2022 Van Leeuwen & Company Market Outlook

Outlook Predictions	2021 Outlook Estimate	2021 Result	2022 Outlook Estimate
Risk of Recession	Low	No Recession	Low
Federal Reserve Actions	No Fed Action	Started Tapering QE	3 Rate Increases
Inflation Expectation	2.0%	7%	3.5%-4%
U.S. Gross Domestic Product Growth	+4.2%	5.5% (estimated)	+2%-2.5%
U.S. Earnings Growth	+5% - 8%	51.4 (estimated)	+9%
U.S. Stock Returns (S&P 500)	Mid-to-High Single Digits	28.71	Mid-to-High Single Digits
Fixed Income Returns	Low Single Digits	-1.54%	Low Single Digits

Another volatile year ended with mostly positive gains across U.S. markets. The pandemic subsided and restrictions eased only to have two new variants pop up and keep Covid in the headlines. The Biden administration took office and started on their campaign agenda. The U.S. economy grew faster than had been seen in decades and helped propel markets to new highs.

There are several themes we are watching closely as we enter the new year. Infrastructure could be a key catalyst to both economic growth, but also inflation. Higher interest rates seem to be on the horizon based on the recent Federal Reserve comments. Many Wall Street analysts and economists expect U.S. Gross Domestic Product (GDP) growth to slow down compared to 2021, but still be generally higher than we have seen in the last decade. At Van Leeuwen and Company, we are focused on fundamentally strong companies that have time-tested track records of successfully navigating different economic environments.

We estimate that U.S. GDP growth will increase by 2%-2.5% in 2022. Even after historic GDP growth in 2021, it is expected to continue to grow through 2022. Growth will most likely taper some during the year and will not get near the growth seen in 2021. Infrastructure and employment could likely push GDP growth higher in 2022.

President Biden started his administration with Covid-19 being the priority. There are still questions regarding some of the issues he campaigned on. Tax reform, one of the biggest concerns heading into 2021, never materialized in a meaningful way last year. There is a good chance that tax reform is on the table for 2022 and that could be a major factor in market performance.

Passing the "Build Back Better Act" will be another hallmark of the administration this year. The administration was close to getting a deal done until Senator Manchin of West Virginia announced he was not in favor of the proposal and did not give the 50^{th} vote needed to pass the bill.

Expectations for U.S. Stock Market returns are mid-to high single digit growth among many Wall Street analysts. This would be a much lower return than the S&P 500 had in 2021, but the last two years of market returns are out of historical norms. The economy is very strong and continuing to grow. Unemployment is almost at pre-pandemic lows and wage growth is strong.

Many of the S& P500 gains from 2021 came from more growth-oriented companies. Last year marked the second year in a row that the S&P 500 significantly outpaced the Dow Jones Industrial Average (DJIA). The less growth-oriented companies, such as those in the DJIA, could be poised to make up ground in 2022.

Estimated earnings growth for U.S. companies is around 9% year-over-year. Earnings reports early in the pandemic were abysmal which let to such a high jump in growth last year. The growth we saw last year should taper in 2022, but still be positive. Inflation, consumer spending, and a growing economy should help propel earnings throughout 2022, although some expectations for these companies are very high heading into the year.

Many analysts estimate fixed income markets to be slightly negative or possibly grow in the low single digits throughout 2022. U.S. Treasuries will be impacted the most by interest rates, and the Federal Reserve has signaled at least 3 rate increases this year. 2021 was not a good year for the overall U.S. bond index due to rising interest rates throughout the year. We expect this theme to continue through 2022, but one question that needs to be answered is how much if the anticipated interest rate increases have already been priced into the fixed income market.

We continue to believe that high-yield bonds will outperform their investment-grade counterparts in 2022.

It is estimated that the Federal Reserve will raise rates at least 3 times in 2022. While the Fed did not change rates in 2021, the began hinting at increases throughout the year which led bond yields higher. The expectation is that yields will continue to rise throughout 2022 which will put pressure on traditional investment grade bonds.

Some of the anticipated rate increases have already been priced into the market during 2021. This caused a negative total return for the year for many bond investments. We are closely watching interest rates and how they will impact bond portfolios.

The general expectation for inflation for 2021 is hovering around 4%. This estimate is close to the historical average for inflation but much lower than what we saw in 2021. Inflation was the highest seen in 40 years in 2021. Some inflation is good for equity markets as it allows companies to charge more for goods and services. Too much inflation is not good for equity markets because it may trigger the Federal Reserve to step in and slow the economy down by raising rates (which they have already stated was in the plan for 2022).

In summary, we are entering 2022 on a generally positive note but some volatility may be seen during the first six months. Some volatility may creep up early in the year until we get clarity around longer-term inflation and the velocity of interest rate increases. Van Leeuwen& Company continues to favor fundamentally strong and financially stable companies that could withstand higher interest rates and higher inflation.