KELLEHER FINANCIAL ADVISORS

A Look Back & A Look Ahead

A healthy and happy New Year to all. 2022 has started out with some intense volatility in the markets and in this newsletter I'd like to look back at 2021 and give you my perspective on what 2022 holds for us. As you know, we can't predict, but we can plan.

2021 brought with us many of the challenges we saw in 2020 but with a major difference: 2021 was the year of the vaccines. The battle against COVID-19 is far from over, but we continue to see light at the end of the tunnel. The Omicron variant is a new dominant strain, and there may be others, but hospitalizations and deaths are fortunately still well off previous peaks from earlier strains even as new cases soar.

The stock market in 2021 saw very solid gains. The S&P 500 Index had the second most new all-time highs in any year ever and racked up its fourth best annual return in the last 25 years. Strong earnings growth and an adaptive corporate America helped contribute to the healthy stocks gains.

In 2021, the combination of fiscal stimulus and monetary policy helped steady the economy as it dealt with historic supply shortages, record inflation, employment shortages and the pandemic. The year was also boosted by strong corporate profits bolstered by exuberant consumer spending even in the face of higher prices and supply chain delays.

The enthusiastic environment of 2021 trading fueled a robust appetite for risk that lifted more speculative areas of the market, including “meme-stocks” like GameStop and AMC Entertainment, to explosive heights. These headline-grabbing runs mystified traditional investors and ushered in a wave of younger, Internet-driven traders that has continued to reshape the market.

Cryptocurrencies, once dismissed as fringe, have seen an explosive growth in popularity, especially among younger investors. Bitcoin, now accepted by Starbucks, Whole Foods and Home Depot, was up 60% for 2021 according to Coinbase, however, it is extremely volatile and has an ever-fluctuating value.

Initial public offerings hit a record high in 2021 boosted by a flood of SPACs (Special Purpose Acquisition Companies) which bypass the traditional path to a public offering in the name of acquiring or merging with an existing firm. 53% of the 1000+ companies trading on US exchanges last year were SPACs according to FactSet.

While a new year typically begins with optimism and money coming into the market helps give stock prices a nice bump, 2022 began with a bit of a hangover and much turmoil in the market. In our letter to you last week we outlined a number of causes and have seen a bit of a rally at the end of last week. We have corporate earnings and the latest government employment reports happening this week. We are also seeing oil prices trading at seven-year highs with trading on edge as tensions with Russia increase.

Some of the changes experienced through the past year will continue into 2022. COVID may slip into the background, but regardless life will not return to the way it was in 2019. Companies are cutting back on large real estate leases, realizing that the entire workforce is unlikely to return to work in person. Jamie Dimon, CEO of JPMorgan Chase, is planning to retain only 60 desks per hundred employees which aligns with a report by Fortune in that 74% of Fortune 500 CEOs expect a reduction in their real estate footprint.

The pandemic also saw a growing expansion in remote consultations with medical health professionals. The number of patients preferring telehealth appointments has increased from less than 40% pre-pandemic, to more than 60% now. A significant area of growth for 2022 and beyond is the combination of a broad range of in-home tests with online consultations to help diagnose an array of conditions. Specialized devices combined with AI-based smartphone apps that can detect patterns is also an exciting area to watch.

As people are driven to interactions through digital means while at home with reduced social contact, time spent online will continue to remain at high levels and increase over the long term. The “Metaverse” is how we will refer to higher fidelity, connected digital experiences within which social and commercial interactions are possible with both AI and humans. Metaverse is an extension of existing trends including improvements in graphics realism and gaming interactivity, the virality of social networks, the spread of AI and visualization technology, high-speed networks and as well as improved digital financial technologies.

The Federal Reserve has promised to tighten monetary policy and focus on curbing high inflation. Kiplinger’s forecasts about 2.8% inflation however it may wind up around the 3% mark. That being said, it is important to be thinking about adapting your portfolio to protect yourself from inflation.

2022 is also a mid-term election year, which means Washington will dominate the news cycle and mid-term years historically have been quite volatile for stocks. As in any year, it is important to define personal goals, build a long-term investment plan and fund it with a responsible portfolio and adapt only when your goals change.

As always, we will watch the markets and global economy in making investment choices to the best of our ability for each and every client portfolio. If you have questions about your portfolio, our views expressed in this letter or other financial matters, please do not hesitate to call.

Warmly,

Colleen Kelleher Sorrentino

Performance Table for 4th Quarter 2021

Asset Class	% Change for Year 2021
Dow Jones Ind. Avg. (TR)	19.9%
S/P 500 Index	28.2%
NASDAQ Comp.	21.4%
Nikkei Tokyo	4.9%
China- Shanghai	4.8%
DAX Germany	15.8%
CAC-40 France	28.9%
FTSE UK	14.3%
Gold $ per oz.	-3.5%
Crude Oil ($ per bbl.)	55.0%
Rate on 10-Year Treasury Bond	1.51%
VIX Volatility Index Change	-22.8%

Source: Wall Street Journal, Various Dates

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4th Quarter 2021 Markets Perspective

Tom Burnett, CFA, Vice Chairman & Director of Research

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As the Performance Table clearly shows, 2021 was a special year for the equity markets.   Stock markets around the world recovered sharply from the Covid-19 economic crisis of 2020. Markets in the U.S, Europe and Asia were all up in 2021. The U. S. market was the global leader with the S/P 500 Index trading at record high levels on more than 70 individual trading days. Small stocks performed well also with the S/P 600 Index up by 25.3% for the year. The European markets, led by France, performed well despite the Covid-related lockdowns and travel restrictions. Even the UK market, with all its Brexit uncertainties, turned in a double-digit percentage gain.

The fixed income markets offered a different story as interest rates rose throughout the year. For example, the 10-year Treasury bond began the year with a yield of 1.07% and closed at 1.51%. The Index for all U.S. bonds was down 3.9% for the year and the Index for 20+year Treasuries declined by 6.0%. In mid-December, the Federal Reserve announced that it was cutting back its monthly bond purchase program with a view to raising the Fed Funds rate in 2022. Investors will no longer have the favorable interest rate environment that has characterized the past three years.

Commodities presented a mixed picture in 2021. Crude oil (+ 55%) and Natural Gas (+47%) were strong performers, but Gold (-3.5%) and Silver (-11.5%) were disappointing.

As investors look out to 2022, most observers expect a more difficult market period, especially with the clear expectation of higher interest rates. There are no easy shortcuts to investment success—quality companies held over the long term remains the most sensible approach without attempting to time market entries and exits. There will be rallies and selloffs, but patience and perspective will serve most investors well.

Upcoming Events

February 2022 Thought-Leader Discussion

Colleen Kelleher Sorrentino will be a guest on The Bellringer – a one-on-one recorded discussion on current and critical topics in finance. In this edition, Colleen addresses the current state of the market, inflation and how best to protect your investments.

Webinars

We are currently developing webinars for 2022 and would like to hear from you about topics of interest. Please let us know what you would like to hear about by clicking here.

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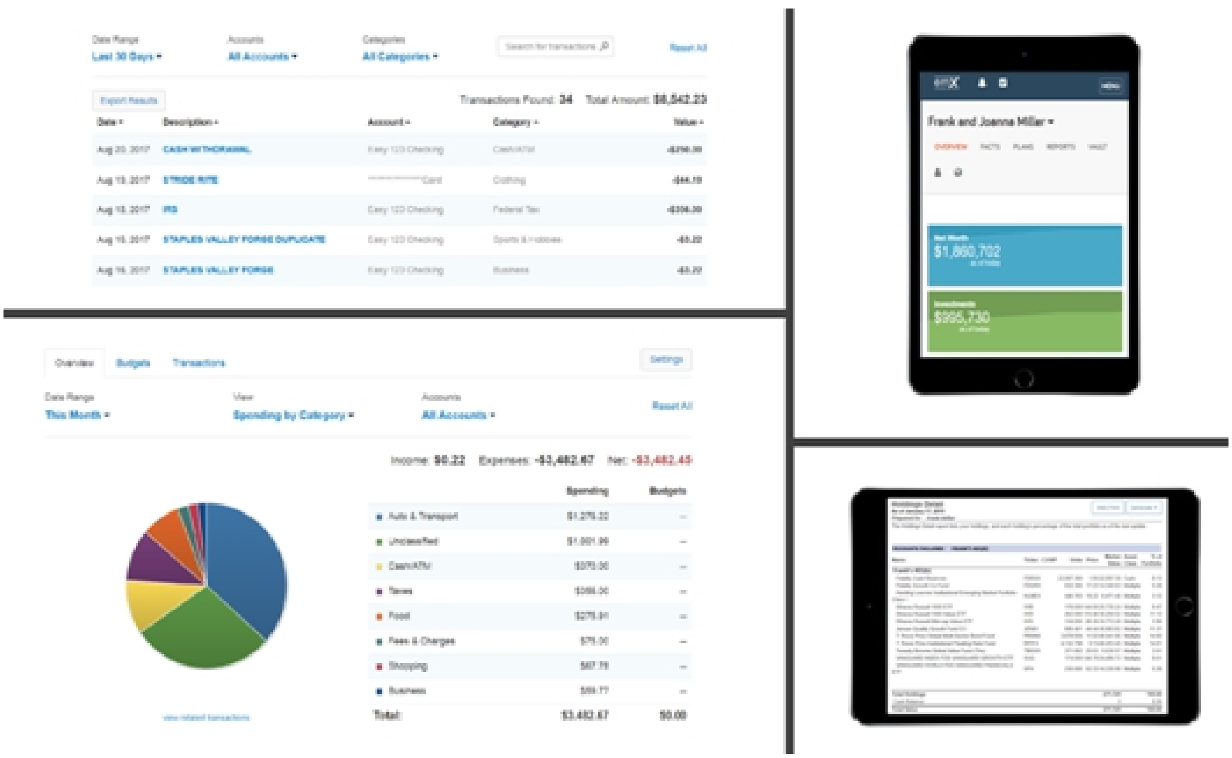

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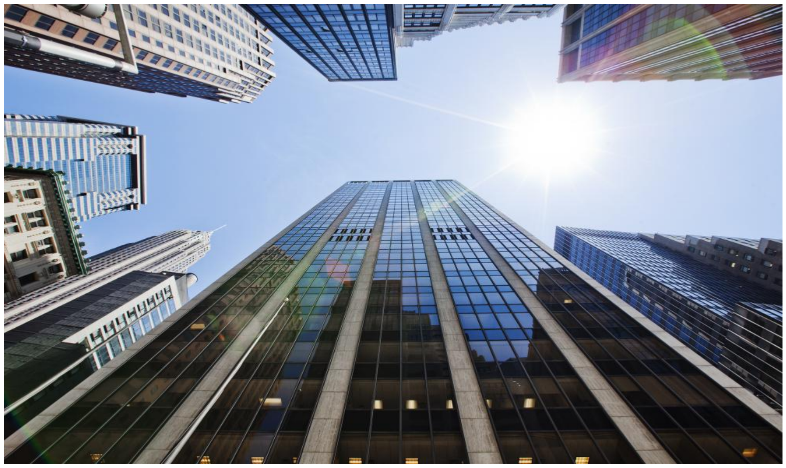

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