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WINTER 2022

THE QUARTERLY

2022: Looking Past the Pandemic

BY JAMES WALDEN, CFA
Partner and Chief Investment Officer

We sat down to write our thoughts about the year ahead in an environment that looked like last year's: a winter COVID spike, this time from the Omicron variant.

Thankfully, and most importantly, Omicron seems less severe than previous variants. COVID will continue to be a factor in the economy and markets in 2022 (and a highly uncertain one at that). But because we have learned to better live and work amid the virus, its impact will likely continue to wane.

Beyond any near-term COVID influence, the U.S. economy should continue to expand for full-year 2022, building off its strong recovery in 2021. However, growth will almost certainly slow since the big gains are typically made early in a recovery.

In our opinion, the biggest influence on the economy and markets will come from policy decisions made by the Federal Reserve and other central banks. With the economy able to stand on its own, the Fed has begun reducing the massive monetary stimulus it provided during the worst of the pandemic. It has accelerated the "tapering" of its bond-purchasing program, looking to finish as soon as March. That will clear the way for the Fed to begin raising its benchmark interest rate. As of this writing, the Fed has penciled in two increases in 2022 and three more in both 2023 and 2024.

We distinguish between "tightening" monetary policy and a "tight" monetary policy. In our view, ending quantitative easing (i.e., bond-buying) and raising interest rates from its current target of 0.0% to 0.25% are just steps toward normal policy.

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INSIDE THIS ISSUE

TAKE NOTE!

Our office will be closed on the following dates:

MONDAY, JANUARY 17
Martin Luther King, Jr. Day

MONDAY, FEBRUARY 21
Presidents' Day

FRIDAY, APRIL 15
Good Friday

NAPFA THE POWER OF TRUST

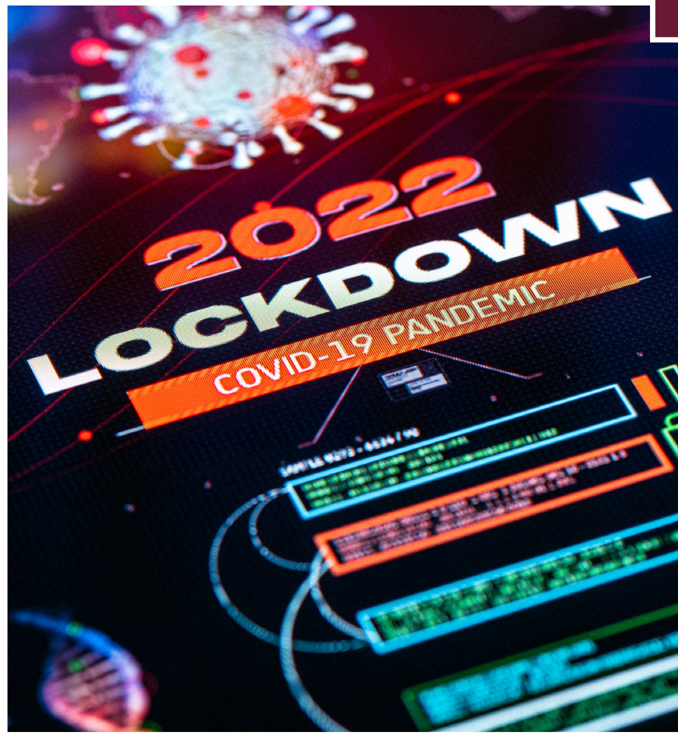
CWP is a Corporate Member of the National Association of Personal Financial Advisors (NAPFA). If you'd like more information about NAPFA, visit their website at napfa.org.

Even with all the projected rate hikes, the Fed's real benchmark rate would still be negative. (A real interest rate is the stated rate adjusted for inflation. It measures how much purchasing power is lost by a borrower (or gained by a lender) from interest paid.)

The Fed actions we expect in 2022 are unlikely to choke off economic activity, but they're likely to cause market volatility. The Fed will be engaged in a delicate dance. Tighten too much, and the Fed risks stalling the expansion. (Again, not our assumption.) Tighten too little, and it risks fueling an overheated economy and too much inflation. Any volatility may be acutely felt because we haven't had much lately. The biggest decline in the S&P 500 in 2021 was about 5%, one of just three intra-year drops of 5% or less in the last 40 calendar years. Historically, we've averaged about three 5% declines and one 10% correction a year.

Inflation should come down somewhat from its current decades-high levels. (Headline CPI was 6.9% in November.) On one side of the equation, pent-up consumer demand from COVID restrictions should ease over time. On the other side, we're starting to see early signs of some relief in global supply chain snarls caused by the demand shock and COVID-impacted production and transport. However, we don't see much near-term relief from imbalances in the labor markets that are leading to wage increases. This should put a floor under inflation higher than the Fed's historical target of 2%. In any case, a return to 1970s-style inflation remains unlikely.

Finally, an update on our long-term investment expectations. We believe equity returns over the next decade will be substantially lower than the exceptional returns enjoyed the past 10 years. To be clear, we do expect gains for the decade ahead, just much less robust. For the 10 years ended December 31, 2021, the S&P 500 averaged an annual total return of 16.6%, including dividends. Stocks now look expensive relative to their own history, and earnings growth is poised to slow from their post-recovery pace. We expect mid-single-digit returns going forward, including dividends. Meanwhile, high-quality U.S. bonds returned an average total of 2.9% a year over the past decade. With the current yield on the U.S 10-year Treasury bond of 1.5% providing such a low starting point, we expect annual long-term fixed income returns to remain in the low single-digits.



2021 was another challenging year for many of us. But we also feel we have a lot to be thankful for. Here's to a healthy and happy 2022!

Introducing Our Sustainable Investment Portfolios!

BY JAMES WALDEN, CFA
Partner and Chief Investment Officer

Do you recycle? Do you support local businesses? Do you volunteer in your community? Do you donate to worthy causes?

If you answered "yes" to any of these, you are making sustainable choices consistent with your values. And so sustainable investing may be for you.

WHAT *IS* SUSTAINABLE INVESTING?

Sustainable investing can mean different things to different people. Adding to the confusion is the list of terms often used interchangeably, including ESG investing, impact investing, and socially responsible investing (SRI).

At Clayton Wealth Partners, our definition of sustainable investing is an investment strategy that meets the following four criteria:

- Allows investors to put their money to work consistent with their personal values
- Aims to provide better outcomes for society
- Includes a focus on environmental, social, and governance (ESG) factors
- Complements traditional investment analysis and objectives

Sustainable investing has a broad, multi-faceted mandate. It goes beyond merely avoiding investments with meaningful exposure to industries that may be deemed harmful to society, like alcohol, firearms, fossil fuel production, gambling, and tobacco. It also looks to emphasize or enhance exposure to elements with a positive societal impact. All of this is done through a focus on various ESG factors.

WHAT ARE ESG FACTORS?

ESG factors are criteria that investors focused on sustainability consider when evaluating potential investments. These include the company's actions, beliefs, and policies toward various environmental, social, and corporate governance issues.

The following exhibit shows an incomplete list of various ESG factors and issues.

ENVIRONMENTAL	SOCIAL	GOVERNANCE
Resource sustainability and efficiency	*More equity and respect for human rights*	*Accountability and transparency*
• Climate change • Carbon emissions • Energy efficiency • Pollution and waste • Water scarcity	• Human rights • Gender and diversity • Labor, health, and safety standards • Community impact • Data protection and privacy	• Board composition • Bribery and corruption • Executive compensation • Lobbying/ political contributions • Disclosure and transparency

Source: Clayton Wealth Partners (CWP).

The more favorable a company's approach to these factors is in terms of benefits to society, the more sustainable the company is considered.

Note that ESG investing considers the well-being of several important constituents beyond shareholders or other investment owners. These include the planet, global citizens (including more diverse gender and races), the users of a company's products or services, and a company's workers, among others. Some consider sustainable investing "capitalism with a purpose."

IF YOU'RE INTERESTED IN SUSTAINABLE INVESTING, WE CAN HELP

Clayton Wealth Partners is excited to announce that we are now offering CWP

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Sustainable Portfolios. For us, it's about offering our clients the choice of putting their investment dollars to work in a manner consistent with their personal values.

If you're interested in learning more about CWP Sustainable Portfolios, feel free to call our offices to learn more about how we can help.

Congratulations!

Please join us in congratulating Zac Pohlenz, CFP®, and J.D. Kaad, CIMA®, on their recent promotions.

Zac has been promoted from Associate Wealth Advisor to Wealth Advisor. He's excited to expand on his role in providing wealth management services that help clients achieve their goals.

J.D. was promoted from Portfolio Analyst to Director of Trading and Technology. He's making sure our technology systems keep up with the rapid pace of change and that our portfolio trades are seamless.

QUARTERLY WEBINAR

We hope you will be able to join us via webinar on Thursday, February 10, at noon for our quarterly economic update. If you are unable to join us live, we will email out the recording of the webinar following the broadcast.

We appreciate your patience and understanding as we continue to adjust and adapt during these changing times. Please be safe, and we look forward to seeing you all in person soon!

Date and Time:

THURSDAY, FEBRUARY 10
Noon—Live Webinar
(Registration information will be sent via email)

TAX REMINDER!

It will be that time of year again before we know it—tax time! Please remember as you begin thinking about your taxes and making appointments with your tax professional, some tax documents, particularly for non-retirement accounts, may not be ready until mid-to-late February. They are always made available online first, so feel free to access them at www.fidelity.com at your convenience or they will be mailed via regular mail if your delivery settings are setup as such. As always, let us know if you have any questions or concerns.

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