

January Investment Outlook 2022



Gregory W. Golinski, CFA
Director of Analytics
Partner

Current Market Conditions

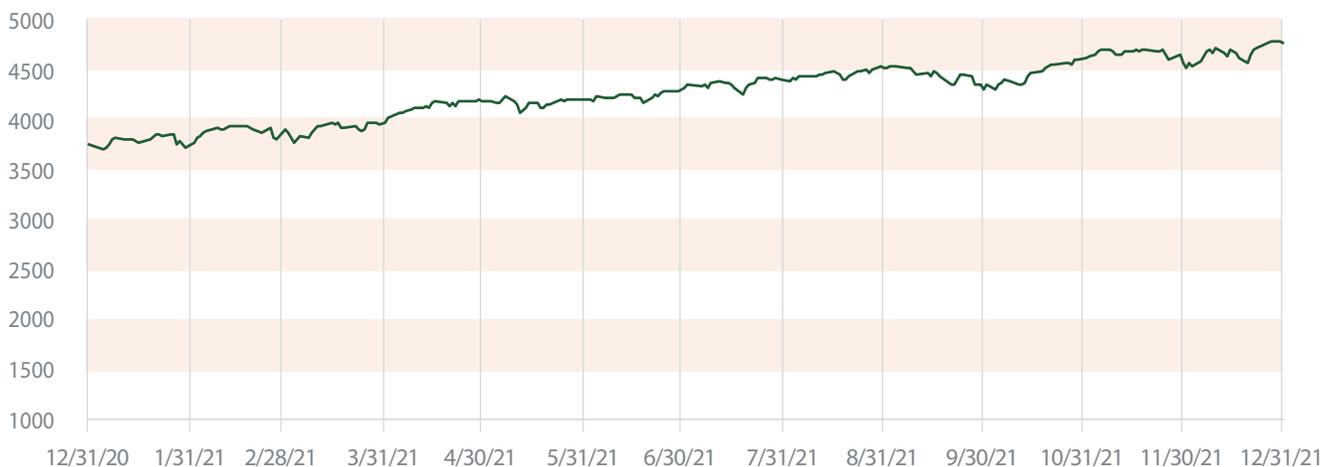
Strong 2021 markets returns

During 2021, the S&P 500 advanced 28.7% with dividends — nearly three times the average annual return. International markets have lagged the U.S., but globally we are coming off a multi-year period of impressive market returns and expanding equity valuations. Even after the recent pullback, forward price earnings (P/E) multiples in the U.S. are approximately 20x, above the historical average of 17x. The path of COVID-19, along with social and political discord, have periodically presented shocks to capital markets, but the negative impacts have proven short-lived.

Favorable economic conditions, but inflation is a concern

Current economic conditions generally remain positive. Despite significant pressures created by COVID-19, fiscal stimulus provided stability. Solid corporate earnings growth, a greatly improved employment picture, and accommodating monetary policies have driven stock market valuations and returns higher. We believe the

S&P 500 Closing Price 12/31/20 - 12/31/21



January Investment Outlook 2022

benefits from economic stabilization policies are now largely behind us. Easy monetary policies have created excess liquidity, which coupled with supply chain disruptions and a tighter labor force has resulted in an inflation rate of approximately 7%. This has led the Federal Reserve (Fed) to signal a pivot away from accommodation and toward monetary tightening in the form of interest rate increases and a reduction in liquidity.

Our Investment Approach and Strategy

Our general view remains consistent

While we have concerns around the aforementioned changes in government policies, we are not calling for significant shifts in client investment policy. Interest rates are rising, but they are still relatively low and bonds do not yet offer enough yield to entice us away from equity and other risk assets in a significant way. Despite the potential concerns and the recent stock market volatility, the economy remains generally on stable footing, and the companies and managers we follow closely are still encouraged with their economic prospects. Most economists are forecasting continued growth in GDP and corporate profits. History also shows that capital markets can generally continue performing well in the early stages of a Fed tightening cycle.

We remain vigilant in analyzing potential asset class shifts

We are not sitting still, however. The disparity in returns between different asset types over the last few years demonstrates the importance of our policy of investing across asset classes. Recent market movements have also resulted in higher potential growth investments pulling back more than the broader market. As conditions change, we are assessing which areas of the financial markets we should be investing in for our clients.

Things we are watching over the next six to twelve months

We are keeping a close eye on Fed activity and the outlook for inflation

Looking forward, a key factor we are watching is the Fed's ability to balance tighter monetary policies to keep inflation in check without choking off economic activity or damaging capital markets. The expectation is that the current inflation rate of 7% should come down significantly but remain above the level of recent years. If inflation and interest rates rise more than currently expected, then we will reassess our investment position.

We encourage you to contact us with any questions you may have at (212) 492-7000 or info@klingenstein.com.

This communication is not intended as a recommendation or as investment advice of any kind. All content is provided for informational or educational purposes only. Nothing herein constitutes or should be construed as an offering of advisory services or an offer to sell or a solicitation to buy any securities. Klingenstein Fields Advisors ("KF Advisors") represents two investment registered with the Securities and Exchange Commission: Klingenstein, Fields & Co., L.P. and KF Group, LP. KF Advisors is neither a law firm nor accounting firm, and no portion of its services should be construed as legal or accounting advice.