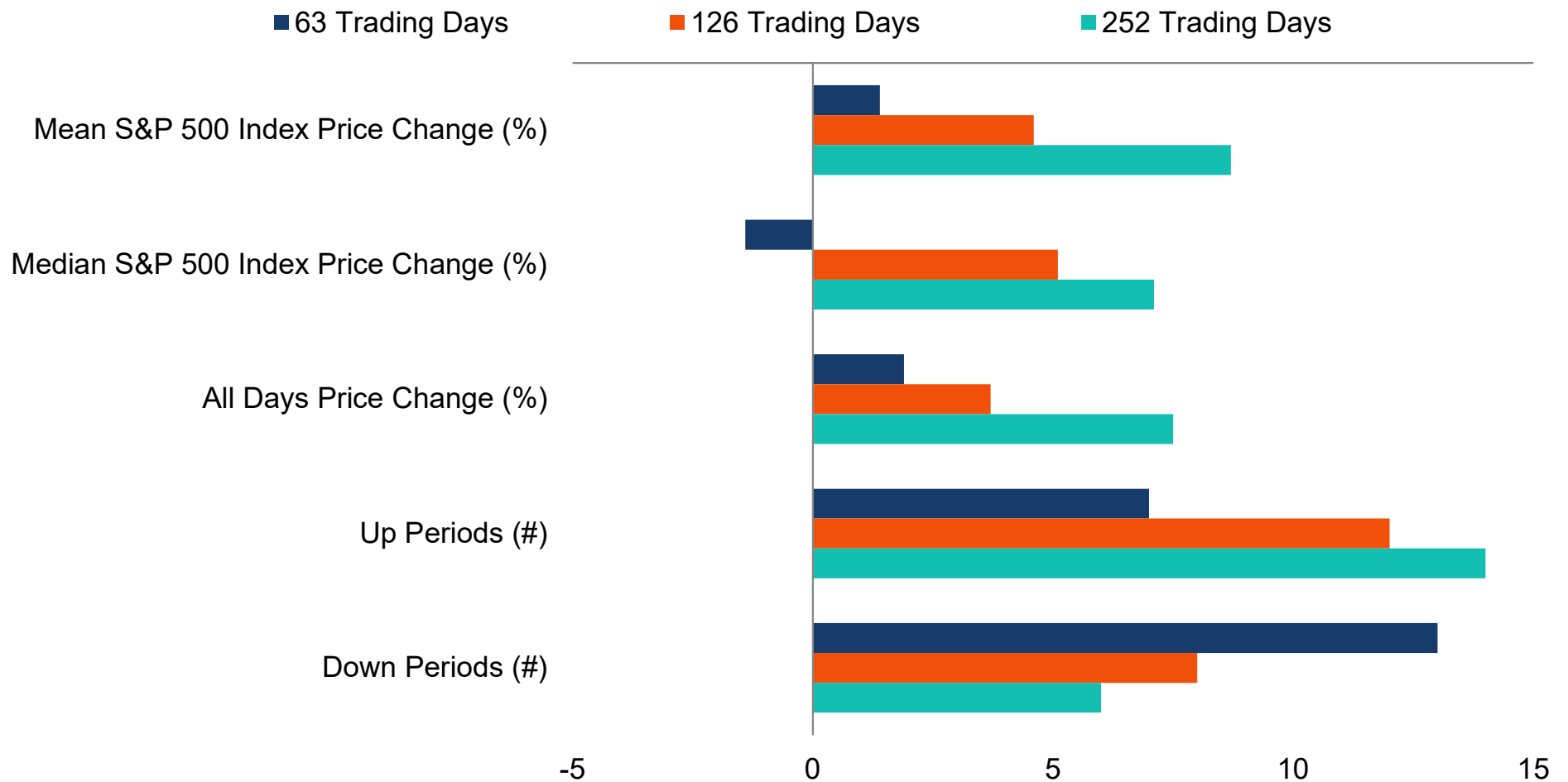
# Going where no valuation divergence has gone before



Source: Empirical Partners, SEI. Data as of 8/31/2021.

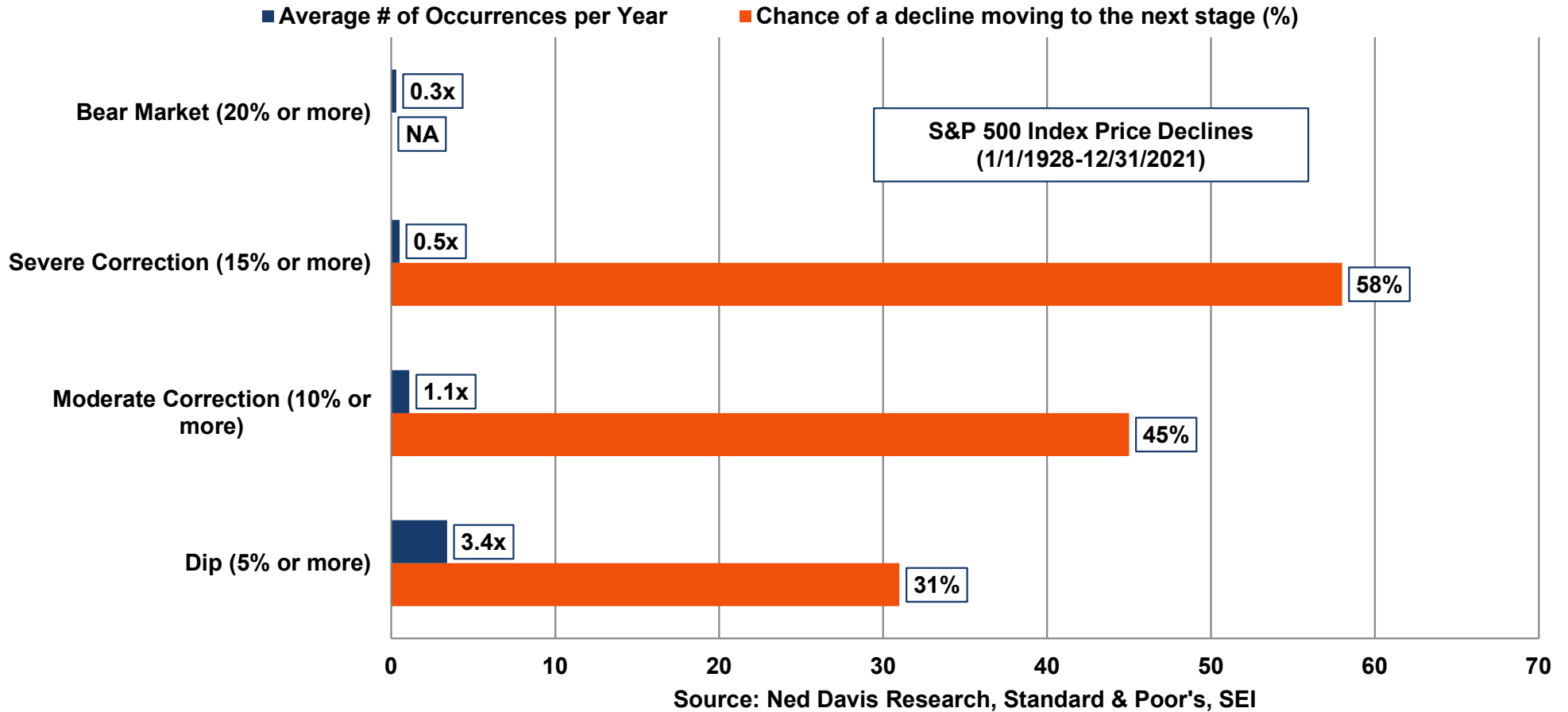


# The first rate hike is likely not the end for equities



Source: Ned Davis Research, SEI. Index returns are for illustrative purposes only and do not represent actual investment performance. Index returns do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. Past performance does not guarantee future results. Note: There have been 20 rate-hike cycles since 1928.

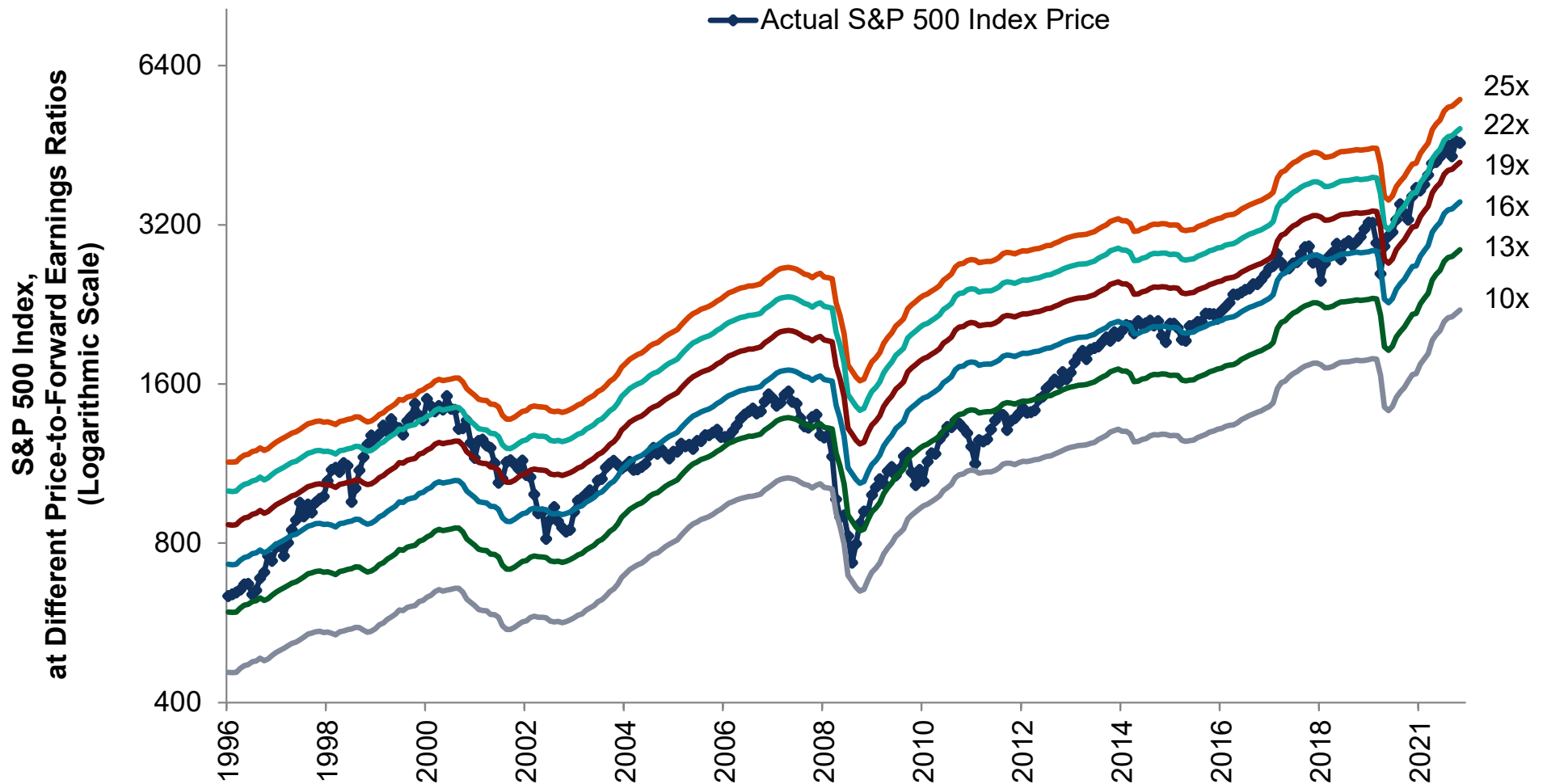
# Correcting, the record



Data are computed from the S&P 500 Index since 1957 and S&P 90 Index from 1926 to 1957. Data before 1926 are from Cowles and associates, interpolated by Professor Robert Shiller from annual data.

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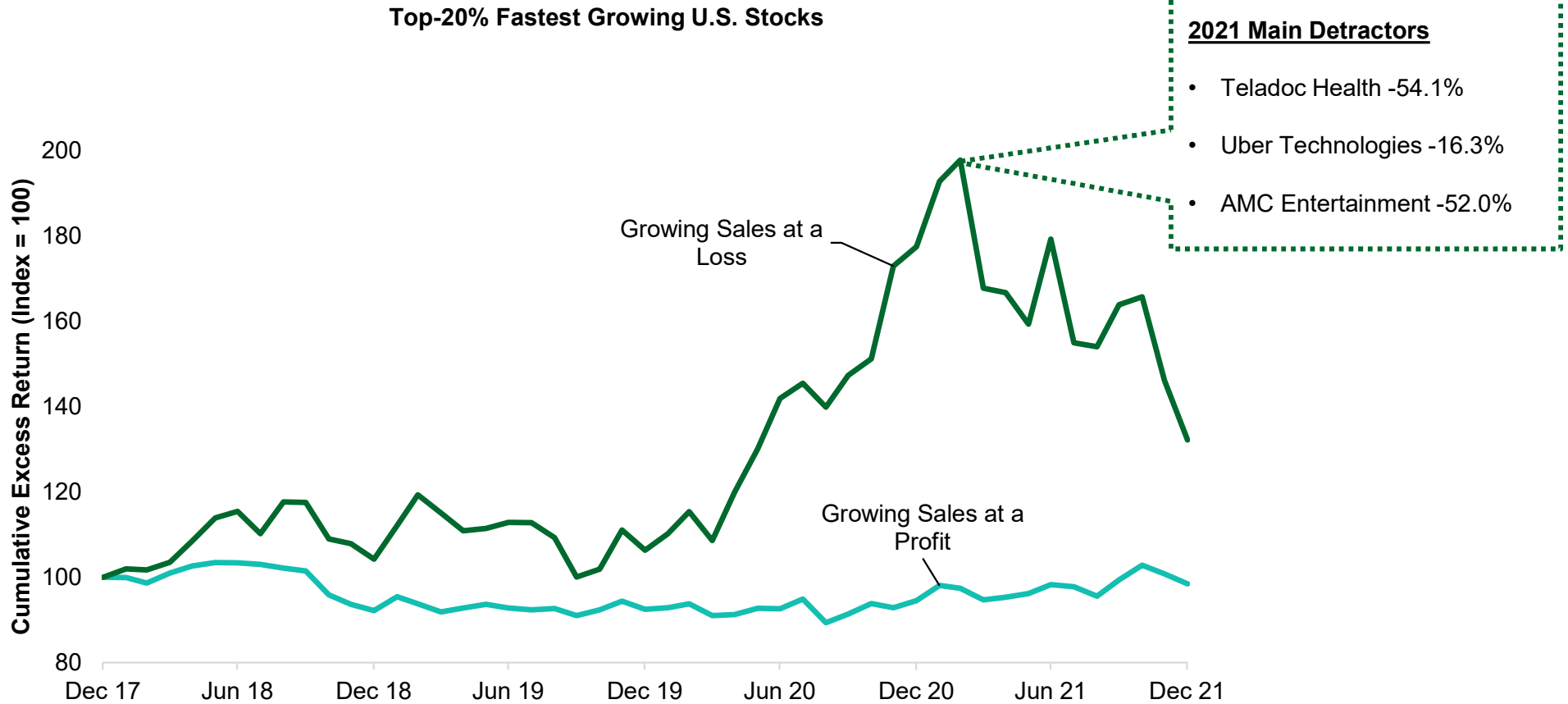
# Still climbing into the stratosphere



Source: Standard & Poor's, Yardeni Research Inc., SEI. Index returns are for illustrative purposes only and do not represent actual investment performance. Index returns do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged, and one cannot invest directly in an index. Past performance does not guarantee future results.

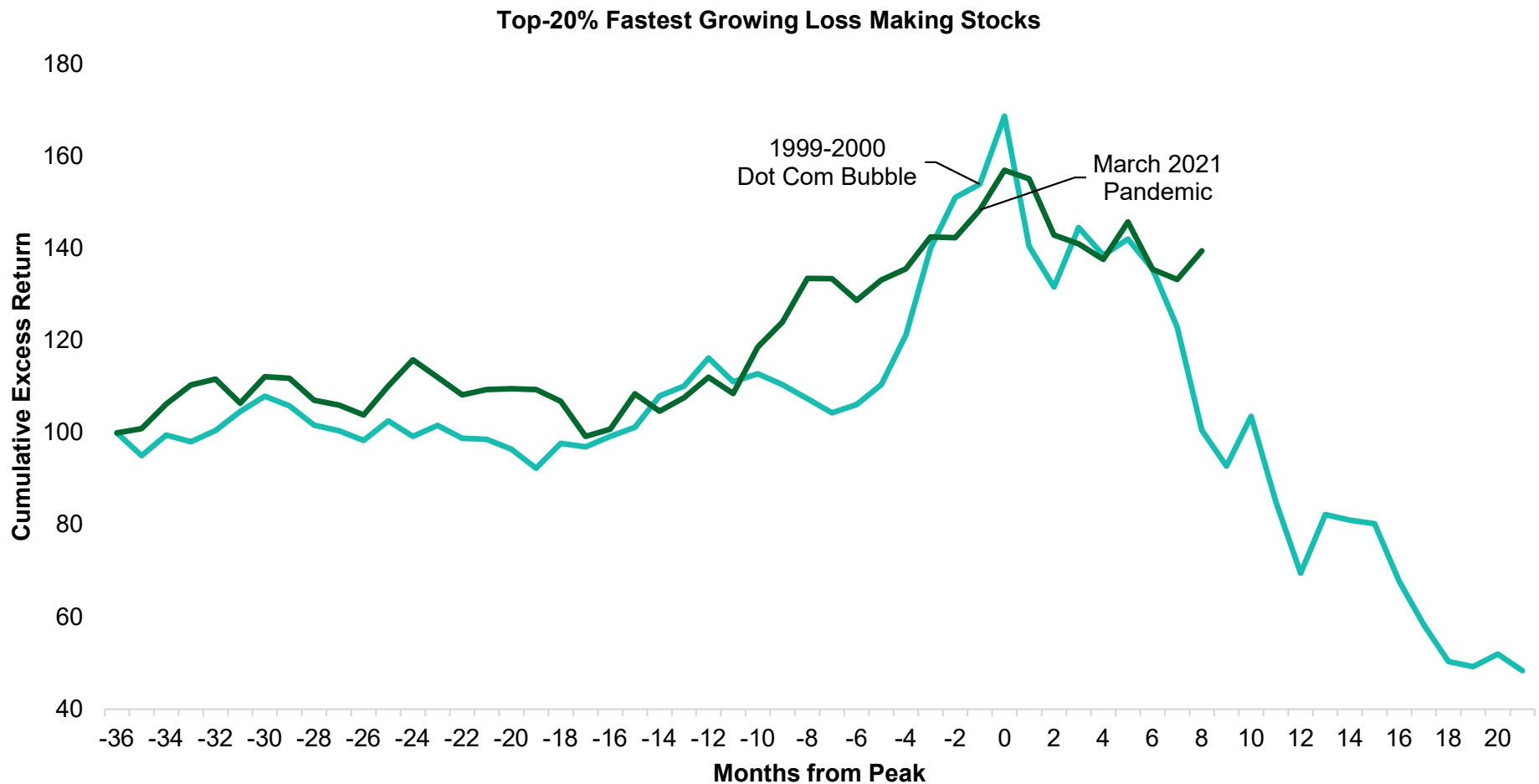
# Weakness in speculative stocks

## Have the dominos begun to topple?



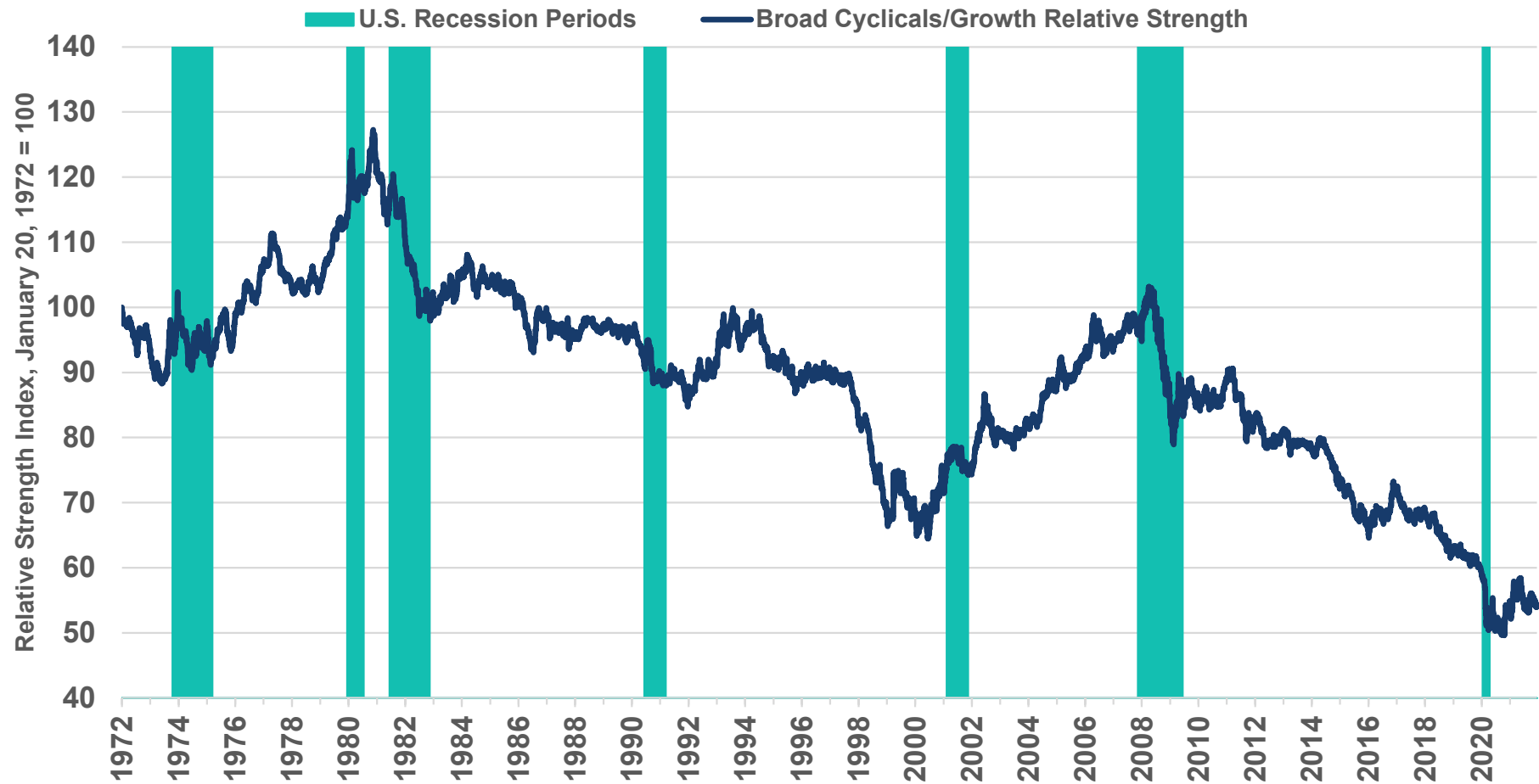
Source: SEI, FactSet, FTSE Russell. Portfolios reflect the securities present in the Russell 3000 Index, first sorted into quintiles by trailing twelve month sales growth, then focusing on the top-quintile of sales growth split into two further groups containing companies with positive and negative trailing 12-month operating margins. Rebalanced quarterly. Past performance is not a reliable indicator of future performance. The securities selected and referred to above as main detractors are the top-3 contributors to the portfolio of stocks represented by the negative net margin portfolio shown.

# Unprofitable, high-growth stocks for the long term? Not a wise investment strategy



Source: SEI, FactSet, FTSE Russell. Portfolios reflect the securities present in the Russell 3000 Index, first sorted into quintiles by trailing twelve month Sales Growth, and then focusing on the top quintile split into two groups containing companies with positive and negative trailing 12 month operating margins. Rebalanced quarterly. Past performance is not a reliable indicator of future performance.

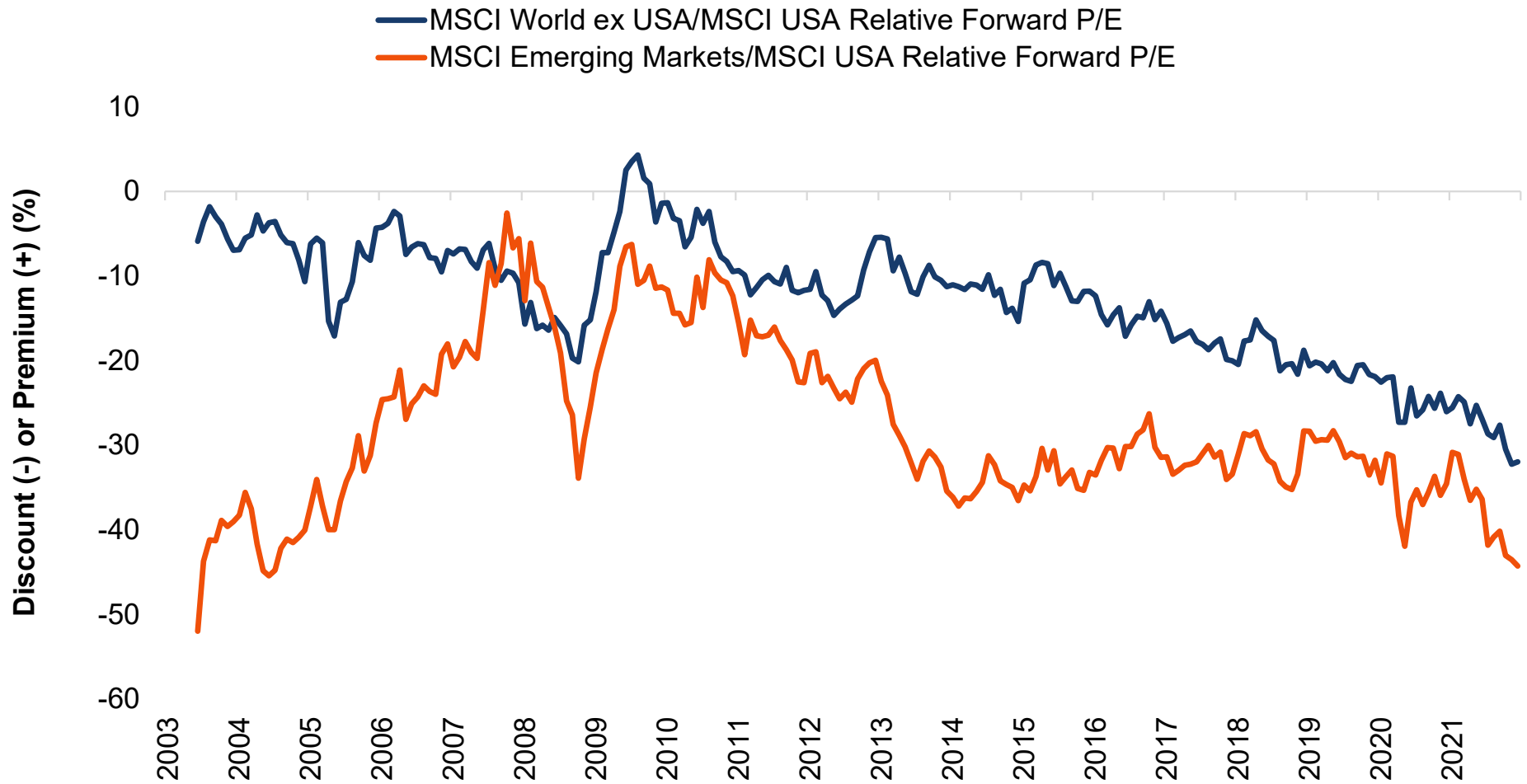
# Cyclical stocks will have their day



Source: NBER, Ned Davis Research, SEI

Source: National Bureau of Economic Research (NBER), Ned Davis Research (NDR), SEI. S&P Dow Jones Indexes changed GICS structure on 9/21/2018. Prior data is an NDR estimate. Cyclical sector components: energy, industrials, consumer discretionary, materials, communications services, information technology and financials. Growth sector components: information technology, healthcare, consumer discretionary and communication services.

# International equity markets are unloved and undervalued



Source MSCI, SEI. Data as of 11/30/2021.

# Important Information

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# Disclosures

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