Heacock & Jones
Financial Services, Inc.

Market Commentary - December 2021

Following are the year-end results of the major market indexes:

	YTD
Dow Jones Industrial Average	18.73%
Standard & Poor's 500	28.71%
NASDAQ Composite	21.39%
Wilshire 5000	24.01%
MSCI EAFE (International Index)	8.78%
Barclays Aggregate Bond Index	- 1.54%

6.9% Increase in Consumer Price Index (Inflation) for the past 12 months.
4.6% Increase in Employee wages and salaries for the past 12 months.
= (2.3%) Decline in the wages that households are really earning after inflation.

The media headlines and persistent reporting on inflation leads Consumers to think prices are going higher. It is human nature for consumers to "buy now, before prices go higher." This attitude causes consumer spending to be pulled forward to today and erodes future spending. In addition, the $7.2 trillion of Government stimulus funding, which favorably impacted consumer spending is now coming to an end. As a result corporate sales and profits will be exceptionally good for the fourth quarter.

However, consumers may soon realize they are taking home less income after inflation and cannot afford to continue their spending behavior. The University of Michigan has surveyed attitudes and expectations since 1946. Their recent Consumer Sentiment Index is 67.4, which has declined sharply from its April, 2021 peak at 88.3. The 23.7% decline in the Index is just one indicator that Consumer's expectations for 2022 are fading.

The Economic Cycle Research Institute's Index of Leading Economic Indicators also peaked in April, at 25.3. Their recent reading is now 4.3. The decline in these two indicators provides an indication that the peak of the growth cycle has occurred and more moderate growth is likely ahead. The economy and corporate profits will continue to grow, albeit at a less robust pace. Meanwhile, commodity prices; the main culprit to overall inflation, have recently declined providing some relief to inflation concerns.

As the pace of growth moderates, the investment strategy will emphasize primarily income oriented investments and secondarily growth. Since the Federal Reserve has created an environment of low interest rates and income on bonds, a strategy emphasizing high quality stock investments that have both consistent income and growth qualities are considered favorable compliments for income types of investments.

Paul Heacock, CFA

"Hope is being able to see that there is light despite all of the darkness."
— Desmond Tutu

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