Dreher Investment Services, Inc.
Economic Outlook: 4th Quarter 2021 — January 20, 2022

Market Review: 4Q-21

Equity markets continued their ascent during the quarter even with a bit of turbulence during the holidays. After multiple substantial dips, a late year rally closed the S&P at **+9.39%**, bringing the index's return to **+26.89** for the year of 2021. Markets are having to digest many key issues including the spike in Omicron related Covid-19 cases, immense inflation increases and the willingness of the Fed to stay measured in the inevitable monetary policy tightening we will see in 2022.

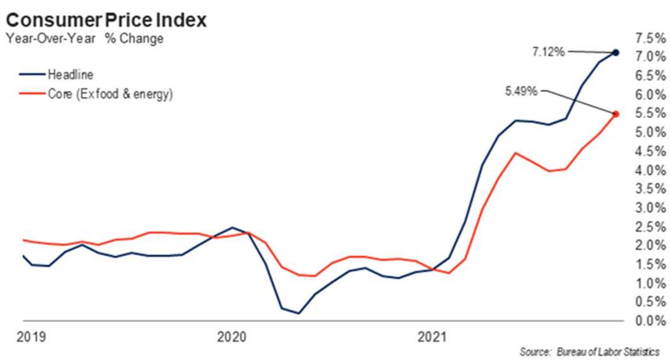
The 10-Year U.S. Treasury Note opened the quarter at **1.47%** and initially increased 20 basis points before selling off as low as **1.34%**. Eventually, after a slight increase, the 10-year closed the quarter at **1.51%**.

Market Indices

Index	4Q-21	3Q-21	1-Year
S&P 500 (Large)	9.39%	-0.29%	26.89%
S&P 400 (Mid)	5.90%	-2.82%	23.21%
S&P 600 (Small)	3.27%	-3.76%	25.27%
Barclays Aggregate (Bonds)	-0.27%	0.10%	-1.54%

Inflation

Inflation accelerated during the quarter with the December year-over-year headline inflation numbers soaring over 7%. This vast inflation increase is a far cry from 2020, when prices were pushed lower to eliminate excess inventories caused by subdued consumer demand. As the economy reopens, pent up consumer demand has placed strains on supply chains. Bottlenecks are expected to ease in the coming months, although new Covid-19 variants could still create havoc on the system.



Economic Indicators

Indicator	4Q-21	3Q-21	1-Year
U.S. GDP	6.9%	2.3%	5.7%
Non-Farm Payrolls	1.10M	1.95M	6.45M
Unemployment Rate	3.9%	4.7%	6.7%
Headline Inflation	2.2%	1.2%	7.0%
Core Inflation	1.7%	0.6%	5.5%
Corporate Earnings Y/Y	~22.4%	42.6%	-
Corporate Revenues Y/Y	~12.1%	17.0%	-
Federal Funds Upper Limit	0.25%	0.25%	0.25%

~ Denotes Future Estimate

The Federal Reserve

The Federal Reserve will be a pivotal focal point for U.S. markets as the Fed has already committed to several rate hikes for 2022 with presumption of more to come in 2023. Chairman Powell and his board have been very proactive when addressing key issues in the past and will likely replicate their willingness to act to address inflation spikes. The market has accepted there will be rate hikes and bond purchase tapering but analysts are weary that these actions may be overdone like we have seen in the past.

Omicron

As U.S. citizens began living life with the presence of Covid-19, the Omicron variant took full effect in the United States. Omicron is much more contagious than previous strands but early signs show it's substantially less deadly. Omicron cases increased dramatically, with daily numbers above 500,000 U.S. citizens per day, but hospitalization rates did not spike with the case numbers. Omicron cases should drastically slow in the coming weeks, as we have possibly seen the peak.

Strategic Market Outlook

The U.S. equity markets recovered from heavy September losses that ended the 3rd quarter, eventually setting a new all-time high after some turbulence around the Christmas holiday. Long-term positive projections for equity markets will be tested by short-term variables, such as interest rate hikes and inflation concerns. ***Any short-term volatility will continue to be used as buying opportunities to establish long-term positions.***

U.S. fixed income levels closed essentially flat during the quarter, after fluctuating as much as 33 basis points. The 10-Year U.S. T-Note increased slightly to close the quarter at **1.52%**. Interest rates continue to be volatile with inevitable future tightening in monetary policy inciting discontent with fixed income investors. ***At current levels, any fixed income purchases will be limited in duration.***

DREHER
INVESTMENT SERVICES, INC.