NEWSLETTER – DECEMBER 2021

MARKET TRENDS 12/31/21

Asset Class	3 Mo	YTD
Global Stocks		
MSCI World	7.92%	22.02%
US Stocks		
S&P 500	11.02%	28.66%
Large Cap Value	7.72%	24.92%
Large Cap Growth	11.58%	27.37%
Mid Cap	7.98%	24.67%
Small Cap	2.10%	14.62%
International Stocks		
Developed Markets	3.14%	11.23%
Emerging Markets	-1.57%	-3.71%
Fixed Income		
Taxable Bonds	-0.09%	-1.68%
International Bonds	-0.20%	-2.20%
Municipal Bonds	0.79%	1.24%
Alternatives		
Emerging Markets Bonds	-0.30%	-2.45%
Floating Rate	-0.09%	0.28%
Preferred	2.64%	7.11%
Gold	4.33%	-4.14%
Real Estate	14.52%	38.69%

Source: Factset

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SANTA CLAUS V. WALL OF WORRY

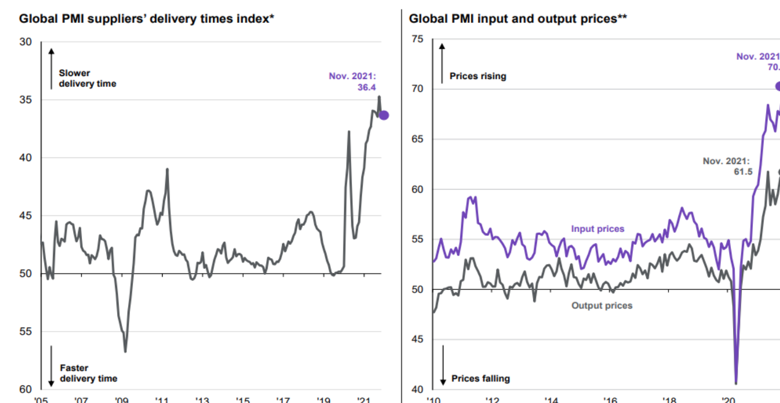
2021 was a good year for most risk assets. The end of 2021 saw a powerful Santa Claus rally that lifted stock indices to all-time highs. While year-end rallies are historically frequent, the turnaround came after a selloff of intense volatility around fears of the Omicron variant.

Concerns included:

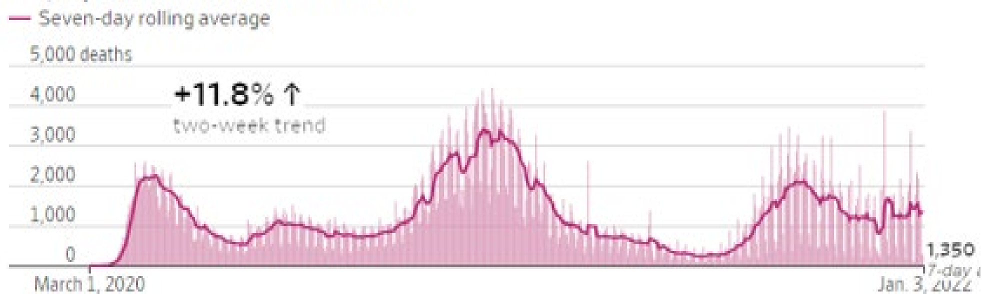
- The hottest inflation numbers we have seen in decades
- The lightning-fast spread of Omicron, a new variant of the Covid 19 virus
- Frothy markets and concerns over rising interest rates re: Federal Reserve missteps
- Ongoing political fights and government dysfunction
- Growing tensions and the risk of military conflict between China/Taiwan and Russia/Ukraine

ONLY TIME WILL TELL

Experts argue that inflation is temporary and will ameliorate as supply disruptions ease post Covid, or as we continue to battle the virus and learn to cope better with it. Inflation reached a four-decade high last month, raising questions about consumers' ability to absorb price increases and the impact to corporate profits. Another question is whether supply chain disruptions will lessen in the coming months or be a longer-term risk to our economy.

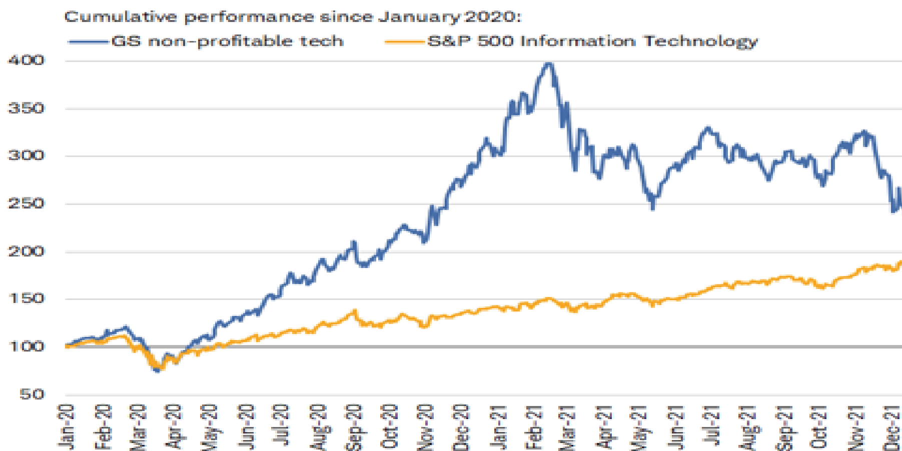


Current concerns about the Covid-19 pandemic seem reminiscent of a year ago and may further intensify in 2022. However, Initial hospitalization and mortality numbers on the Omicron strain are more muted than initially feared with the rapidity of its spread.



The Federal Reserve appeared to indicate in a transparent manner that they would not be raising rates soon or aggressively. It would be hard to argue that large cap growth stocks are not generally pricey at these levels - especially after over a decade of outperformance. But there remain pockets of technology and growth stocks in exciting sectors and stages of growth that are attractive. And value stocks and dividend payers in healthcare and energy do not appear to be expensive.

Some segments of the market may already reflect the risks of higher interest rates and higher inflation. Notably, low quality, speculative, unprofitable companies fell more than 50% from peaks early in 2021.



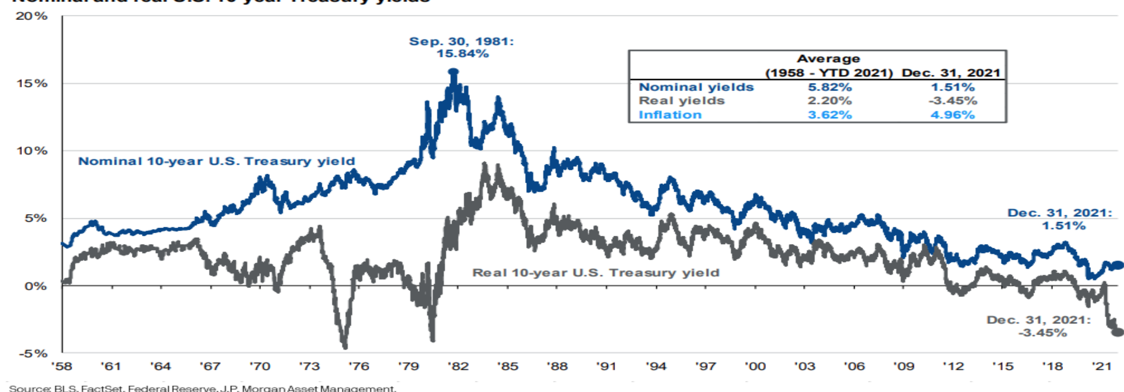
Congress extended the deadline for the ridiculous debt limit debate. The $1 Trillion Infrastructure Bill finally passed in November; however, the centerpiece of the Biden Agenda - Build Back Better – appeared to be harpooned by Senator Joe Manchin. Subsequently, economists adjusted domestic growth expectations down for 2022. The market was unphased, focusing on the fact that another $1.8 trillion of debt was not imminent, which might help ease short term inflation fears as well.

Lastly, US officials and Western allies are growing increasingly concerned around Chinese and Russian collaborations around economic alliances, military exercises, and joint defense development, as well as public statements from government leaders. Recently, President Biden warned Vladimir Putin to de-escalate the month - long standoff at the Ukrainian border. Any escalation could result in sanctions between the countries, if not worse.

SHOREPOINT'S BIG PICTURE VIEW

The market is currently wearing the rosiest of rose-colored glasses. As a firm, we are certainly not bearish, and continue to prefer equities over bonds. However, we would like to temper long term expectations at this juncture, a view that is reflected in the assumptions we make on the expected future returns in your financial plans. We have discounted historical rates of equity returns by 25-45% given the incredible run-in stocks over the last 12 years.

The news on bonds is worse. That doesn't mean we shouldn't own them. Fixed income provides diversification, stability, and some hedging against long term equity risk. However, ten-year U.S. Treasuries that used to pay investors 4% interest rates now pay them around 1.8%, providing negative "real yields" after accounting for inflation. Consider a portfolio with 40% in bonds and how impaired that side of the portfolio could be in comparison to the returns of the past. No one knows how long it will take for yields to increase significantly or if bond yields will get back to the levels enjoyed historically.



THREE OF SHOREPOINT'S MOVES

With fears of inflation ahead, Shorepoint added **inflation protected bonds** to client portfolios, which should protect purchasing power for our clients.

Another move our firm made was to develop a **Limited Partnership** ("Fund") that invested in private debt and real estate with an income emphasis a few years ago. The genesis of that idea grew from the lack of yield in the public markets; cash, savings, money market and bond funds sported paltry yields. We used this Fund as a way to enhance returns from the bond and alternative investment sleeve of client portfolios. The strategy has worked and done its job thus far. As clients will be receiving significant distributions of principal back on the closed first Fund in the next 12-24 months, stay tuned for a possible second LP Fund beginning in 2022 or 2023.

As you know, Shorepoint has remained more defensive than usual in our asset allocation. Our **cash** positions have normally hovered around 1-2%. However, as equity markets have trended higher, and while bond yields have suffered, we have boosted cash levels to 2-5% as a hedge against corrections. In addition, we are trying to navigate and manage risk. And the returns have been quite good for client portfolios even as they have cash levels that are higher, which also gives us dry powder to take advantage of the occasional deals that arise in today's markets.

WILL THERE BE ANY GROWTH?

Despite our sober, cautious view, we believe there are both pockets of value (such as healthcare and financials), but also long-term opportunities for growth as well. We still have not seen the full lift off in the economy that many had hoped for after the elusive post Covid life we all want.

We are optimistic about so many areas that are likely to see staggering innovation in the coming decade. As the world moves more and more into the virtual realm, privacy and security will continue to be massive drivers of growth. Technology should continue to benefit. Additionally, we see the delivery of healthcare, pharmaceuticals, and biotech all as sectors that could provide our clients with exciting opportunities in the years to come. Lastly, as yields potentially rise, banks and financial institutions might finally see the low-rate headwind provide a boost to their sails. Financial technology, the convergence of banking and transactional business with technology will also likely provide some incredible upside for the long-term investor who can look past the inevitable volatility ahead.

DAVID, GET YOUR SLING READY

In short, it won't be easy but it's likely to favor those with strong wills and stomachs and a long-term view. Each wave of Covid-19 has delivered a smaller hit to the economy, as people learn how to cope. We need to think in terms of years, not weeks and months. That has always been the Shorepoint way. It's not Wall Street's way, but it's ours, and we think that view is a contrarian advantage for us all against the goliaths who have the attention spans of gnats, driven only by short term greed. Long term greed is far more sustainable.

WHAT YOU CAN DO

Try not to stress about news, politics, and issues we can't control. Instead, focus on what you can do. Read. Nap. Spend time with family. Watch a good show. Go for a walk or get some sunlight on your skin.

Ok we will get back to the financial advice:

- Expect market volatility with lower returns
- Spend less in economic downturns
- Spend more but also save more during the good times
- Consider part time work if you are retiring early or plan to do so
- Engage with us on making sure your financial plan is as accurate as can be
- Think and talk with us about how much risk you are comfortable taking with your investments; we have tools to model various scenarios for you
- Believe in the process of investing; when you feel yourself faltering, compare your long-term investment returns to your bank accounts

CONCLUSION

Shorepoint's process is thoughtful, disciplined, and flexible. Please know that our team is working diligently to manage risk and returns as well as position your portfolio for the long term. There are always reasons not to invest, but staying the course usually wins out. We believe that appropriate portfolio diversification amongst asset classes can help buffer your portfolio from the ups and downs of market volatility.

We prefer stocks to bonds. We continue to have an appropriate allocation to bonds for diversification and to reduce overall volatility. It would not surprise us to see higher levels of volatility in first half of 2022 so we will continue to monitor the risk/rewards of both asset classes and sectors to rebalance appropriately.

Team Shorepoint