

"Cup of Joe"

It's been a few months since our last market update, which means that things have been going well! Remember, we do not send these emails out unless there are important topics or situations to discuss. And with inflation making the headlines and the new bout of volatility in the markets, we figured now would be a good time for a recap.

Last year was another great year for our clients at Chapel Hill Investment. While we did not get the post-COVID re-opening trade **(yet)** due to the emergence of the Delta and Omicron variants, the market and economy remained resilient in the wake of persistent inflationary forces and supply chain issues.

Let's discuss inflation first. While we do view this as the biggest concern to the markets, there does seem to be some light at the end of the tunnel. Supply chain issues should continue to improve every day as local ports around the country work to alleviate bottlenecks and people start filling the numerous job openings currently plaguing the labor market. The other bit of good news is that the Federal Reserve has announced it will be raising interest rates at least 3-4 times in 2022. The reason I've concluded this is good news comes from the fact that the last time the FED did this, the market threw a "taper tantrum" of sorts. This time around, we believe the market is more fearful of inflation and is viewing the upcoming interest rate hikes as a good thing in the quest for more normalization of the FED's monetary policy. This is great news and signifies that the "smart money" feels as though our economy is strong enough (GDP just came in better-than-expected last quarter) to withstand this change in policy. And, as I've mentioned in the past, the equity markets seem to do well up until rates get to about 4.5% (a perceived tipping point). This is when investors start to look at bonds as a viable alternative to stocks. The other impact higher interest rates could have would be hurting the high-flying tech stocks (Zoom, for example). The good news on this front is that we have very little, if any, stocks that fit this bill. We look for more stable, conservative companies that go on sale at the right times…i.e., Apple.

Regarding the stock market of late, we are viewing the most recent pullback as par for the course. As we have mentioned in the past, a 10% correction happens usually once a year and is healthy for markets. Why is it healthy, you ask? Because many stocks become overvalued when retail investors (people with no adviser) buy in without realizing that the price they are paying is much more than the underlying company can justify with its earnings per year. This time around, the pullback leveled off at 11% down from the highs (that's where we were last October). While we are embracing the recent bounce back by investing the cash in your accounts, we feel it would not be out of the question for stocks to retest their current lows. This would again be normal for the markets. As we look further out, volatility should persist until the second half of the year (after the midterm elections). We are advising clients to take advantage of this recent pullback and to deploy any excess cash on hand that is NOT earmarked towards an emergency fund or near-term project. Remember, cash in the bank is earning a **NEGATIVE TOTAL RETURN** due to inflation and bonds are looking just as bad in the rising interest rate environment **(when interest rates go up, the value of the bonds go down).**

Our reasons for optimism in the second half of the year are broad based. As mentioned above, supply-chain issues should continue to subside, along with an improvement in the labor market, helping curtail recurring bouts of inflation. We view the consumers buying power as very strong coming into the spring that could setup the re-opening trade (post-COVID). With a strong economy, a cash-heavy consumer, and no other place to park your money, we view the upcoming market setup as positive. And finally, longer-term, we are very bullish due to the 5-7 trillion dollars that was injected into the economy just prior to and just after COVID and the 1.2 trillion infrastructure plan that has yet to be

deployed. There is also $4 trillion dollars actively sitting in money market funds waiting to be deployed.

Individual portfolio moves should be minimal for 2022. We feel Apple will continue to perform positively, having just blown the doors off their earnings report this week, with the average price target on the street of over $200/share. We feel Disney, after taking a breather in 2021 due to new virus variants, looks like a buy as well with a strong consumer, new content coming to Disney+ and an increase in Theme Park attendance from revenue not seen over the last 2 years. Overall, we see a strong finish to the year with market prognosticators calling for a 6-12% upside by years end and a quick bounce-back from the recent market selloff.

In conclusion, we are advising clients to use this recent pullback as an opportunity to deploy excess cash as we see 2022 shaping up for a strong finish. **And remember, you must put the money in your TD Ameritrade account now, so we have it ready to be invested when the opportunity presents itself. If you wait until you see it on TV to invest, we would have pulled the trigger already and you missed the opportunity!**

We hope everyone had a great holiday season! And remember, Spring is right around the corner! I know that's tough when you wake up to minus 3 degrees!

-Joe, Ryan, and the Chapel Hill Investment Team

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