

2022 Economic & Market Outlook

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The Economy and Markets in 2022

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9 February 2022

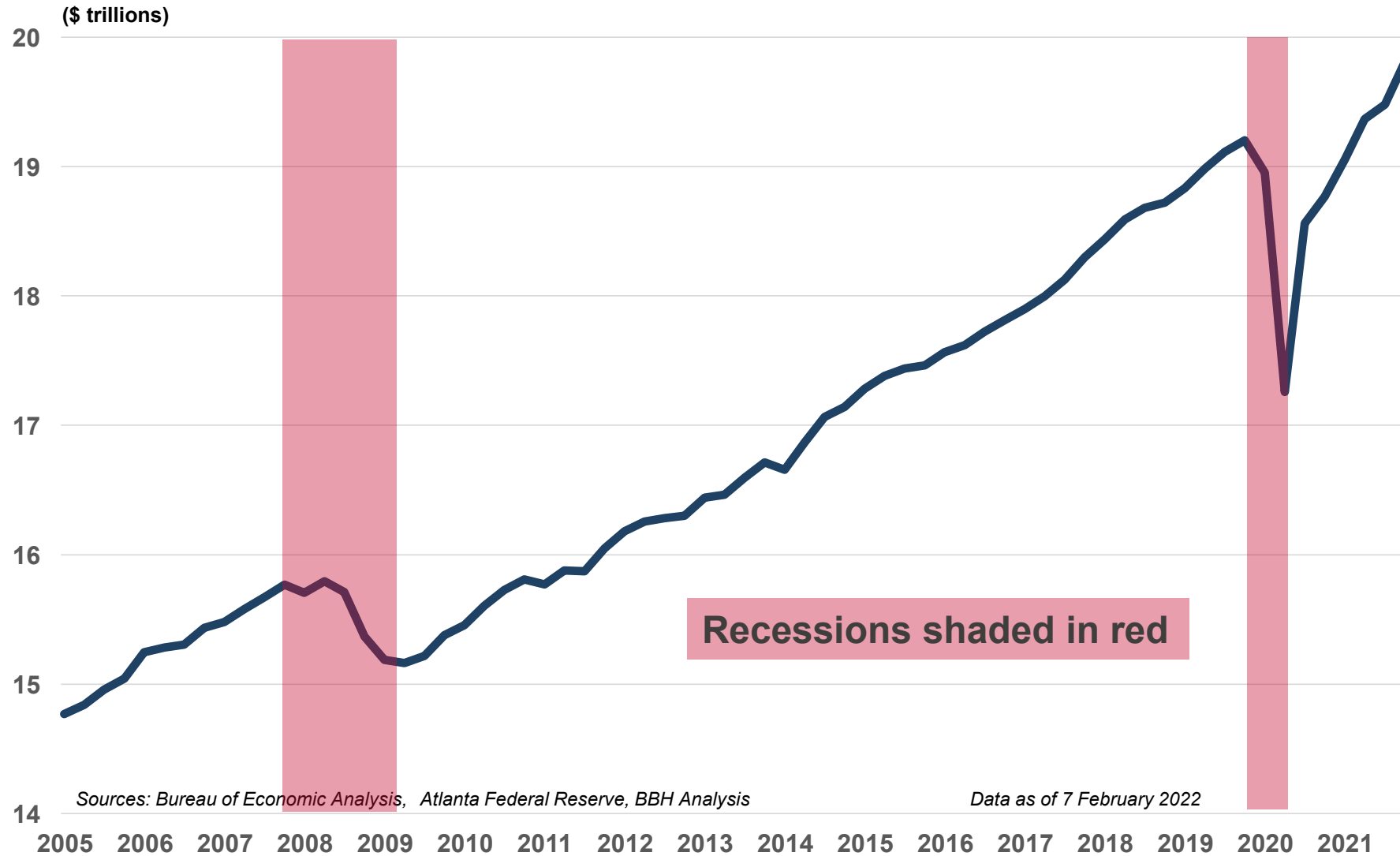
 @GSClemons

 Scott Clemons



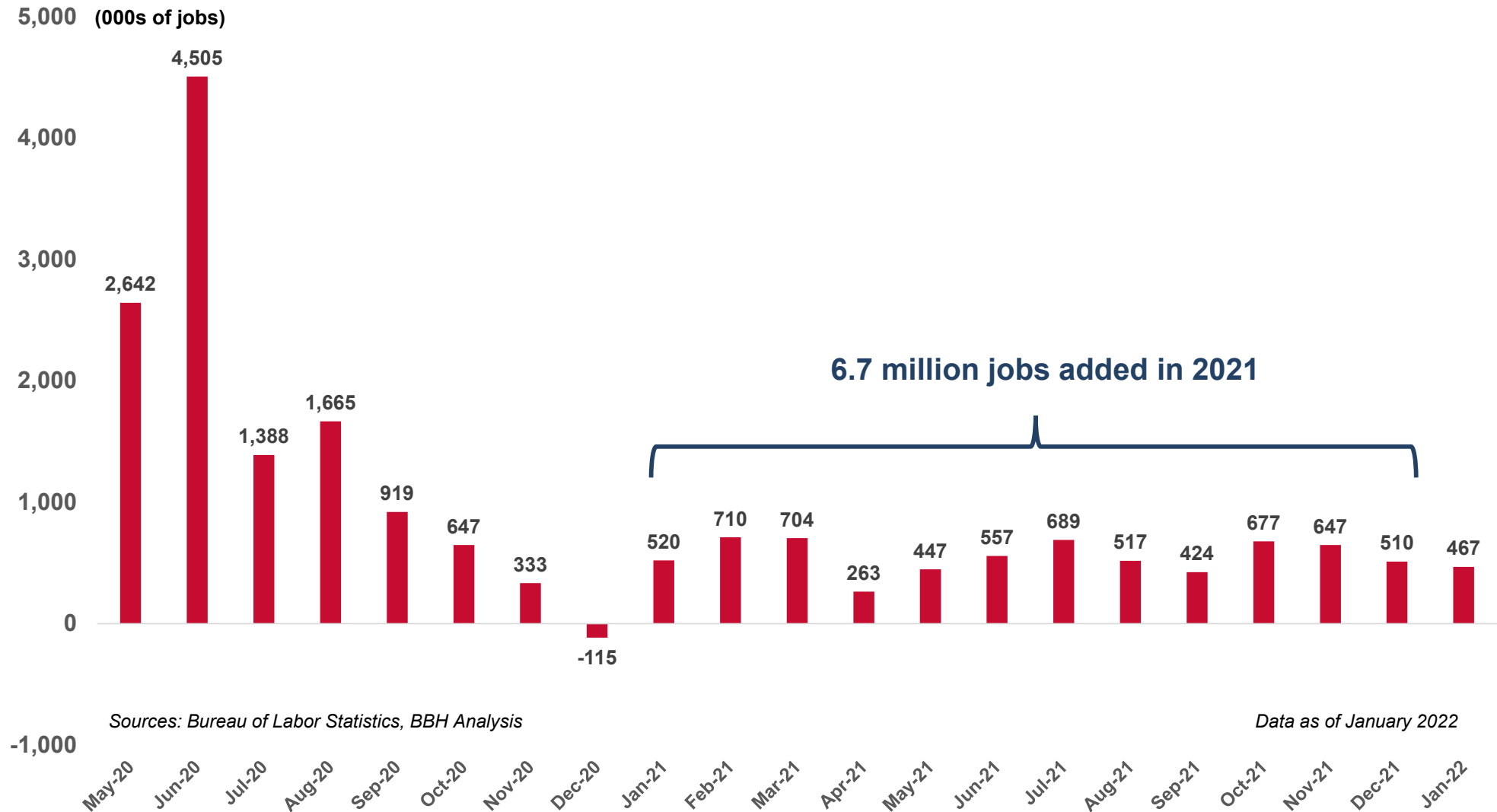
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Real US Gross Domestic Product



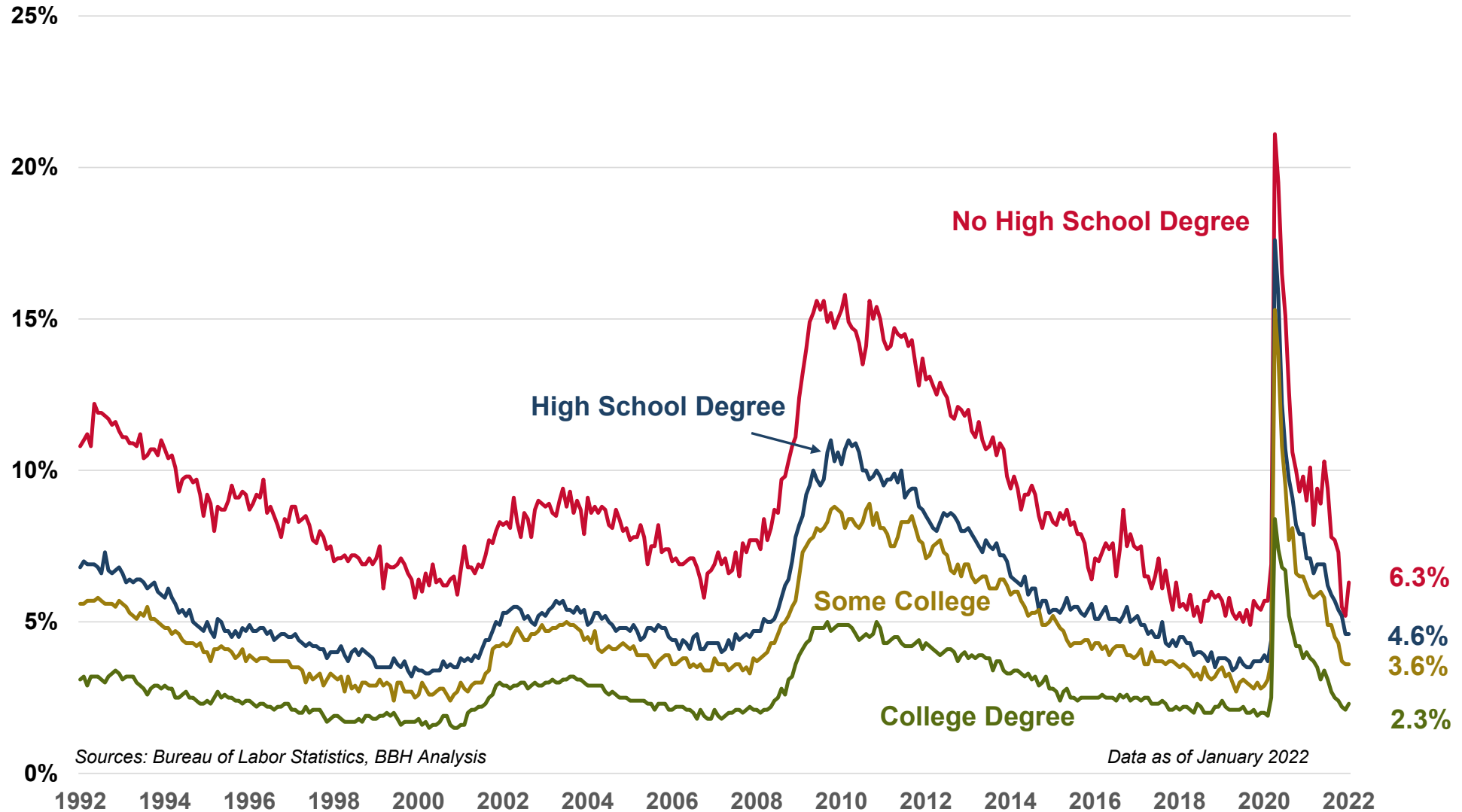
Non-Farm Payrolls

Monthly Changes

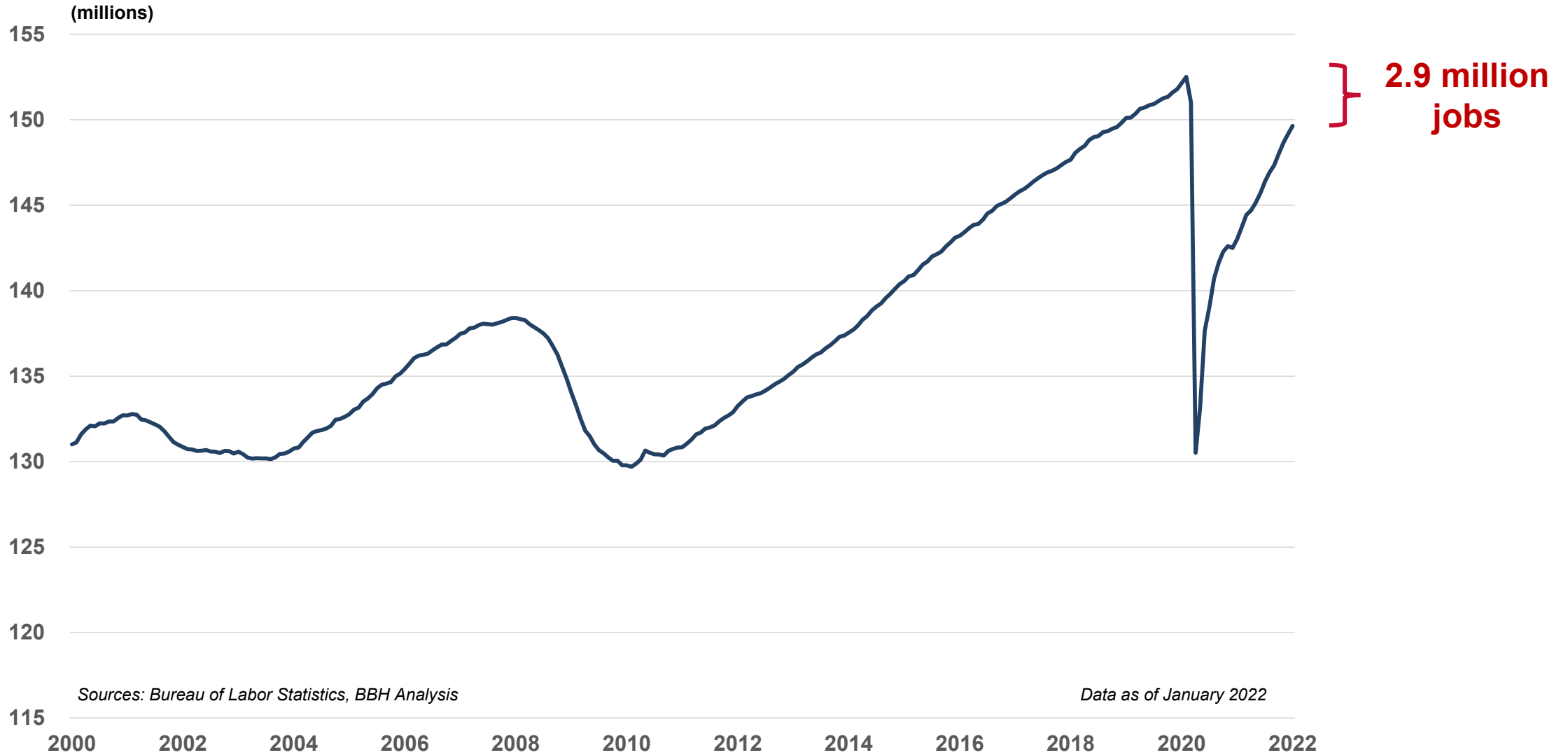


Unemployment Rates

By Degree of Educational Attainment

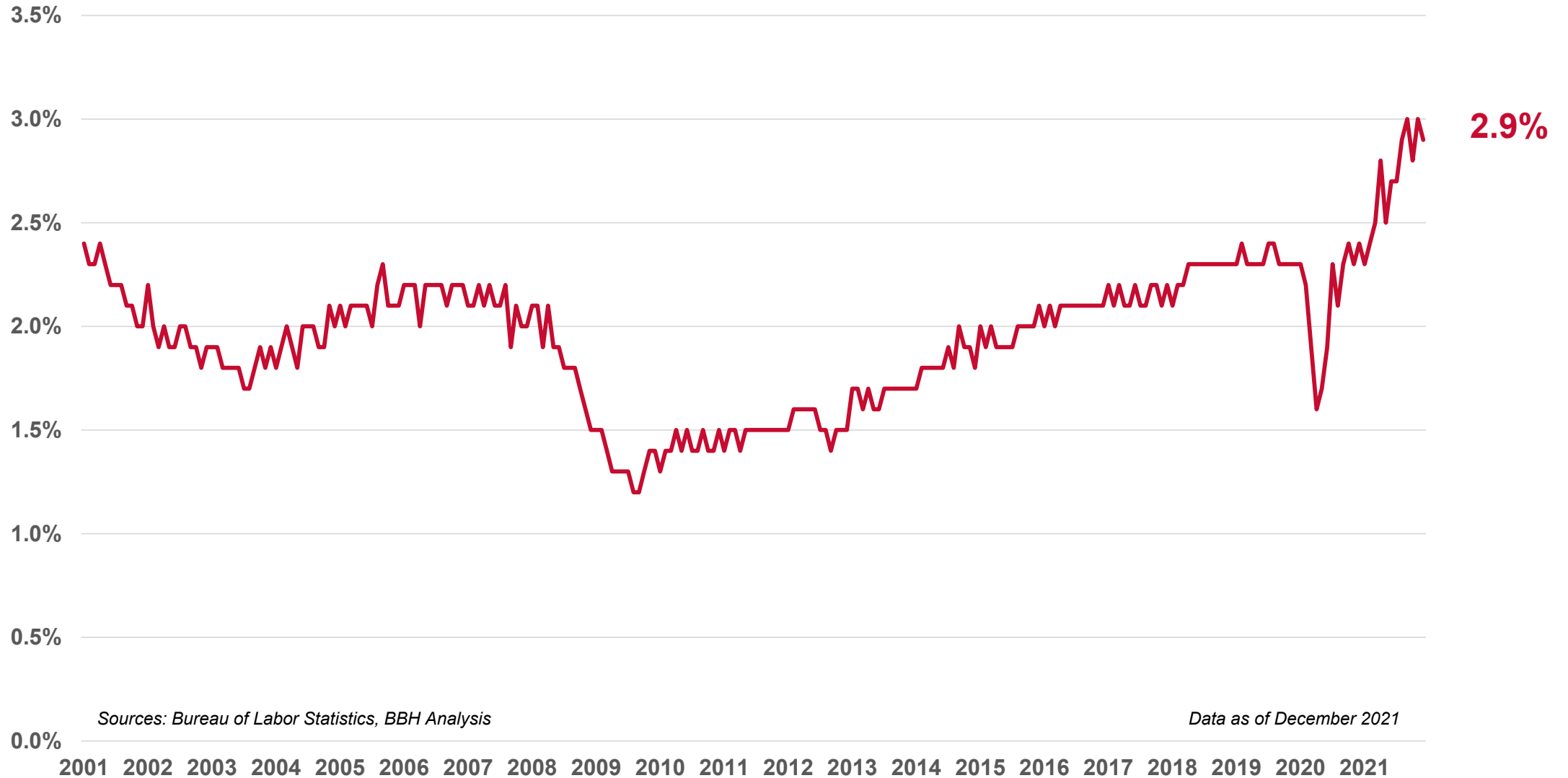


Total US Payrolls



The Quit Rate

Voluntary Resignations as Percentage of Labor Force

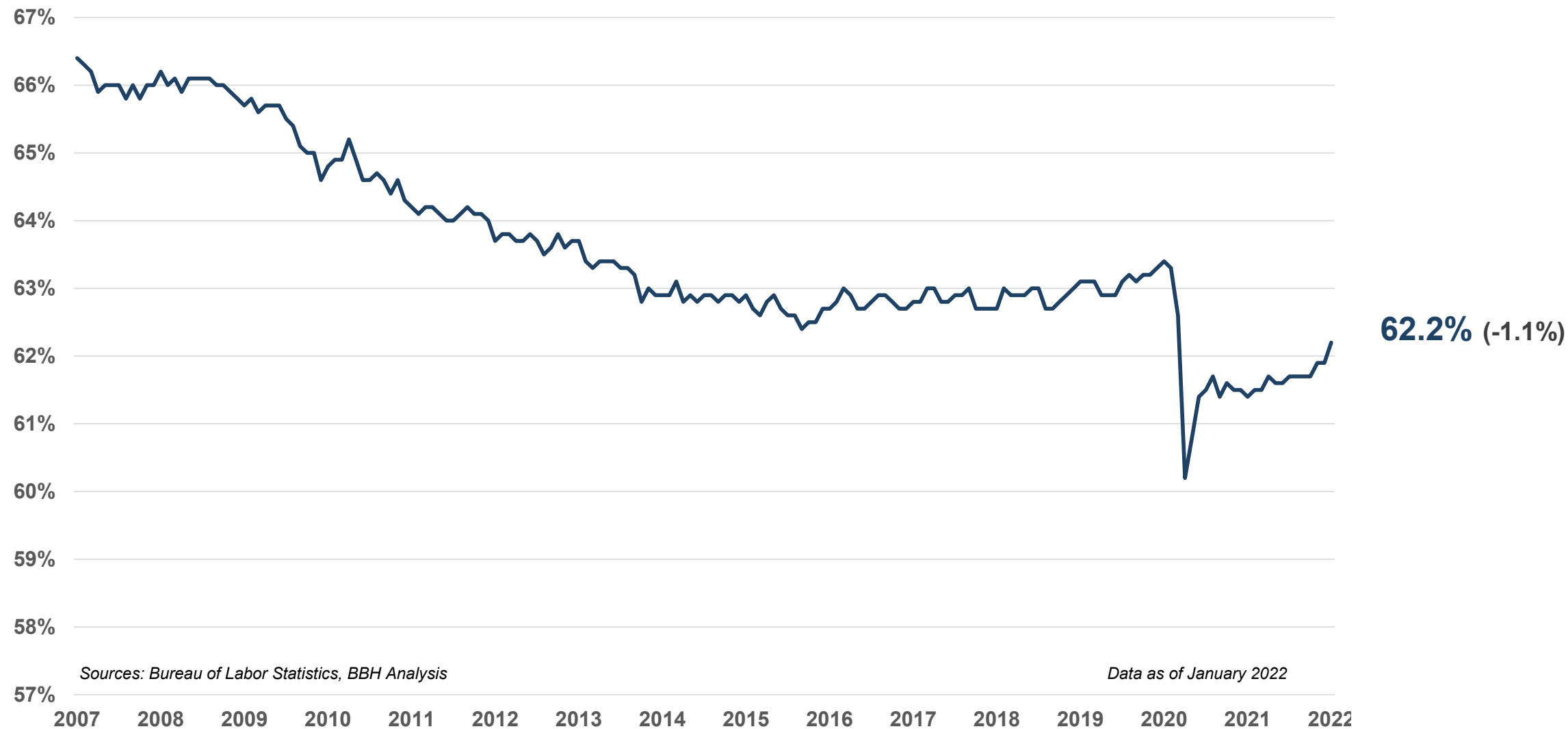


Sources: Bureau of Labor Statistics, BBH Analysis

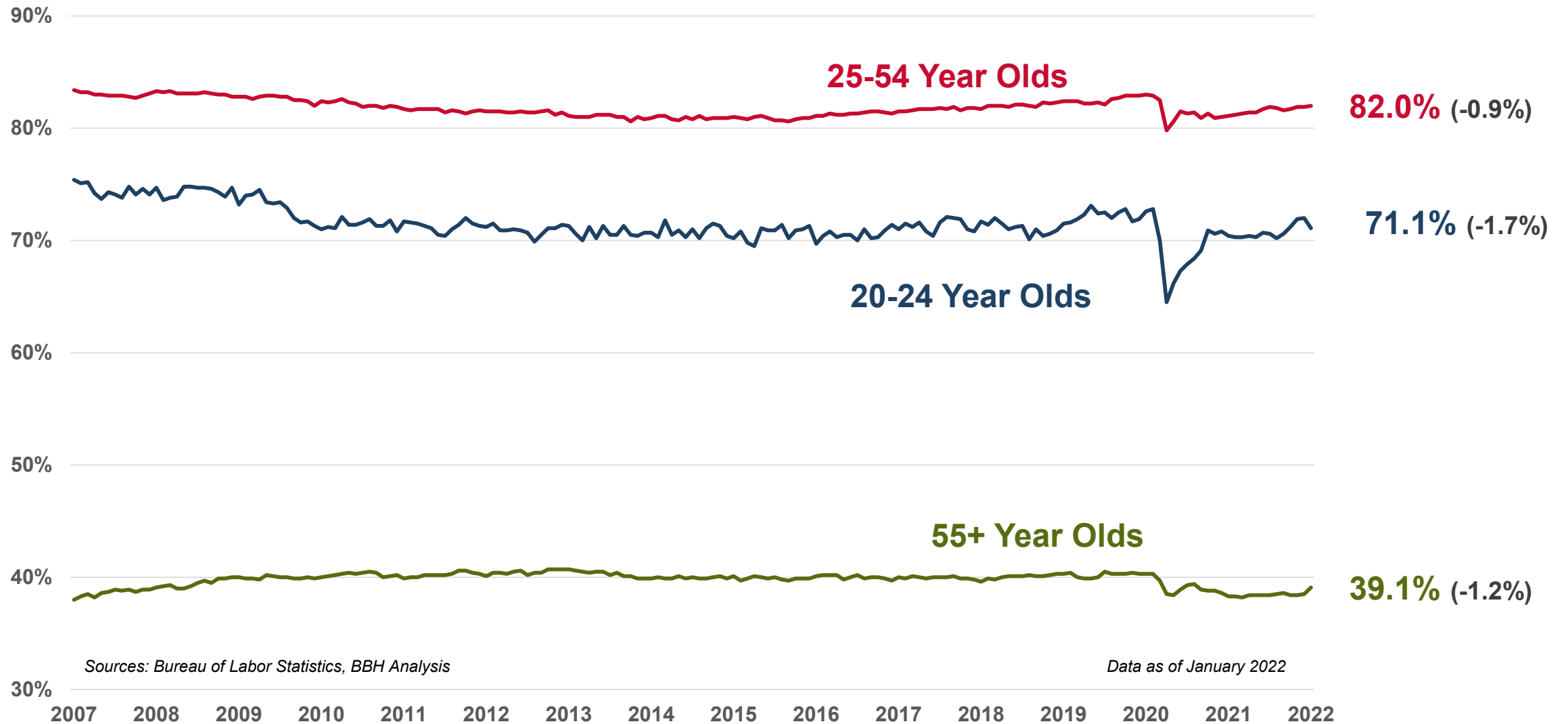
Data as of December 2021

Labor Force Participation

% of People 16+ in the Labor Force



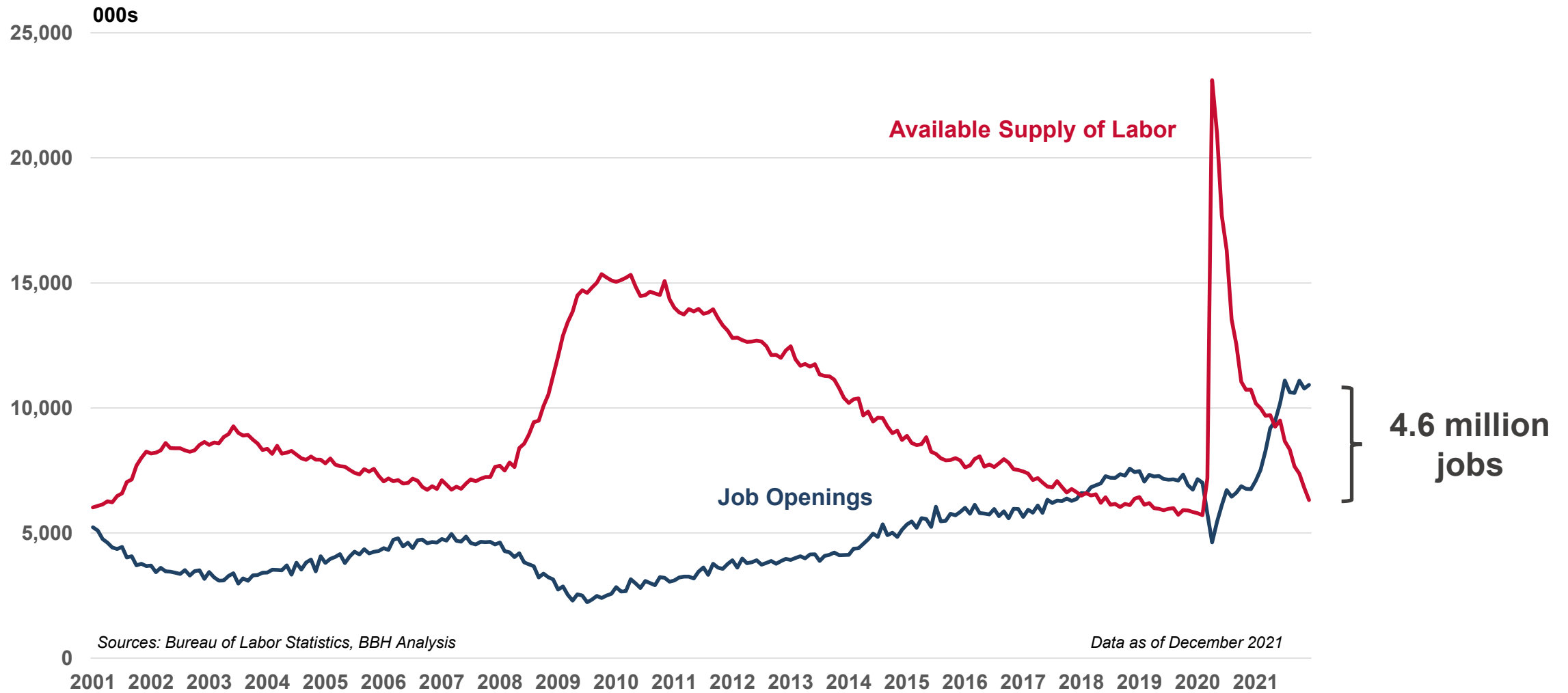
Labor Force Participation By Select Demographic Segments



Sources: Bureau of Labor Statistics, BBH Analysis

Data as of January 2022

The Labor Market Imbalance



Poll Question 1

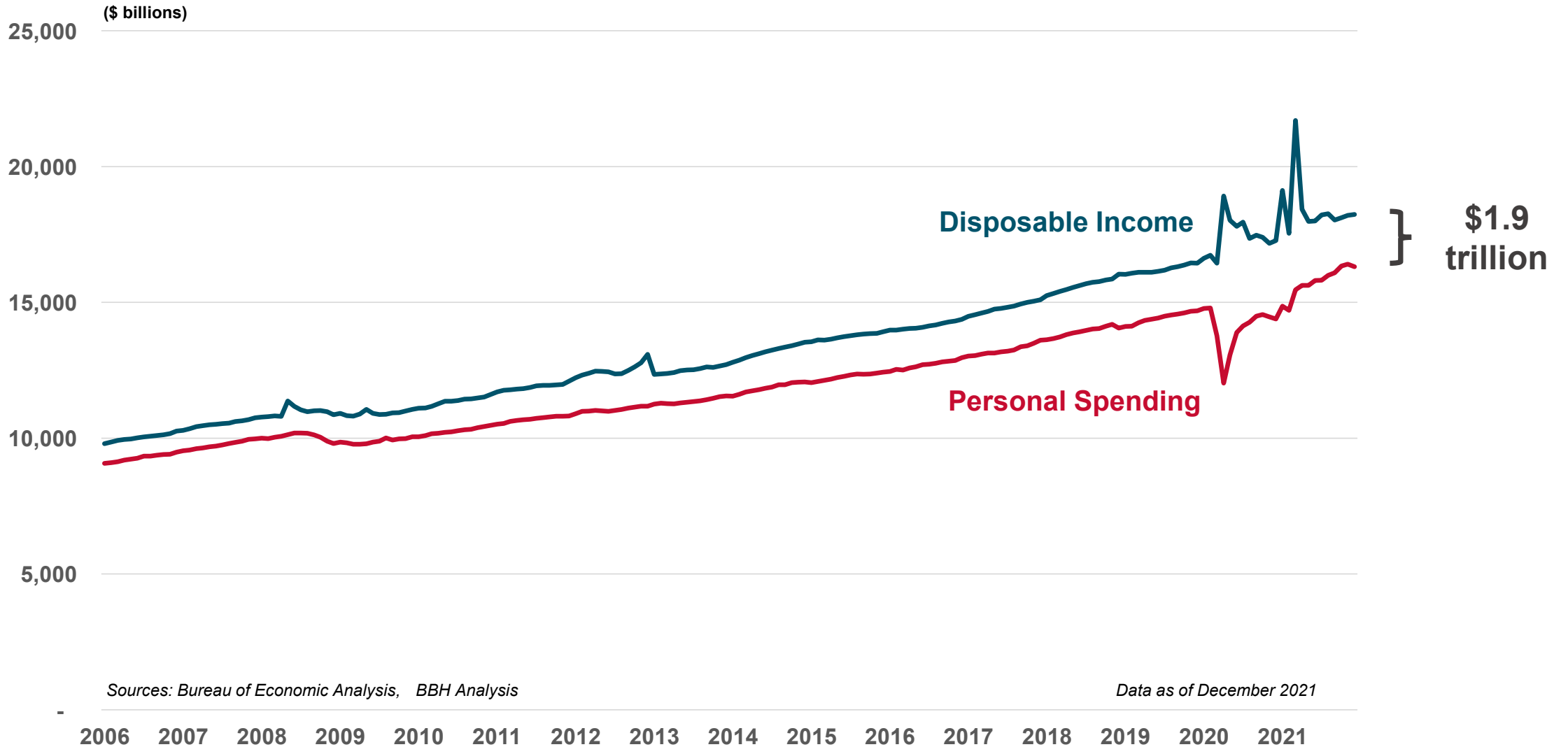
A world map with a network overlay of white lines and dots on a dark blue background, representing global connectivity.

How would you characterize the employment situation in your business, or businesses that you advise?

- A. Labor supply is not a challenge.
- B. Hard to find labor, but the situation is improving.
- C. Hard to find labor, and the situation is getting worse.

Household Income and Spending

No More Excess Savings

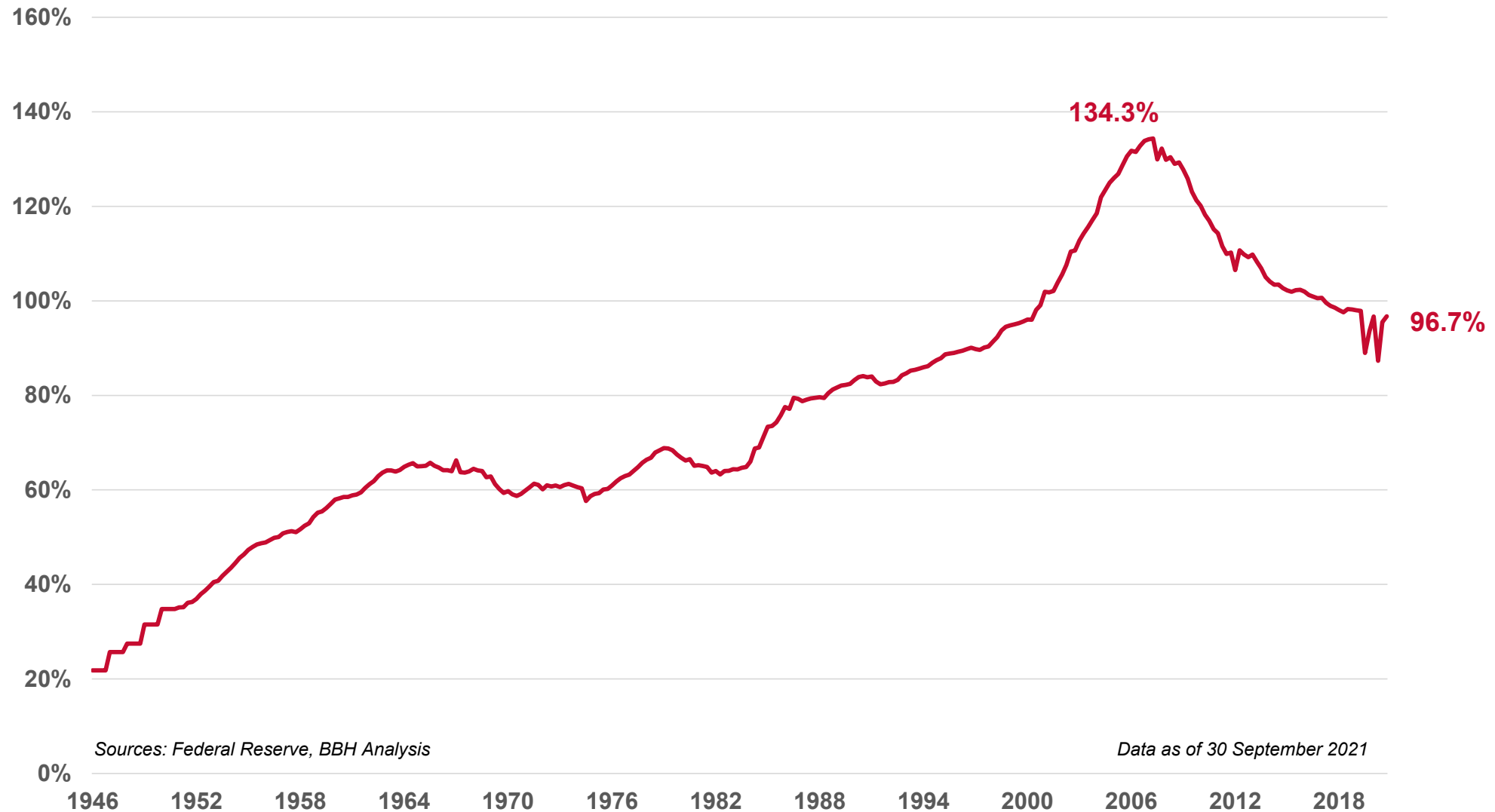


Sources: Bureau of Economic Analysis, BBH Analysis

Data as of December 2021

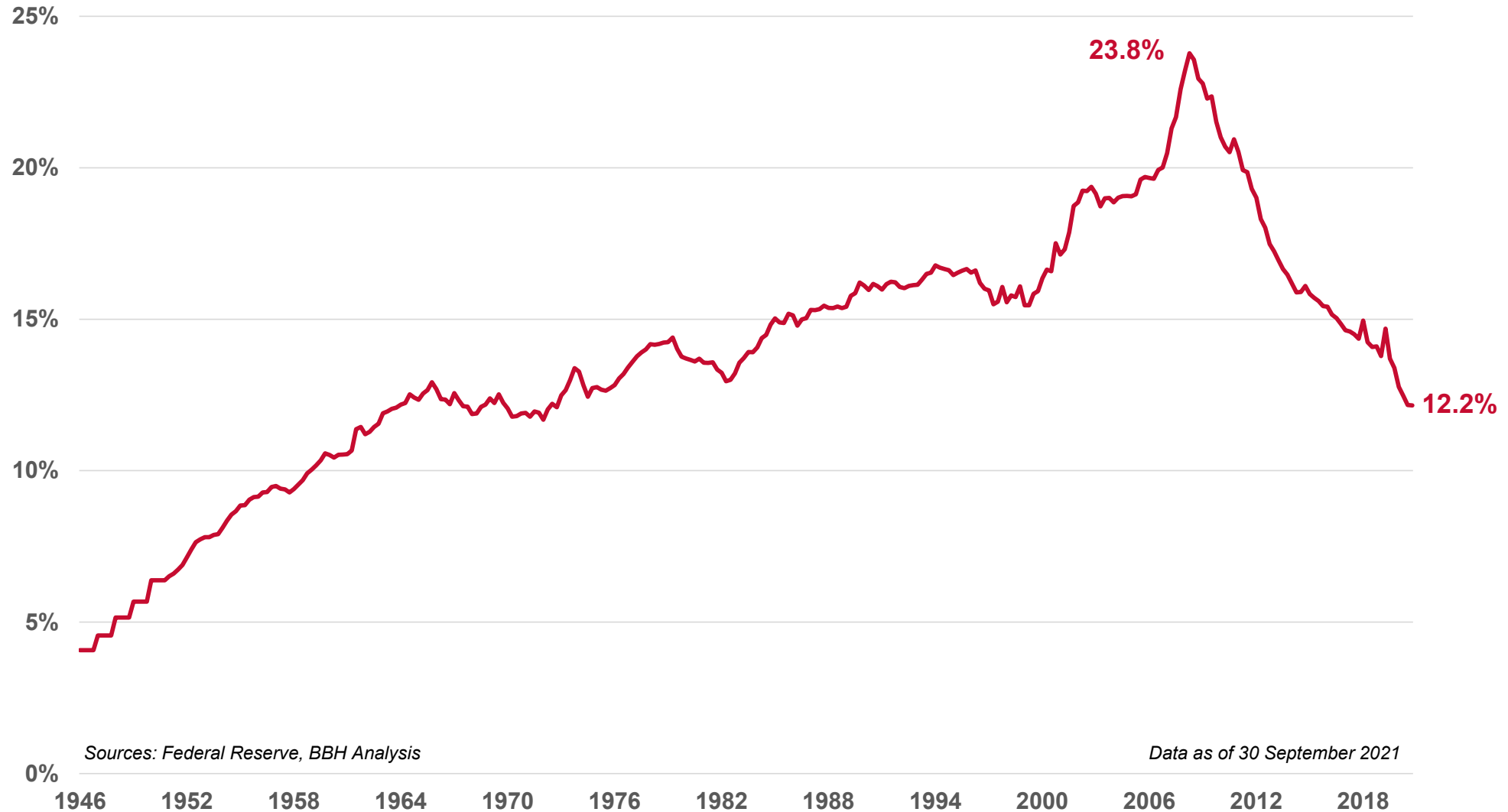
Household Balance Sheets in Good Shape

Household Debt to Income



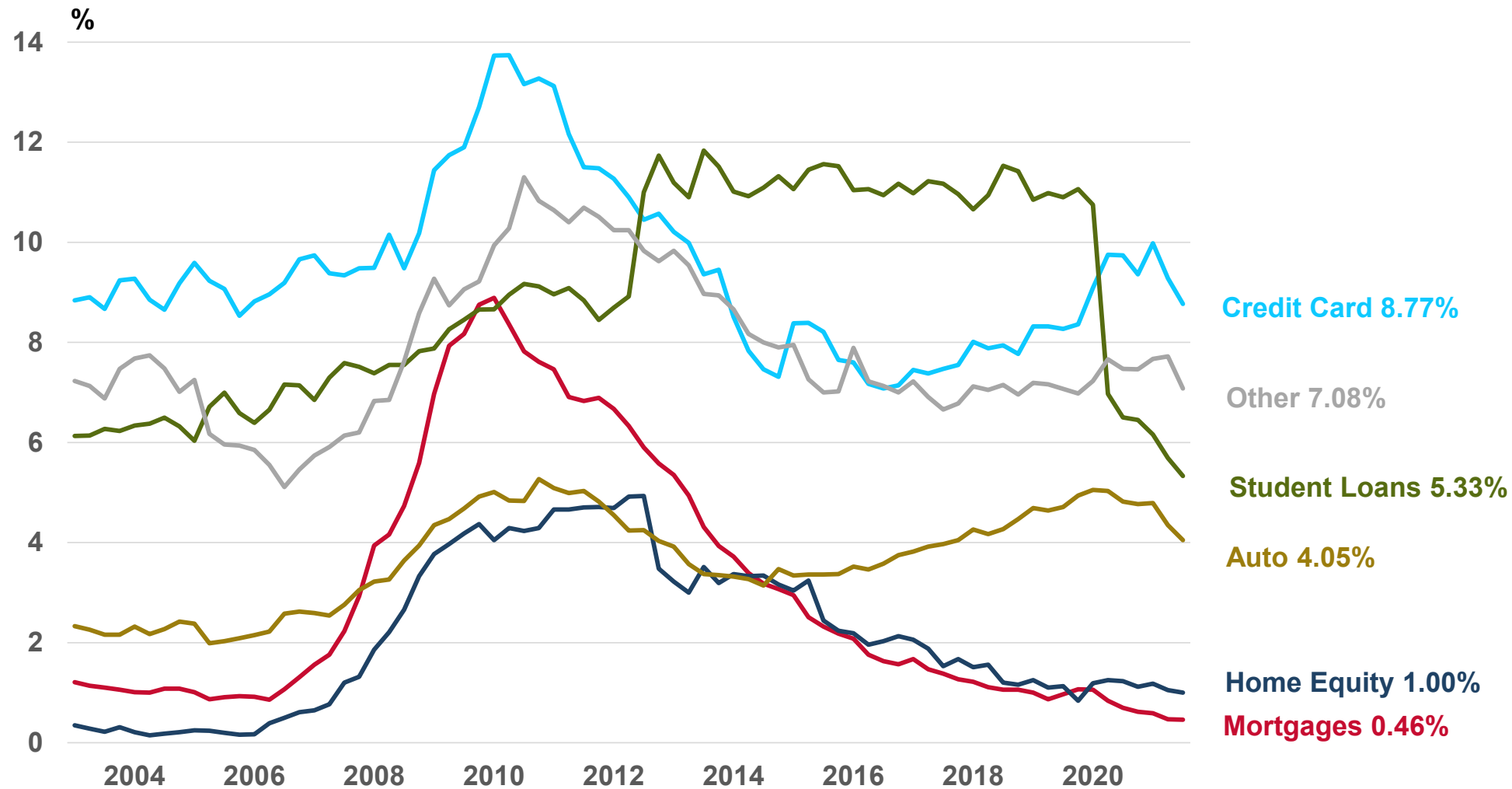
Household Balance Sheets in Good Shape

Household Debt to Assets



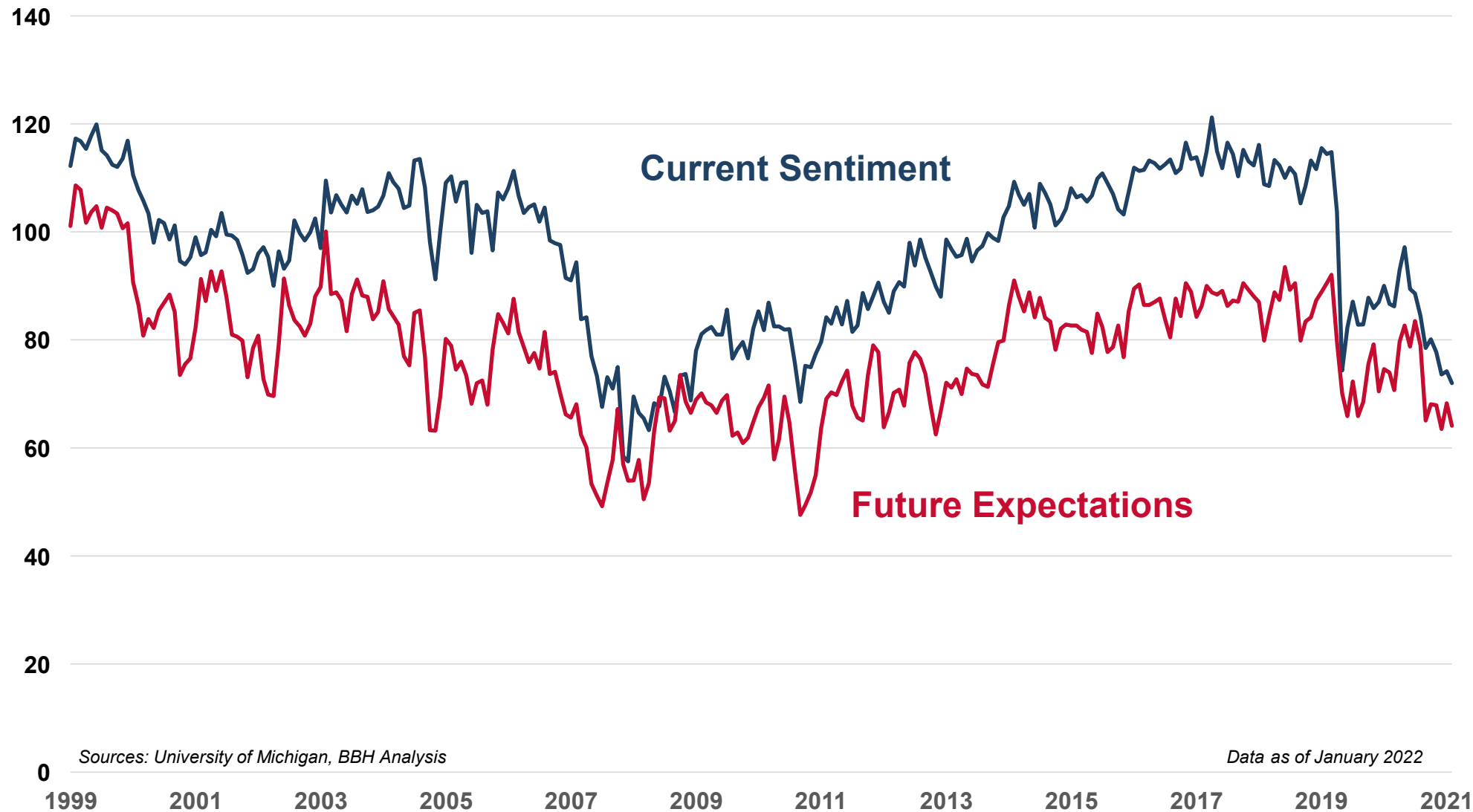
Household Balance Sheets in Good Shape

Percent of Balances > 90 Days Delinquent by Loan Type



Sources: Federal Reserve Bank of New York Quarterly Report on Household Debt and Credit, BBH Analysis Data as of 30 September 2021

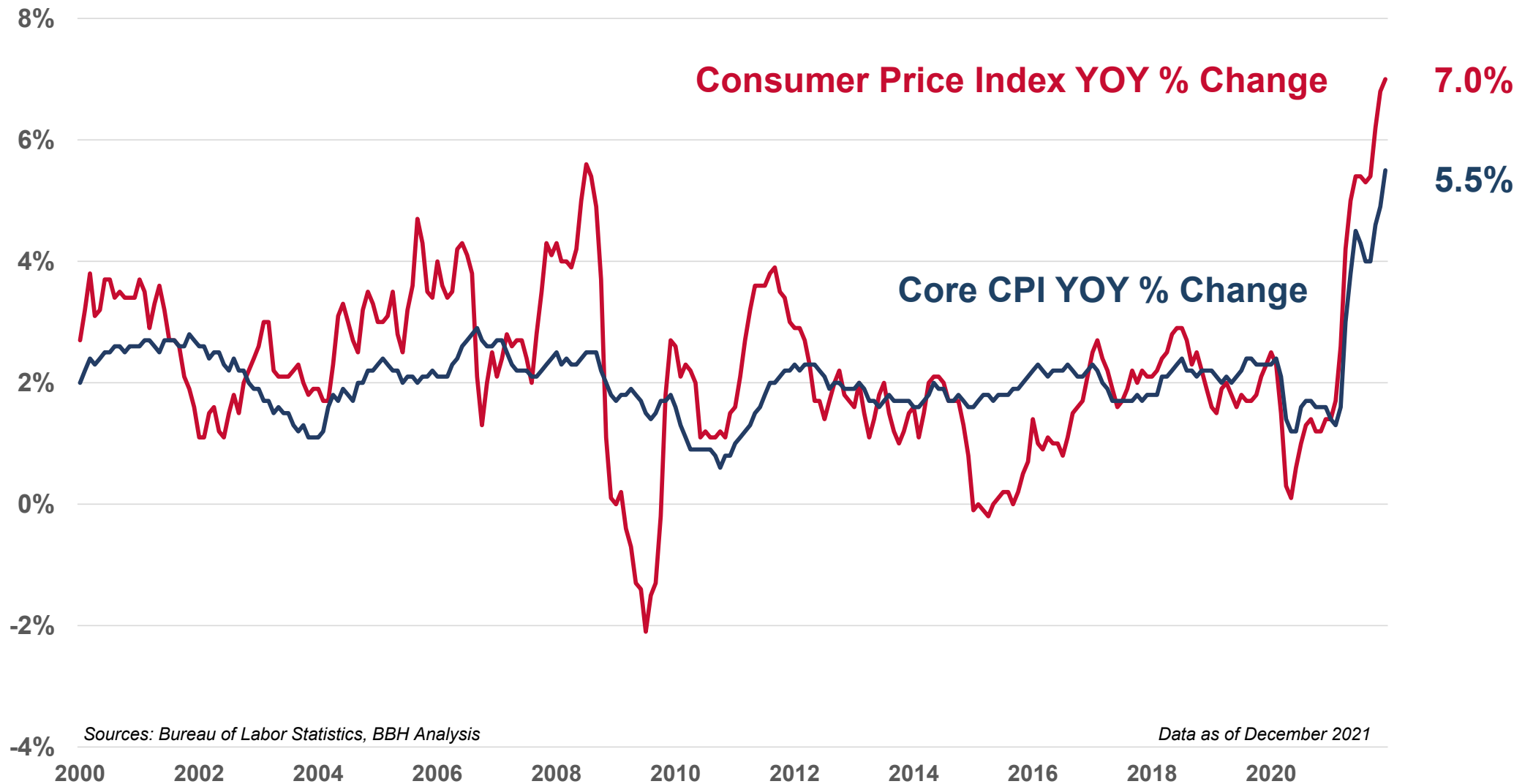
Consumer Confidence



Sources: University of Michigan, BBH Analysis

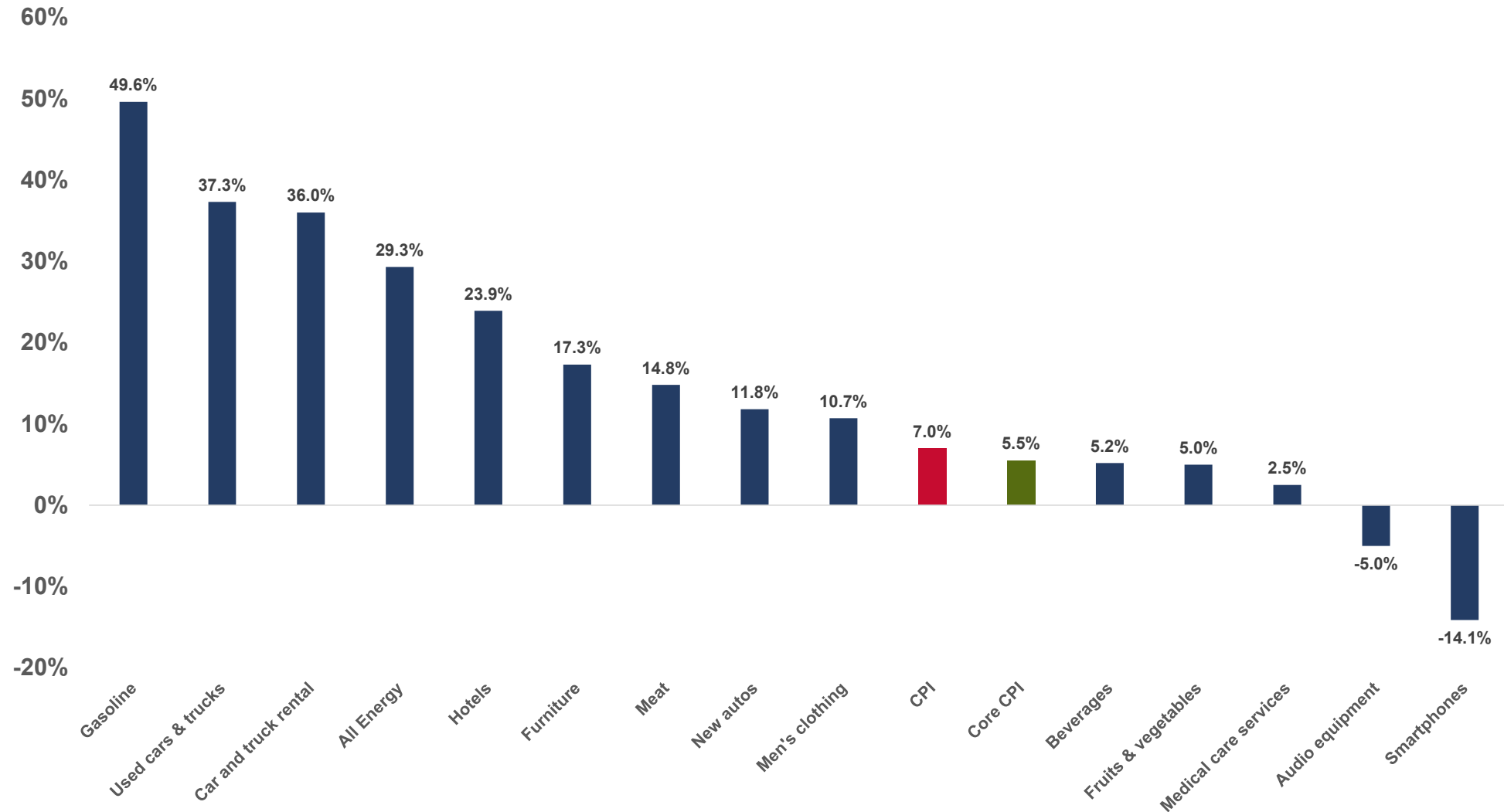
Data as of January 2022

Consumer Prices



Consumer Prices

Select Basket Prices



Sources: Bureau of Labor Statistics, BBH Analysis

Data as of December 2021

Supply Chain Constraints Beginning to Heal

Baltic Dry Tanker Rates



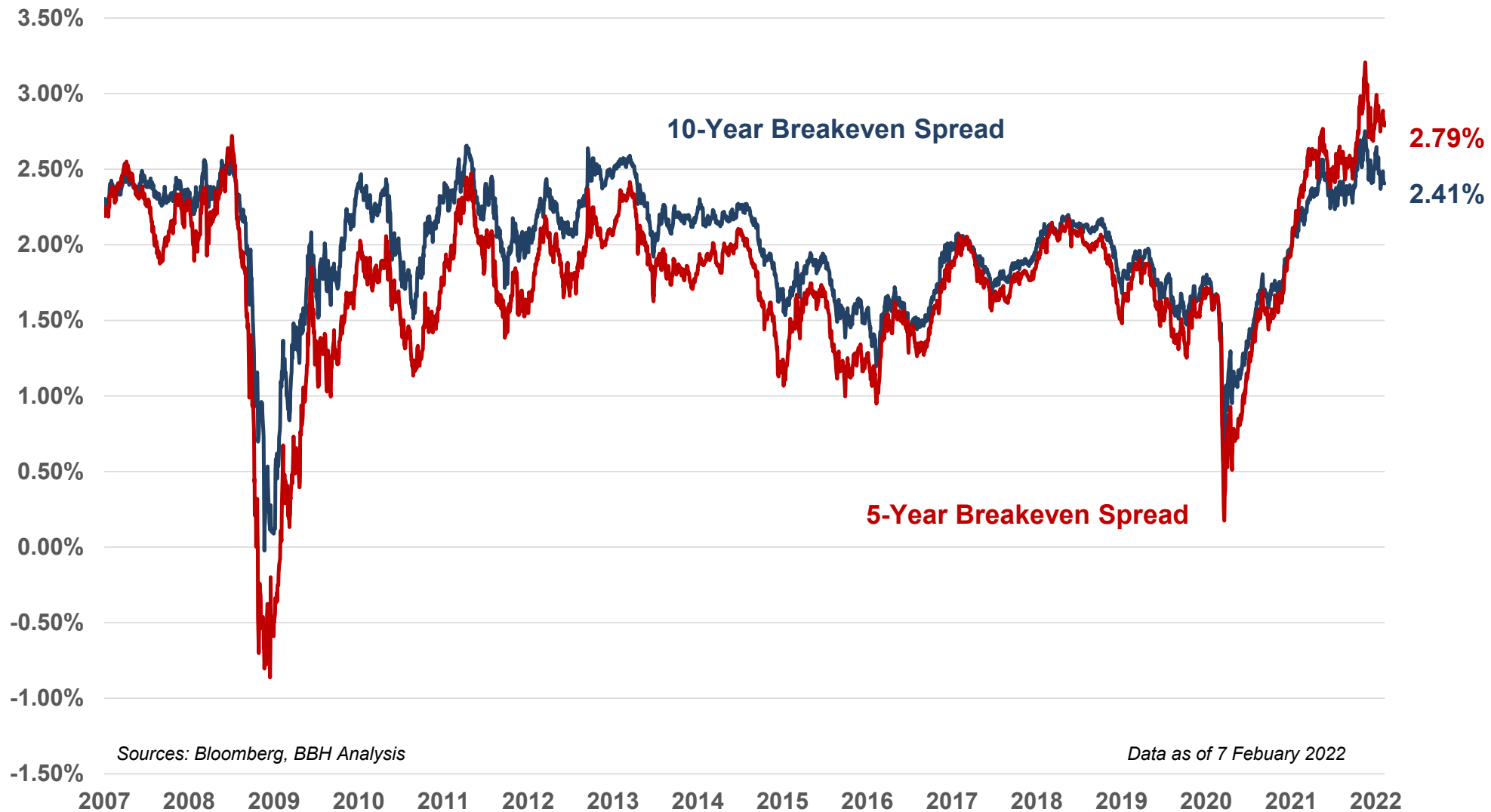
Disinflationary Trends

Or ... Why This Isn't the 70s Show

- A greater integration of **technology**, which accelerated during the pandemic, is disinflationary.
- Aging populations tend to be less inflationary, as spending patterns shift with **demographics**.
- Information and technology-led economies are less influenced by **energy** prices than industrial and manufacturing economies.
- **Globalized trade** allows for more price competition and lower prices.
- **Deregulation** lowers input costs and therefore price pressures.
- Wage pressures are mitigated by **declining union membership**.

Breakeven Spreads

Market-Driven Inflation Expectations



Sources: Bloomberg, BBH Analysis

Data as of 7 February 2022

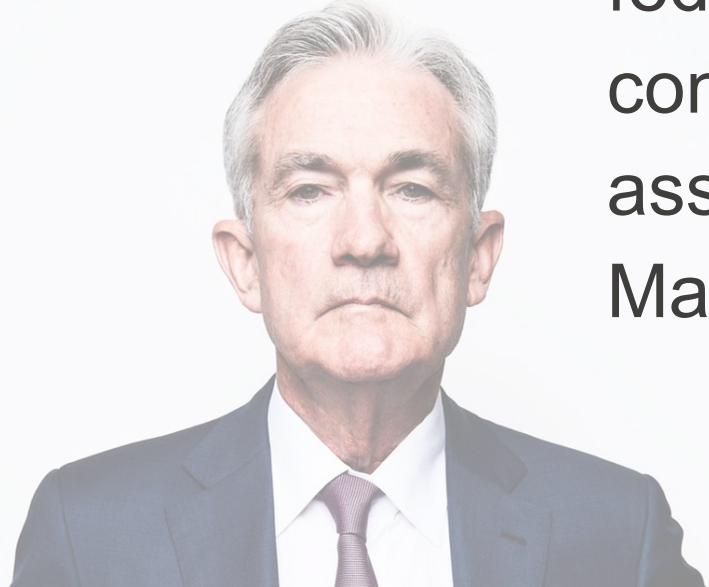
Poll Question 2

What do you think the year-over-year change in the CPI will be in December 2022?

- A. Lower than 4%.
- B. 4-5%.
- C. 5-6%.
- D. 6-7%.
- E. Higher than 7%.

The Fed Speaks

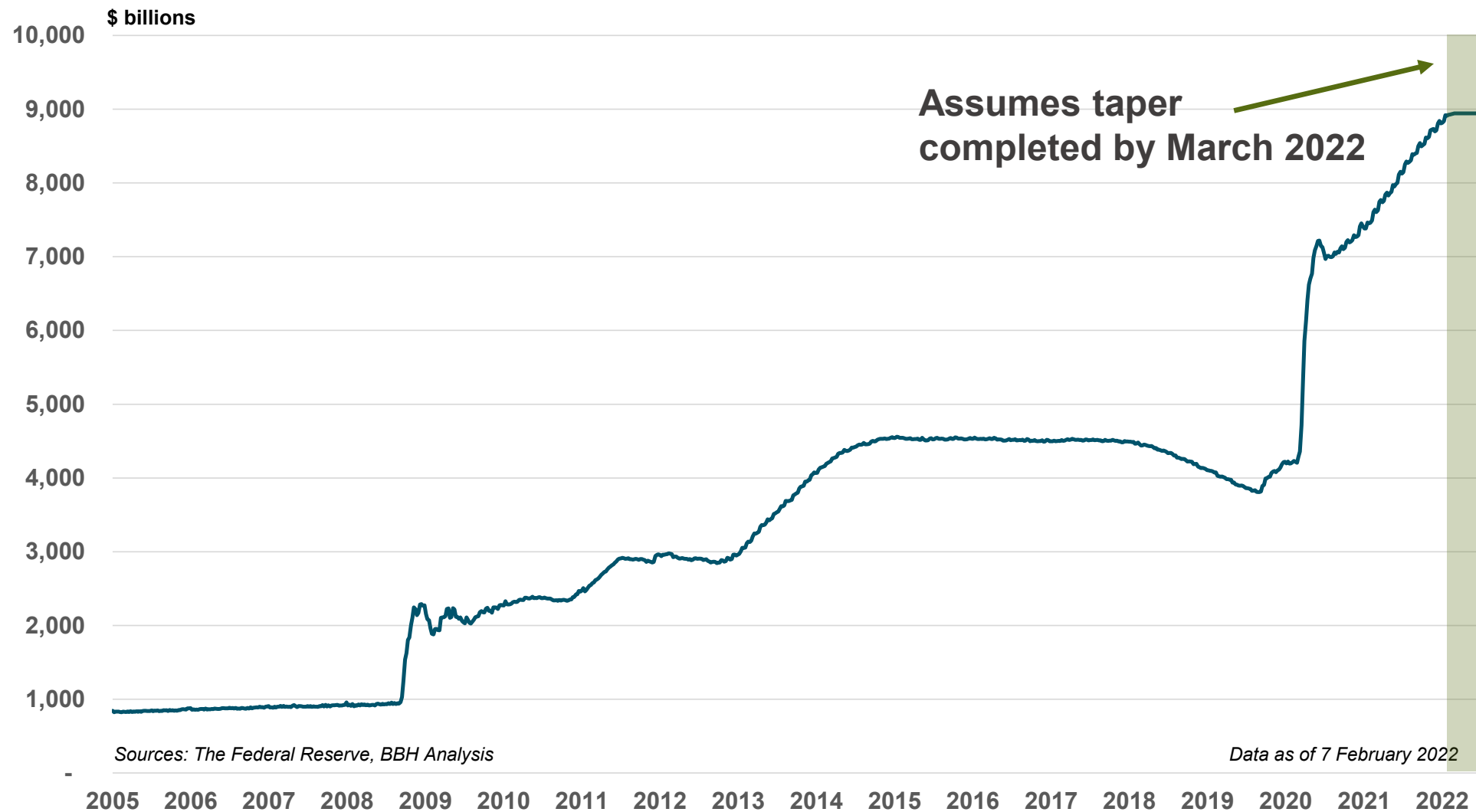
26 January 2022 Fed Statement



“With inflation well above 2 percent and a strong labor market, the Committee expects it will soon be appropriate to raise the target range for the federal funds rate. The Committee decided to continue to reduce the monthly pace of its net asset purchases, bringing them to an end in early March.”

Monetary Policy

The Federal Reserve Balance Sheet

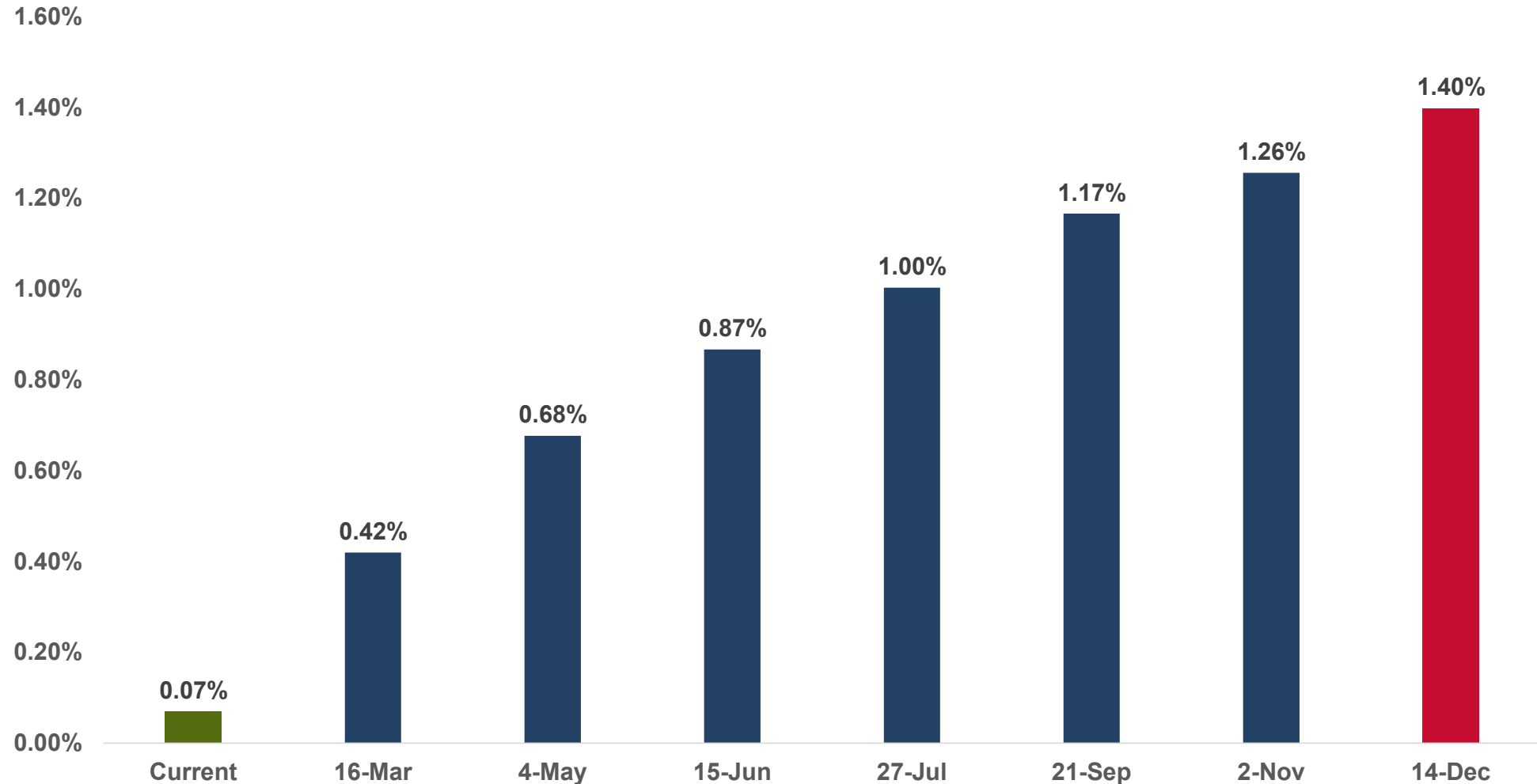


Sources: The Federal Reserve, BBH Analysis

Data as of 7 February 2022

Fed Funds in 2022

Futures Market Implications



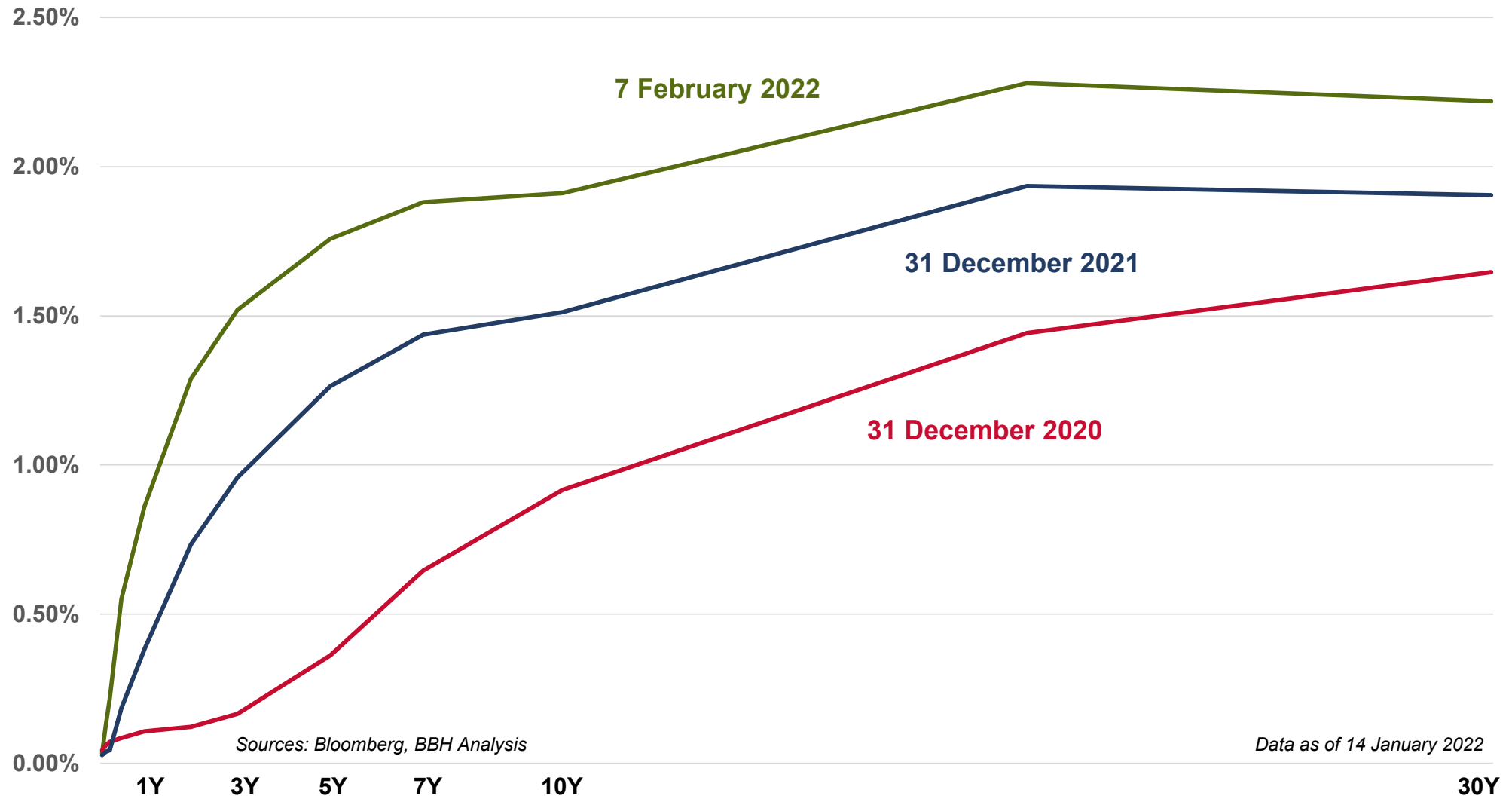
Sources: Bloomberg, BBH Analysis

Data as of 7 February 2022



Yield Curves

Pricing in Higher Inflation



Sources: Bloomberg, BBH Analysis

Data as of 14 January 2022

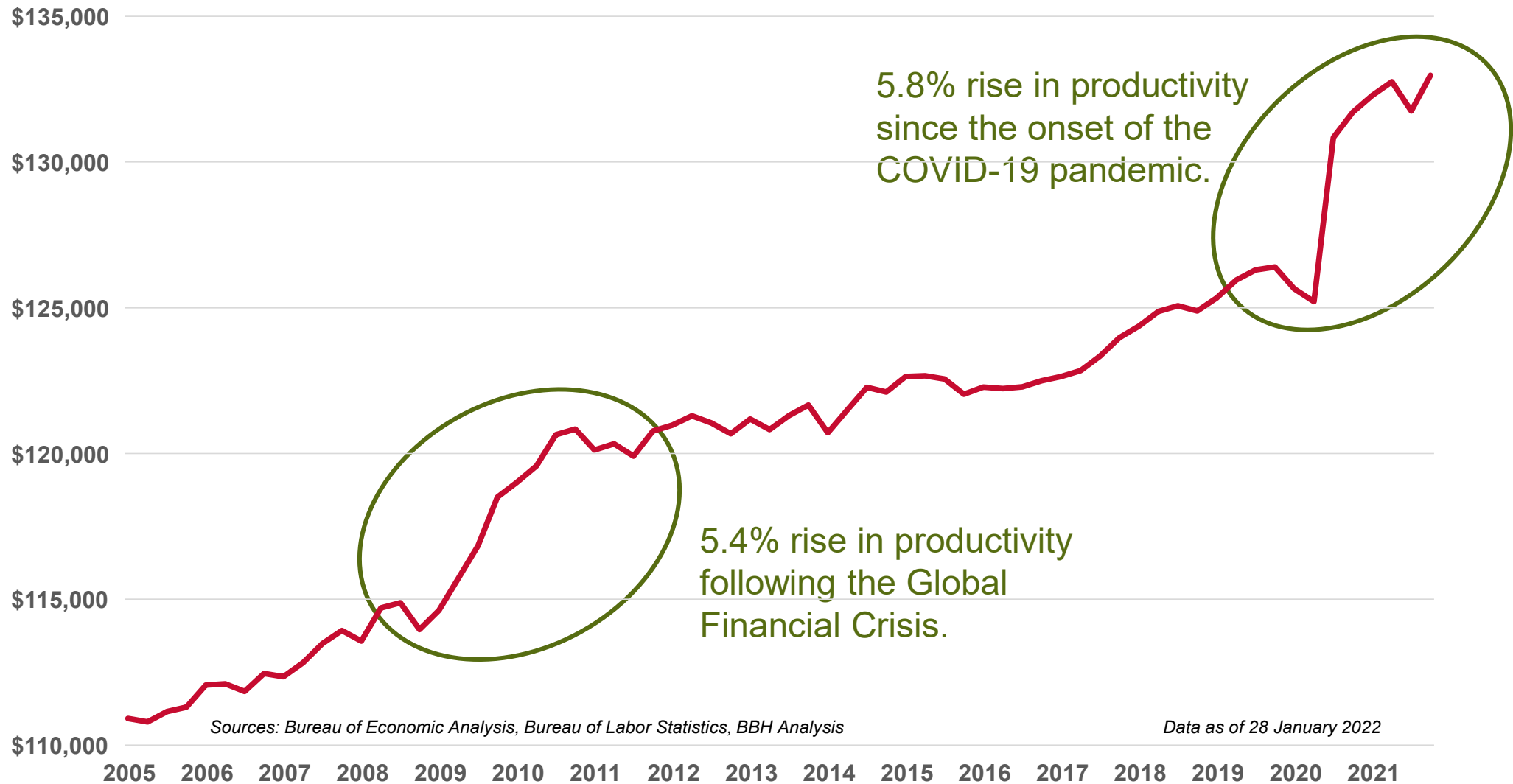
Poll Question 3

What do you think the fed funds rate will be on December 31, 2022?

- A. Lower than 1.00%
- B. 1.00%
- C. 1.25%
- D. 1.50%
- E. Higher than 1.50%

Productivity on the Rise

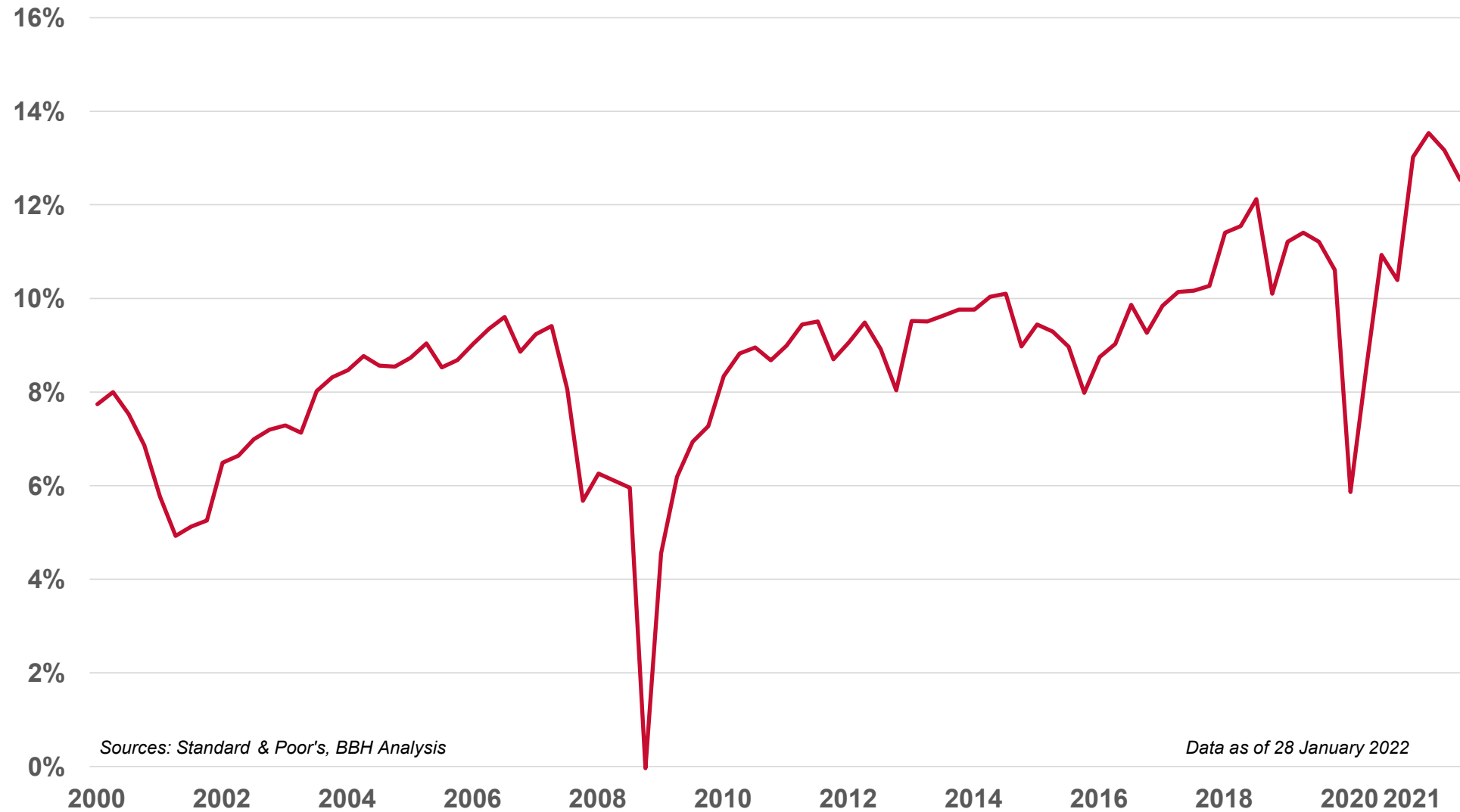
Inflation-Adjusted GDP per Worker



Sources: Bureau of Economic Analysis, Bureau of Labor Statistics, BBH Analysis

Data as of 28 January 2022

S&P 500 Operating Margins



Poll Question 4

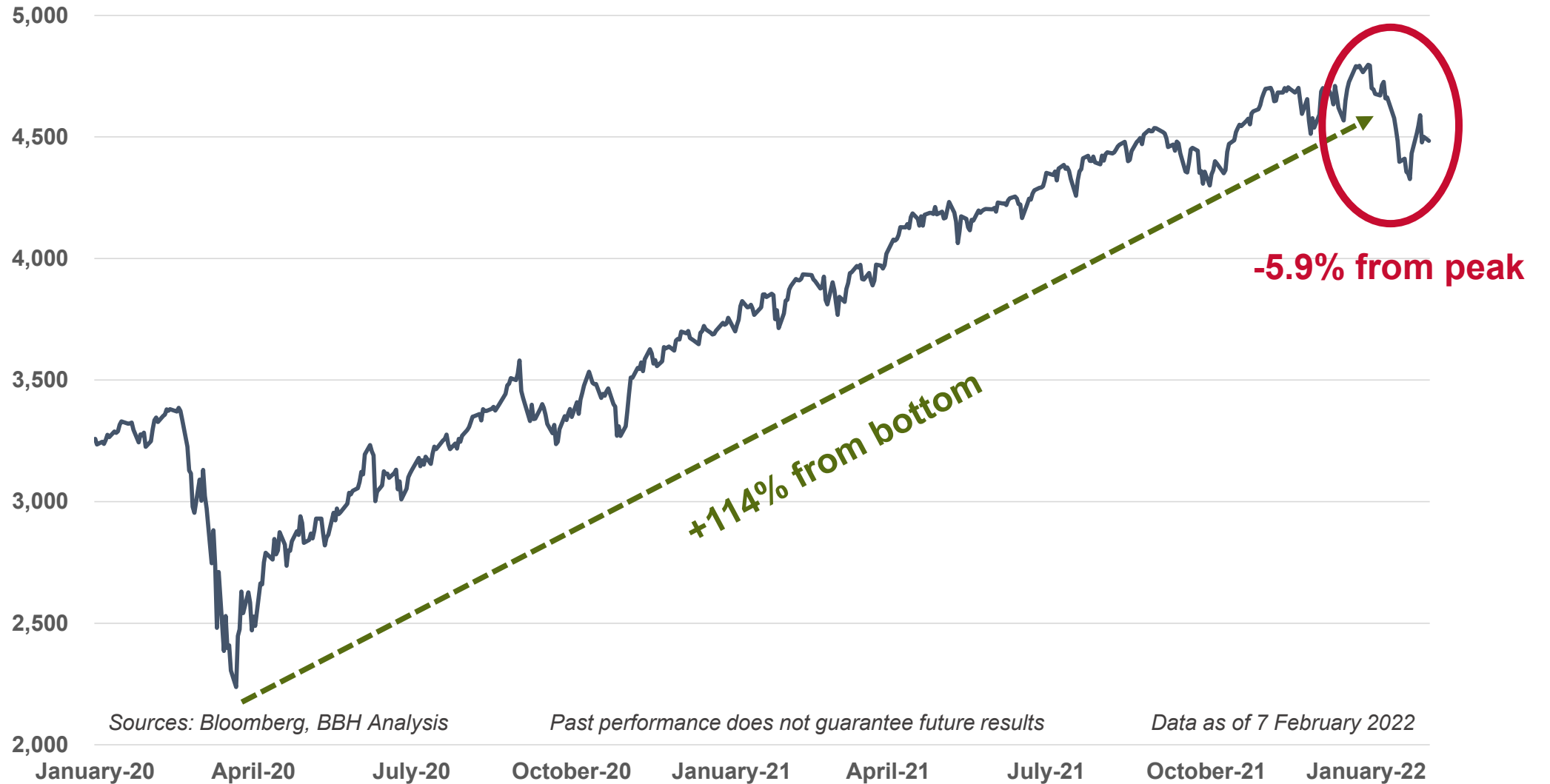
Are you seeing a rise in productivity in your business or businesses that you advise?

- A. No
- B. A little rise in productivity, but not substantial
- C. A substantial and sustainable increase in productivity

A Year of Transition

- **Economic leadership** is transitioning away from a reliance on policy measures, back to the more fundamental engine of household spending.
- As pent-up demand is met and supply chains heal, **inflationary pressures** should wane.
- **Monetary policy** will shift back towards normal in response to heightened inflation and a robust labor market.
- A surge in **productivity** is the (as of yet) untold silver lining in the otherwise dark cloud of the pandemic economy.

S&P 500 Index



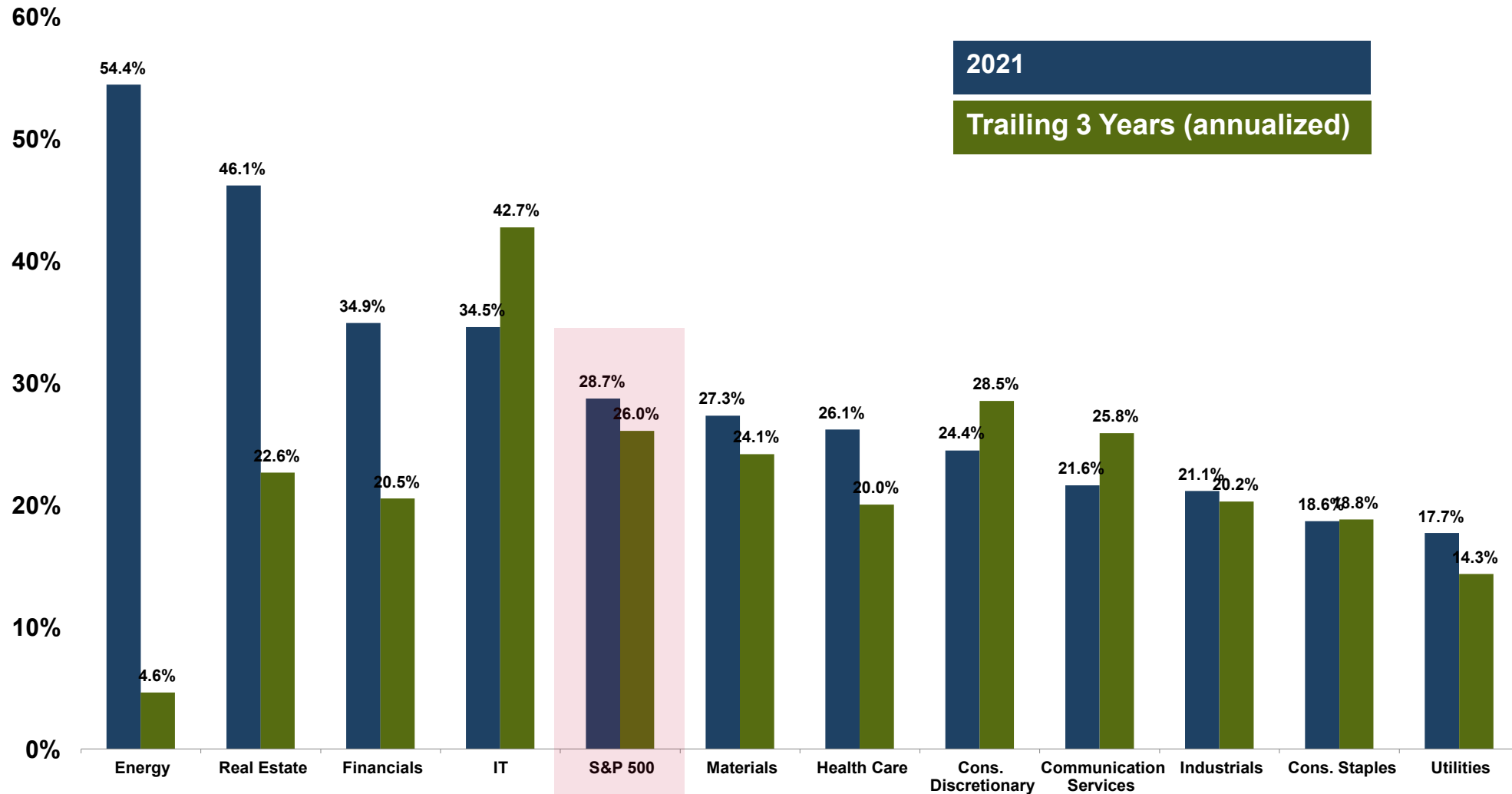
Sources: Bloomberg, BBH Analysis

Past performance does not guarantee future results

Data as of 7 February 2022



Equity Sector Returns



Sources: Standard & Poor's BBH Analysis

Past performance does not guarantee future results.

Data as of 31 December 2021

10 Largest Contributors to the S&P 500 Return

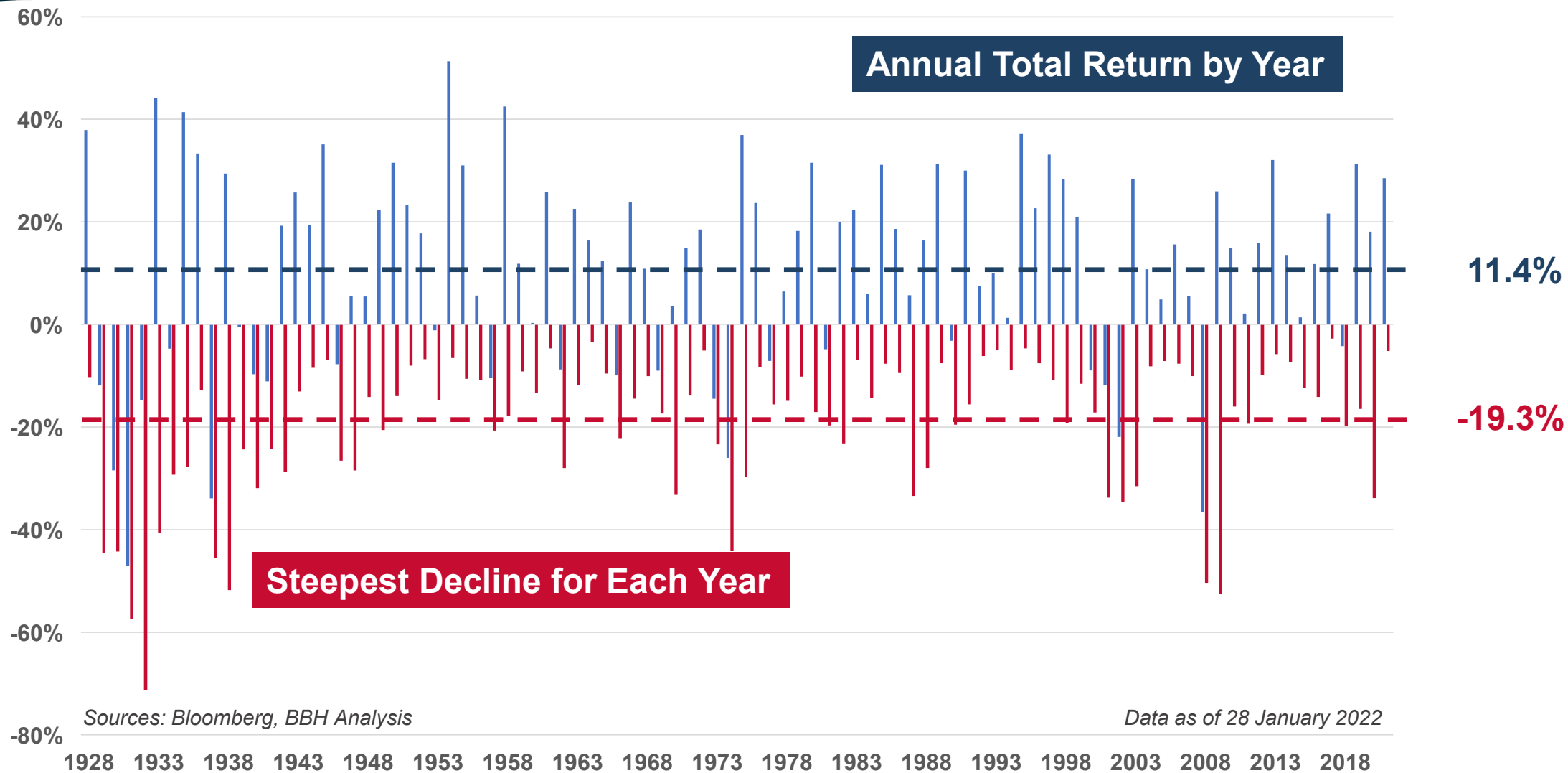
2021 Calendar Year

Stock	Beginning Weight	Price Return	Index Contribution
Microsoft	5.3%	51.2%	2.5%
Alphabet	3.3%	65.3%	2.0%
Apple	6.7%	33.8%	1.9%
Nvidia	1.0%	125.3%	1.1%
Tesla	1.7%	49.8%	0.8%
Facebook/Meta	2.1%	23.1%	0.5%
Home Depot	0.9%	56.2%	0.4%
UnitedHealth Group	1.1%	43.2%	0.4%
Berkshire Hathaway	1.4%	29.0%	0.4%
Bank of America	0.7%	46.8%	0.3%
S&P 500	100.0%	26.9%	

Past performance does not guarantee future results.

Price Volatility is a Feature of Financial Markets

S&P 500 Index by Year



Past performance is not a guarantee of future results.

Poll Question 5

Where will the S&P 500 Index be on 12/31/2022?

- A. 4500 (current level)
- B. Below 4000 (down 10% or more)
- C. Above 5000 (up 10% or more)

Investment Implications

- The uncertainty around transitions in economic leadership, monetary policy, inflation, geopolitics, etc. is likely to fuel price volatility in 2022.
- A narrowly-led market, dominated by a small handful of large capitalization technology names, could exacerbate this volatility.
- Price and value are different things.
- The patient and disciplined investor should be able to benefit from this volatility and exploit the spread between price and value that the market will occasionally provide.

Poll Question 6

Who will win Super Bowl LVI?

- A. Cincinnati Bengals
- B. Los Angeles Rams

Disclosures

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