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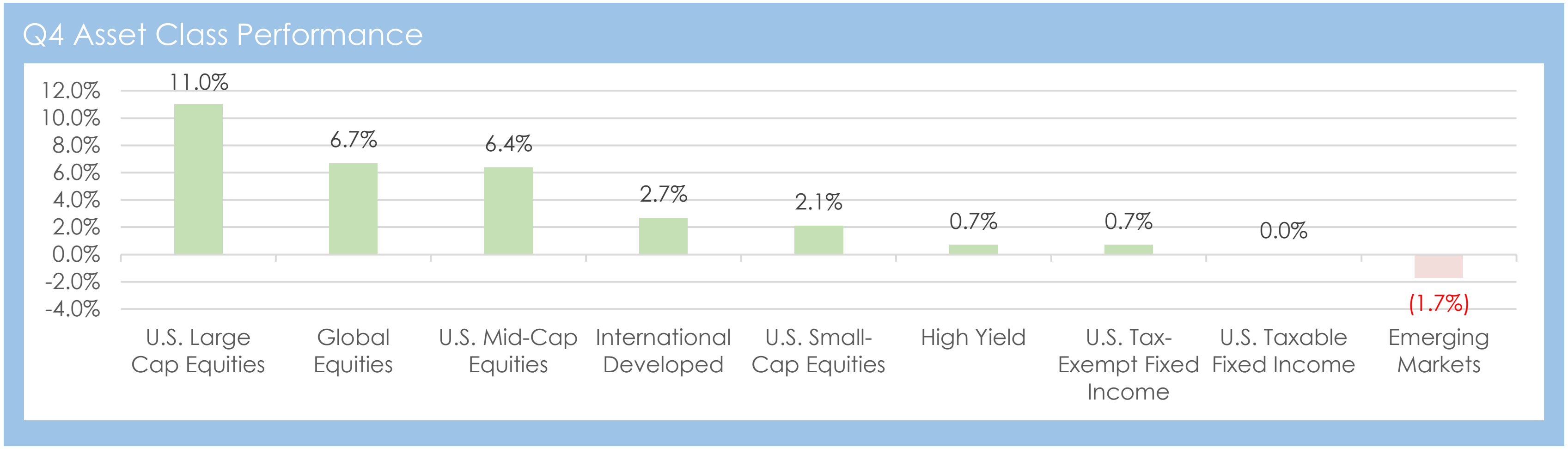
MARKET LANDSCAPE | Q4 2021

MIRACLE MILE ADVISORS

Q4 PERFORMANCE SUMMARY



Quarterly Recap

Equity markets rallied in the fourth quarter of 2021 to close out the year near record highs as strong corporate and economic fundamentals surpassed concerns of higher inflation and a rise in daily case counts from the Omicron variant. Real-time economic data suggest activity has increased versus the third quarter, providing comfort to the Fed to shift monetary policy to a more hawkish stance by initiating the tapering of bond purchases in November. Meanwhile, from a fiscal perspective, little progress was made on President Biden's social spending plan with the Build Back Better Act delayed to 2022 or later. While the macroeconomic environment becomes more challenging next year, we maintain our positive outlook for risk assets as corporate fundamentals remain strong with further profit growth.

Q4 2021 Economic & Market Highlights

- Global equity markets posted healthy returns with the MSCI ACWI index up +6.7% for the quarter, ending the year up +18.5%. However, the bond market was unchanged in the fourth quarter, finishing 2021 in negative territory with a total return of -1.5%.
- The 10-Year U.S. Treasury yield inched higher by 2 bps to end the year at 1.51%, but far from the highs seen back in March.
- U.S. GDP grew at a +4.9% rate in Q3 due to negative impacts from the Delta variant and supply chain bottlenecks, however, Q4 GDP is expected to increase to +5.3%.
- Corporate earnings growth for Q3 was +40% for companies in the S&P 500, while net profit margins increased to 12.9%. For the full calendar year, companies are on track to grow profits by +45%, surpassing the peak earnings growth seen in 2010.

Our fundamental outlook for the economy and risk assets is positive, but the macroeconomic backdrop is not favorable as the Fed begins tightening against rising inflation expectations.

Macroeconomic Outlook

- **2022 GDP Growth:** We expect GDP growth to be around 4% for the calendar year as positive fundamentals are offset by inflation and tightening monetary policy.
- **Inflation Status:** Inflation should remain elevated in the first half, but will ease in the second half due to improving supply chain issues. Nominal CPI should be lower than the consensus of 3.7% for the full year.
- **Corporate Earnings Rising:** For 2022, we anticipate corporate earnings rising in high single digits as profit margins hold up with the declining probability of an increase in corporate taxes.
- **Federal Reserve:** We expect the first Fed rate hike to occur in the March/April timeframe leading to multiple rate hikes this year.

Market Outlook

- **Equity Market Forecast:** Our equity market outlook is positive led by U.S. equities with mid-to-high single-digit total returns for 2022. We are constructive on cyclical sectors, such as Financials and Industrials, along with Technology over the long run.
- **Interest Rates and Fixed Income**: We anticipate a rise in interest rates across the curve, which should lead to flat to small returns for the U.S. Aggregate bond index in 2022. We continue to prefer Corporates over Treasuries.
- **Higher Yielding Assets:** Preferred securities, high yield bonds, and real estate investment trusts are attractive given their higher yields and less interest rate sensitivity than traditional fixed income.

KEY RISKS

NEAR TERM

Inflation and Monetary Policy

- Inflation has exceeded the "transitory" definition with data points remaining elevated for the past year and CPI reaching levels last seen 30 years ago. Prolonged high levels of inflation may be detrimental to economic growth and asset prices.
- Due to inflation concerns, the Fed has begun tapering its bond purchase program with QE expected to end in March. Additionally, the market has begun pricing in four rate hikes for 2022. Policy missteps could lead to a slowdown in the economy and a selloff in equity markets.

Fiscal Spending

- Government stimulus (measured as % of GDP) is expected to sharply drop in 2022 versus 2021, from 11% to 2%.
- President Biden faces opposition on his $1.7 trillion Build Back Better Act from Democrats entering a midterm election year with declining probability the bill will be passed via reconciliation.

LONGER TERM

Financial Regulation

- The U.S. government will likely increase regulation and control over several industries and markets in the coming years, which may hamper investor sentiment and increase costs.
- There may be new public company disclosure rules on climate risk, and regulators will continue to discuss how to handle cryptocurrency.

Geopolitical Risks

- U.S.-China relations have worsened with recent conflicts over human rights abuses and Taiwan, which may negatively impact economic activity between the countries.
- U.S. and Russia tensions increase as Russia has deployed troops to its border with Ukraine, which may result in economic sanctions against the country. This could lead to a significant rise in winter energy prices and shortages in Europe.

KEY OPPORTUNITIES

NEAR TERM

Financial Sector

- Financial companies should benefit from a rise in interest rates and a steeper yield curve, which will likely help increase profitability.
- Bank valuations and fundamentals are attractive with a meaningful pickup in loan growth and higher net interest margins in 2022.

High Yield Bonds and Loans

- High yield spreads widened out during the fourth quarter, providing an attractive entry point for high yield bonds and loans.
- Credit fundamentals for many high yield industries, in particular energy, are positive with default rates falling to the lowest levels since 2014.

LONGER TERM

Mid Cap Equities

- In an economic cycle, mid cap stocks tend to outperform in early to midcycle environments given their combination of growth potential and financial stability having survived past their early years.
- The industrials sector, the largest weighting in the mid cap index, should benefit from the global reopening and economic recoveries.

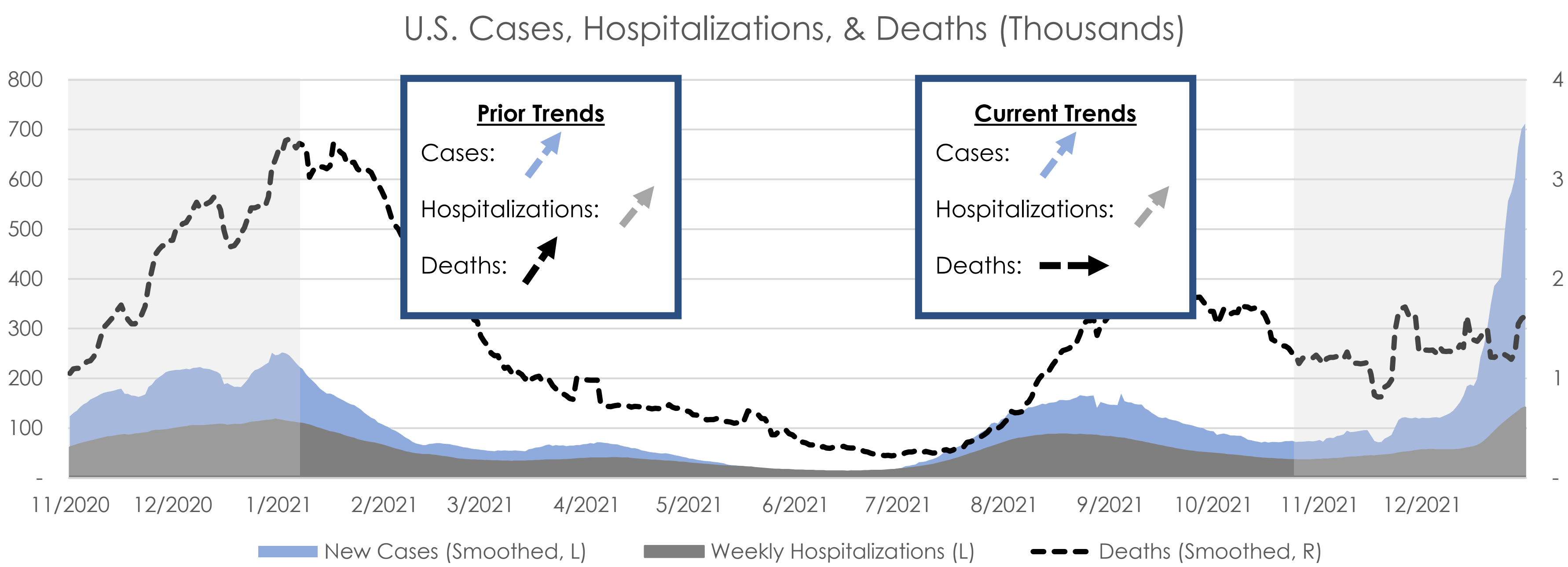
International Equity Markets

- Developed international equities remain very attractive as valuations are cheaper than the U.S., while economic growth is projected to be higher overseas in the coming years.
- The composition of European equity indices has larger weightings in the value sectors of the market, which should outperform as rates begin to rise.

OMICRON PUSHES CASES AND HOSPITALIZATIONS TO ALL TIME HIGHS

The newest variant has arrived during flu season, making specific Covid data harder to track.

Investment Outlook: As of early January, deaths related to Omicron look to be less than in the past. However, the current case spike is delaying people from returning to the workforce and slowing business operations.

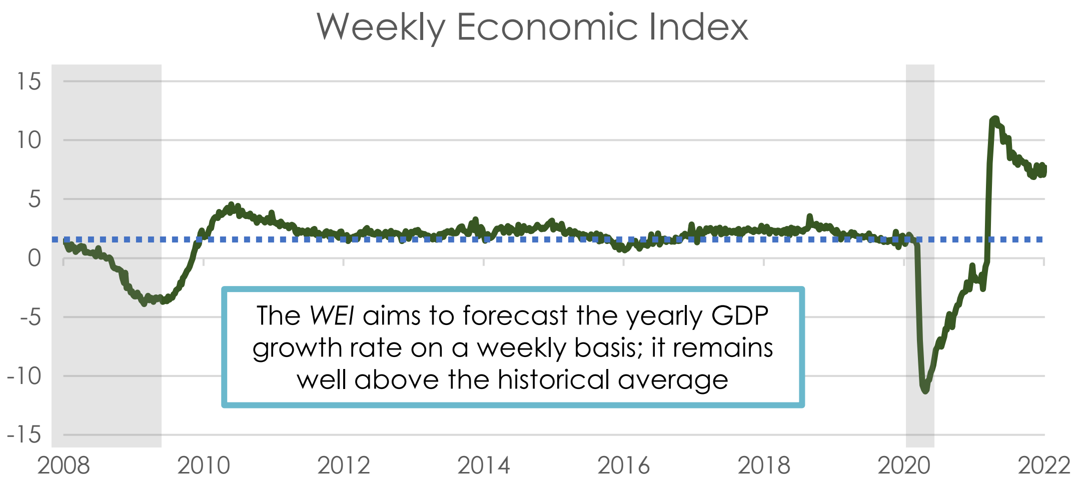


- **Variants are getting more contagious, but milder:** We see cases and hospitalizations continue to increase by new waves, but Omicron has shown to be milder than previous variants. This will be confirmed when daily case counts have reached a peak.
- **The economy and markets need to keep an eye on the pandemic:** Inflation concerns, labor force participation, consumer spending data, supply chain disruptions, stimulus, and market returns are all following the pandemic trends, and this should continue to be the focus even after two years.

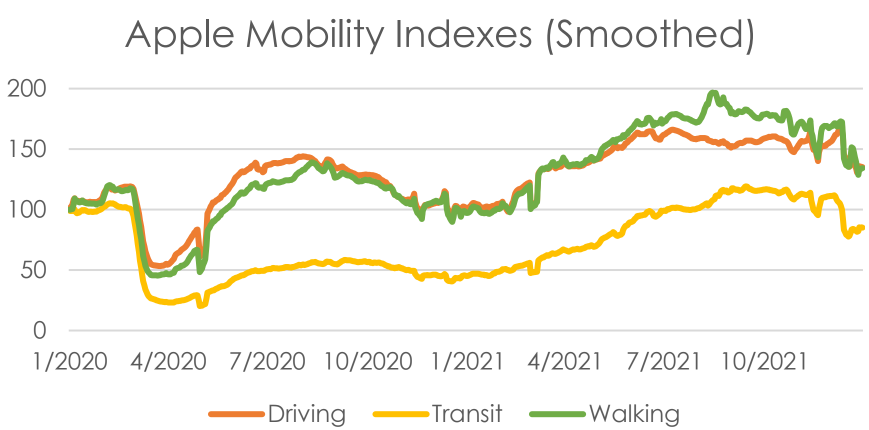
OMICRON SLOWS HIGH FREQUENCY INDICATORS, BUT ECONOMIC GROWTH REMAINS ELEVATED

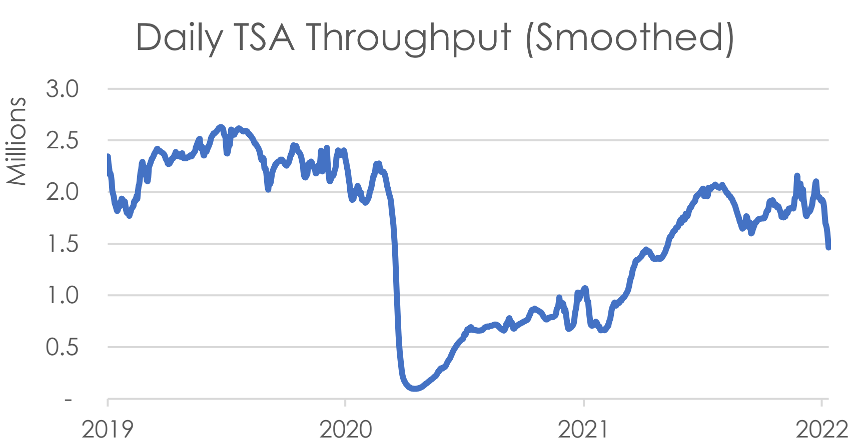
Activities reached or surpassed pre-Covid indexes during the summer of 2021, but Omicron slowed traffic to end the year.

Investment Outlook: We expect these waves to continue throughout 2022, however, we see these volatile times as buying opportunities over the long run.



High frequency data has been critical to evaluating the economic impact of the pandemic. Fortunately, the trends have been very positive in the latter half of 2021, but as you can see, Omicron threatens to force these metrics downward.





UNDERSTANDING THE BUSINESS CYCLE

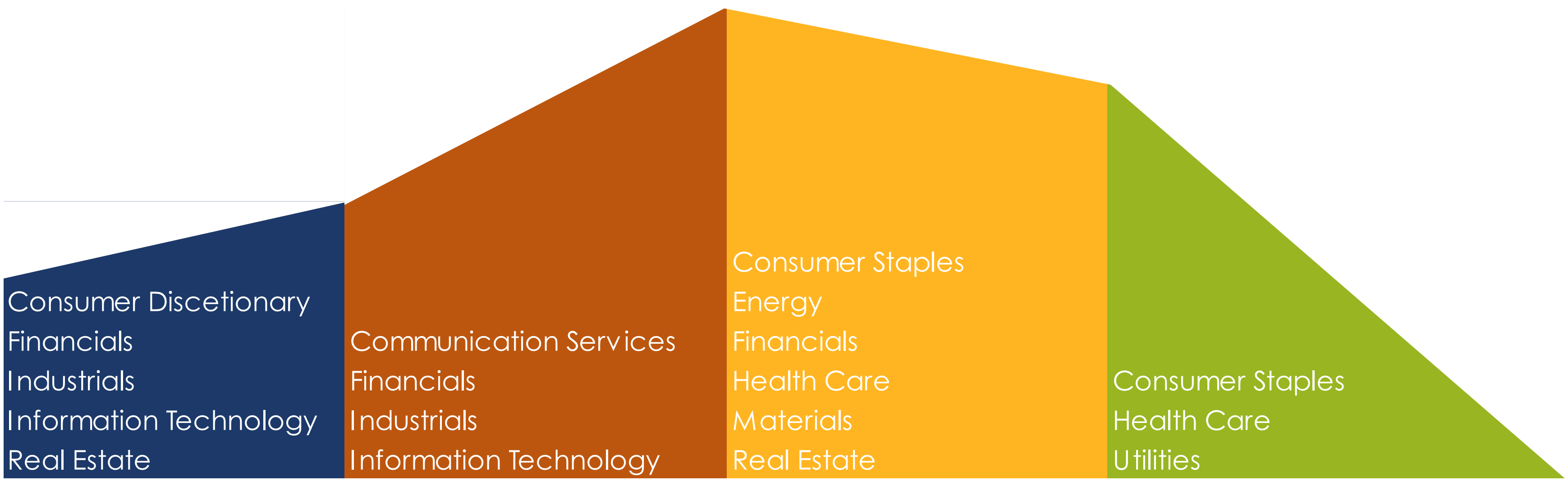
The U.S. economy experienced its fastest entry into / exit out of a recession during the pandemic.

Investment Outlook: U.S. GDP surpassed its pre-pandemic levels in 2021, aided by record fiscal stimulus and a highly accommodative Fed. As these policies unwind, we expect to see data reflective of the late expansionary stage and outperformance of value sectors.

Economy

Early Expansion	Maturing Expansion	Late Expansion	Recession
• Economy accelerates	• Economy moderates	• Economy starts to slow	• Economy contracts
• Fed keeps rates low	• Fed policy neutral	• Fed tightens policy	• Fed cuts rates
• Stocks advance sharply	• Stocks gains solid	• Inflationary pressure grows	• Stocks fall then bottom out
• Long-term rates rise	• Long-term rates rise	• Stocks peak then fall	

Top Performing Sectors of Business Cycles



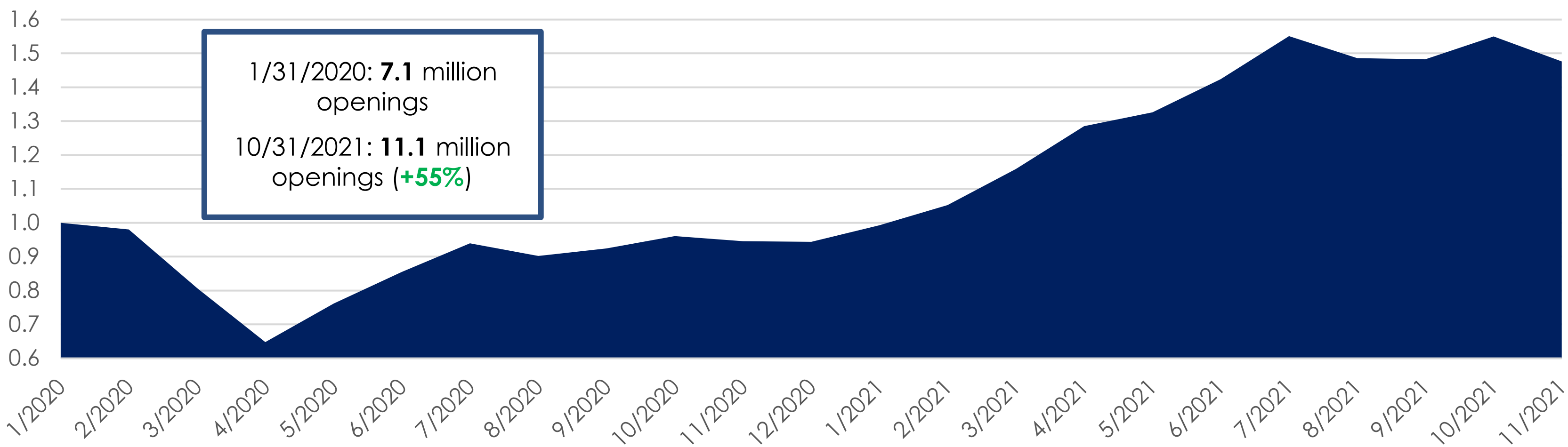
LABOR DEMAND HIGH DESPITE COST INCREASES; QUITS RISING

Economy

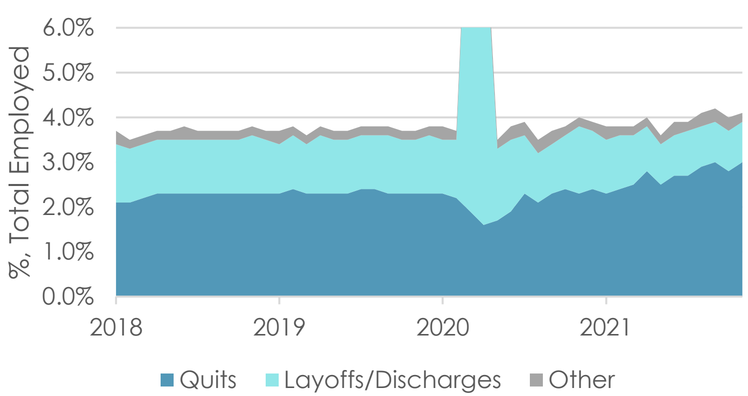
The pandemic has already and will continue to change the way people view jobs.

Investment Outlook: The Fed will likely be reacting to inflationary concerns throughout 2022, but they will also be keeping an eye on the labor market. With a record number of job openings and employees quitting, companies will need to reassess their labor costs.

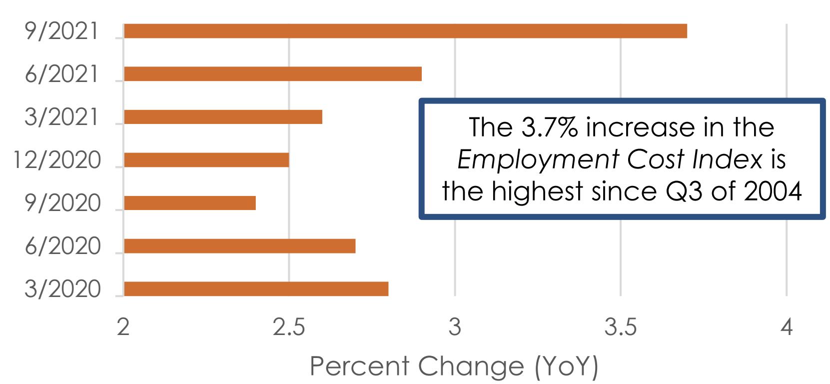
Job Openings Skyrocket (Indexed to 1/31/2020)



Labor Market Turnover



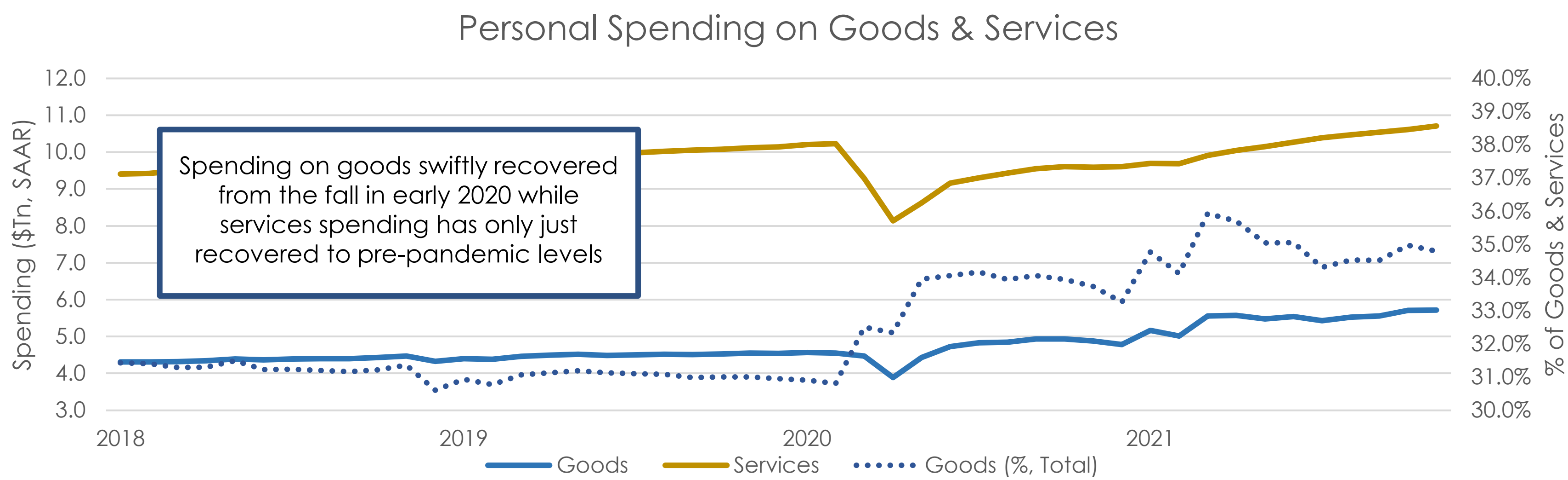
Accelerating Labor Costs

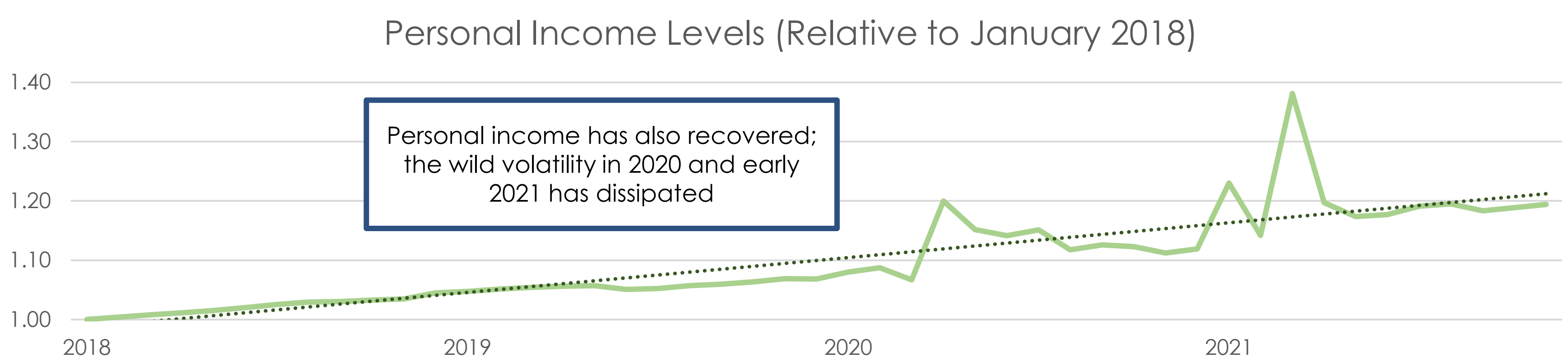


PERSONAL INCOME RECOVERED; CONSUMPTION MIX HAS CHANGED

The pandemic, as well as the government's fiscal response, has resulted in some interesting consumer trends.

Investment Outlook: Consumers, who had been gradually increasing their spending on services relative to goods pre-pandemic, quickly shifted their spending to goods as COVID spread. Services spending continues to rise as COVID wanes.



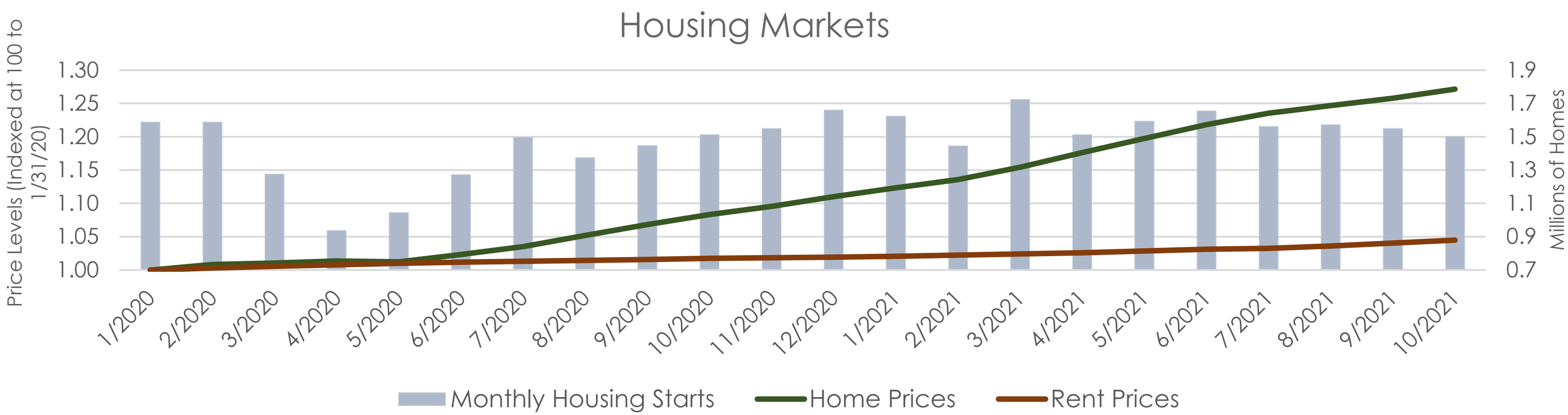


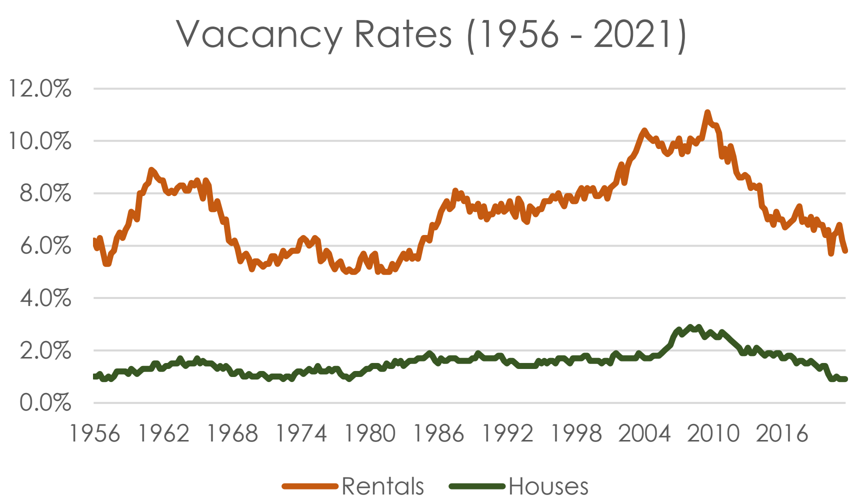
HOUSING MARKET CONTINUES SURGE

Economy

The COVID pandemic fueled a record increase in home prices across the country.

Investment Outlook: Increased demand for more space, a supply shortage of building materials / labor, fiscal support, and record low mortgage rates all drove housing markets to new heights. We expect home price growth to moderate but remain supported.





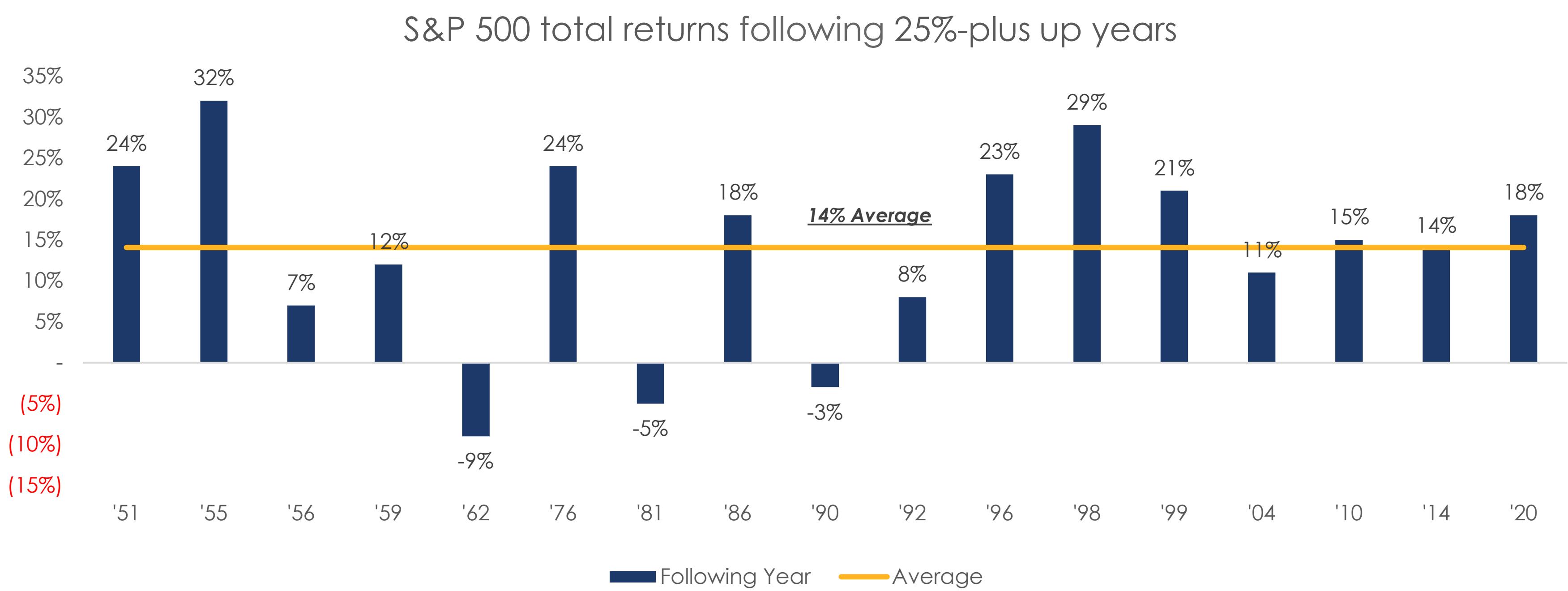
- **Home prices have appreciated over 25% since the beginning of the pandemic; rental prices have only increased ~5%.**
- With new home building at a sustained peak and vacancy rates near all-time lows, the housing market has become much pricier. Unless the supply of homes is dramatically increased (which has yet to happen), we should anticipate the price levels to continue to rise.

Refer to appendix for disclosures and data sources

CAN THE MARKET REPEAT ITS 2021 PERFORMANCE?

In 2021, the S&P 500 returned 28.7%, including dividends, ranking last year in the 83rd percentile in terms of historical performance.

Investment Outlook: Although the monetary and fiscal tailwinds from last year may dissipate, we expect continued earnings growth to support mid-to-high single-digit total returns in 2022.

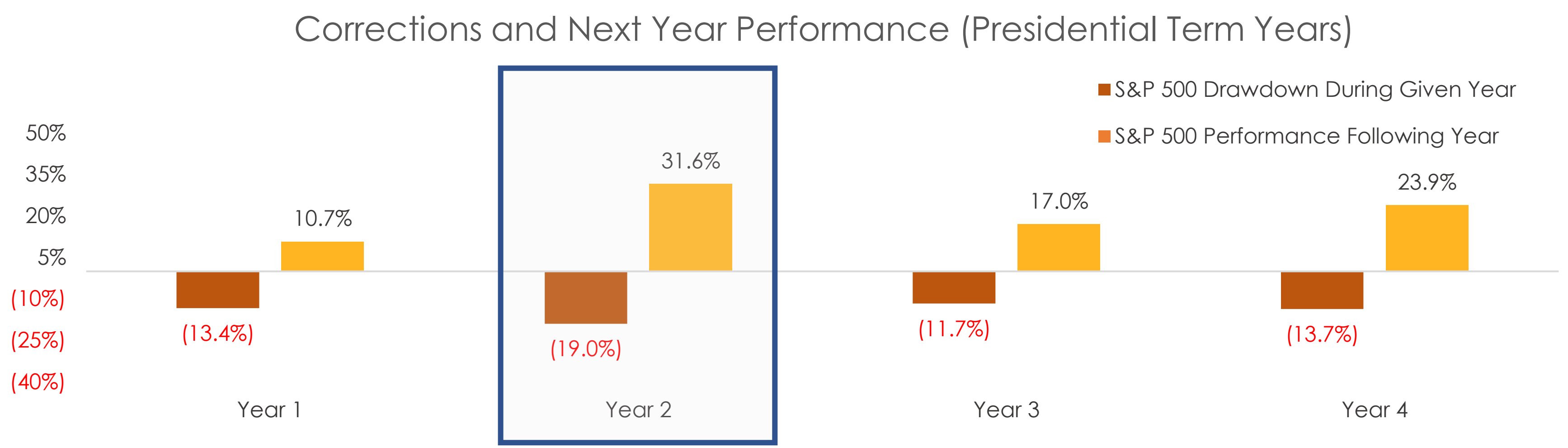


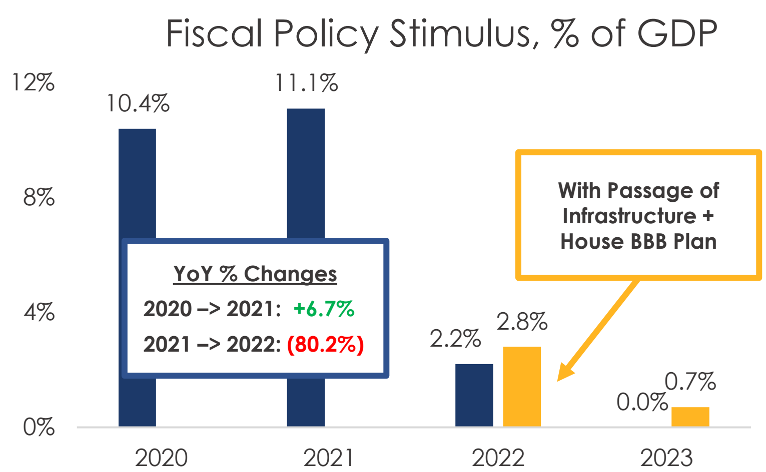
- **The Roaring '20s began with stellar results:** With the market on a tear despite the ongoing pandemic and inflationary concerns, some have begun to speculate that 2022 could pour cold water on market performance.
- **On average, the performance after a year like 2021 sits at 14%:** Of the seventeen times above, only three '2022's generated negative returns in the S&P 500. The last eight of these years were all positive with an average of 17%.
- **2022 performance remains uncertain:** This dataset does not mean a 14% return is *likely*, it simply serves to dispel the notion that 2022 *must* be a poor-performer because of how stellar 2021 was.

EXPECT MORE VOLATILITY IN 2022

Highly accommodative fiscal and monetary policies have tamped down market volatility since the beginning of the pandemic.

Investment Outlook: With less support from macro-friendly policies this year and the uncertainty related to the looming U.S. mid-term elections in November, we expect market volatility to increase in 2022.





- When looking at market corrections by presidential cycle, we find that drawdowns and the subsequent recoveries **were larger in the second year of a presidential term.**
- We anticipate the market to be more volatile in 2022, while the fundamentals should remain strong. As a result, any significant **downturns this year could provide an entry point for investment.**
- **Even if pending legislation is enacted**, fiscal stimulus should decline substantially in 2022.

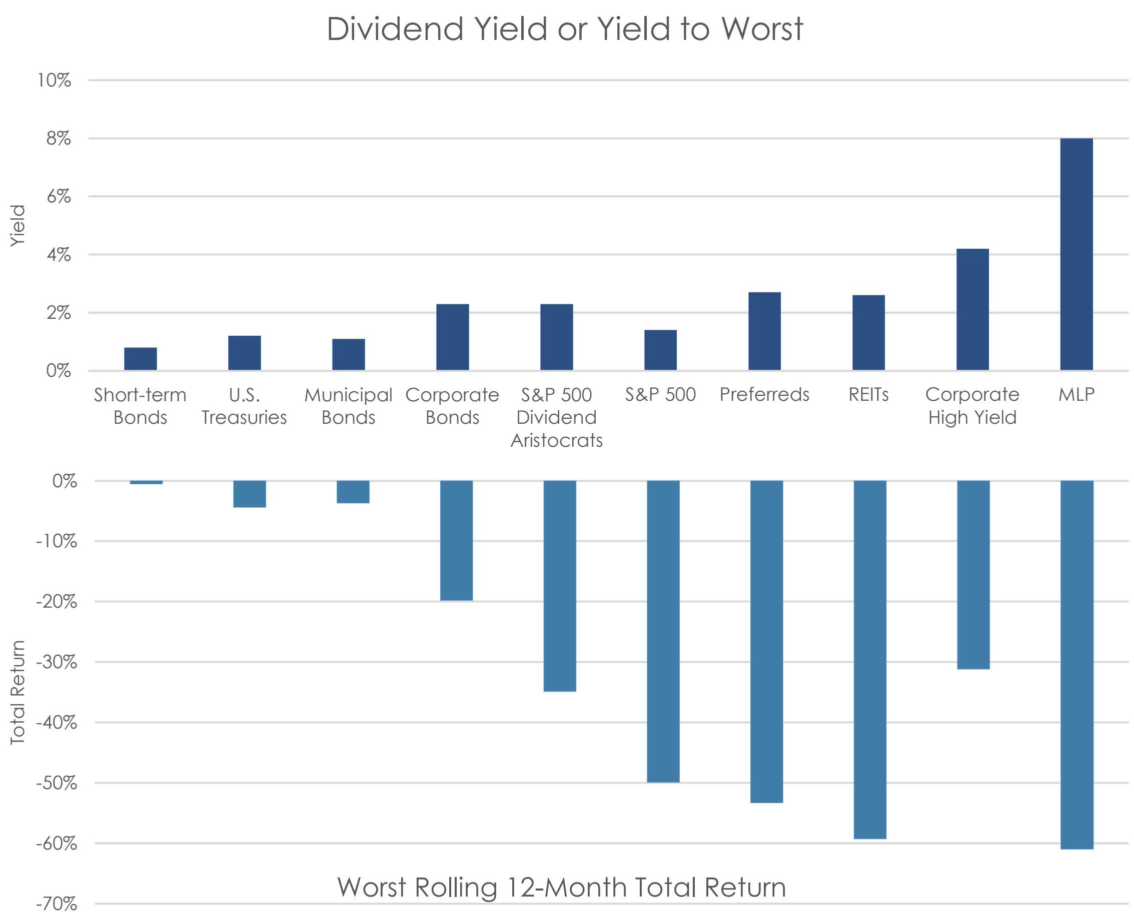
Markets

Refer to appendix for disclosures and data sources

HIGHER YIELDS COME WITH HIGHER RISKS

The Fed's rate cuts during the pandemic, while supporting the economy, caused already low investment yields to plummet further.

Investment Outlook: As yields rise due to tighter monetary policy, we expect negligible returns from investment-grade bonds due to their low yields and duration risk. We prefer taking on credit risk via higher-yielding instruments that are less interest-rate sensitive.



Credit risk is the risk associated with the creditworthiness of the borrower, while **duration risk** is the risk associated with a changing interest rate environment. Higher duration means more duration risk and more value depreciation during a rising rate environment.

Given the rising rate environment within a still-growing economy, we prefer to take on credit risk rather than duration risk to generate additional income.

These higher returns do come with higher risk, given their higher correlation with equity markets, and long-term financial planning needs to be the priority when determining asset allocation.

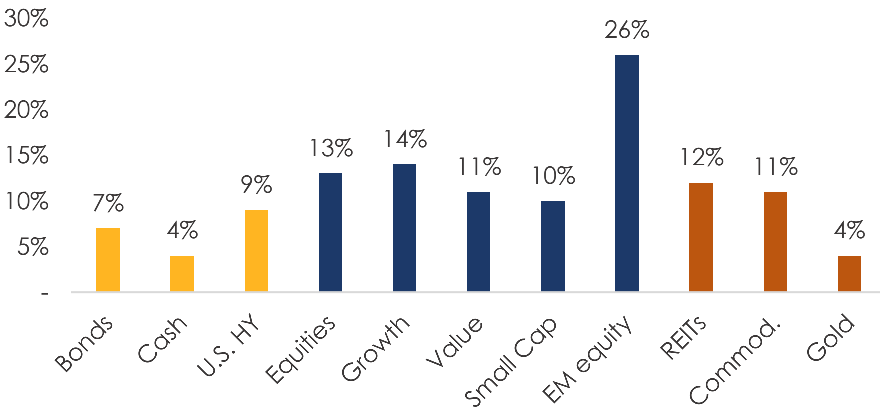
HEDGING AGAINST INFLATIONARY PERIODS

Alternative asset classes are thought to help with inflation, however recent periods have shown equity returns have outpaced them.

Investment Outlook: While we are exploring alternative asset classes to hedge against inflation, we will focus on areas within the equity markets that provide correlation to rising inflation.

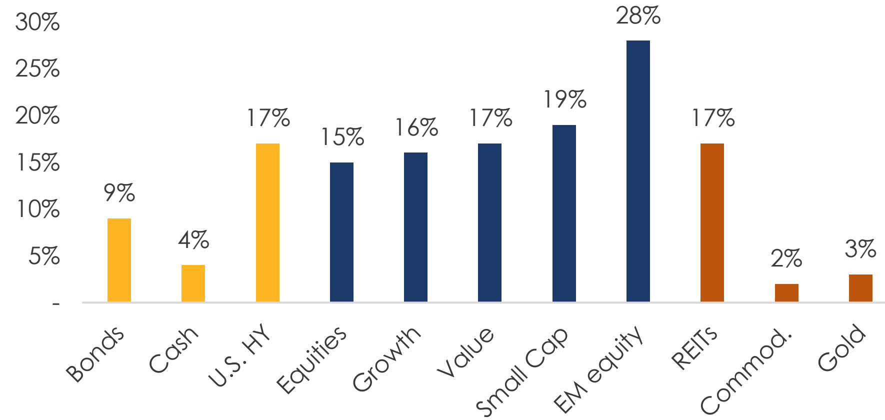
High and rising inflation*

Occurred 10 times since 1988



High and falling inflation

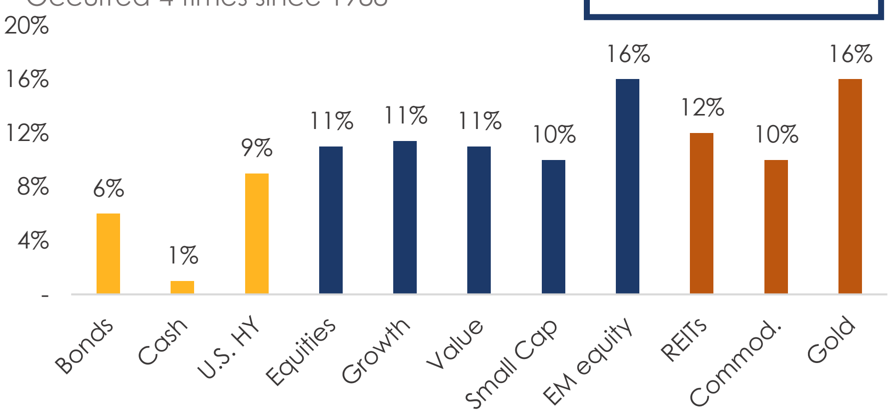
Occurred 6 times since 1988



- Equities
- Fixed Income & Cash
- Alternatives

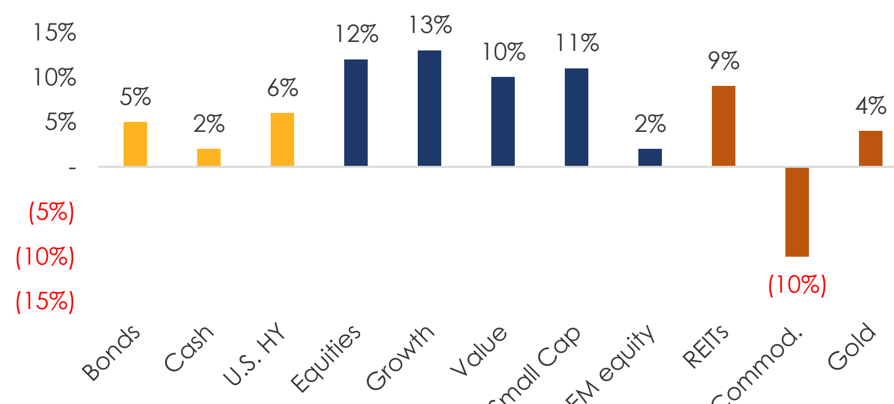
Low and rising inflation

Occurred 4 times since 1988



Low and falling inflation

Occurred 13 times since 1988



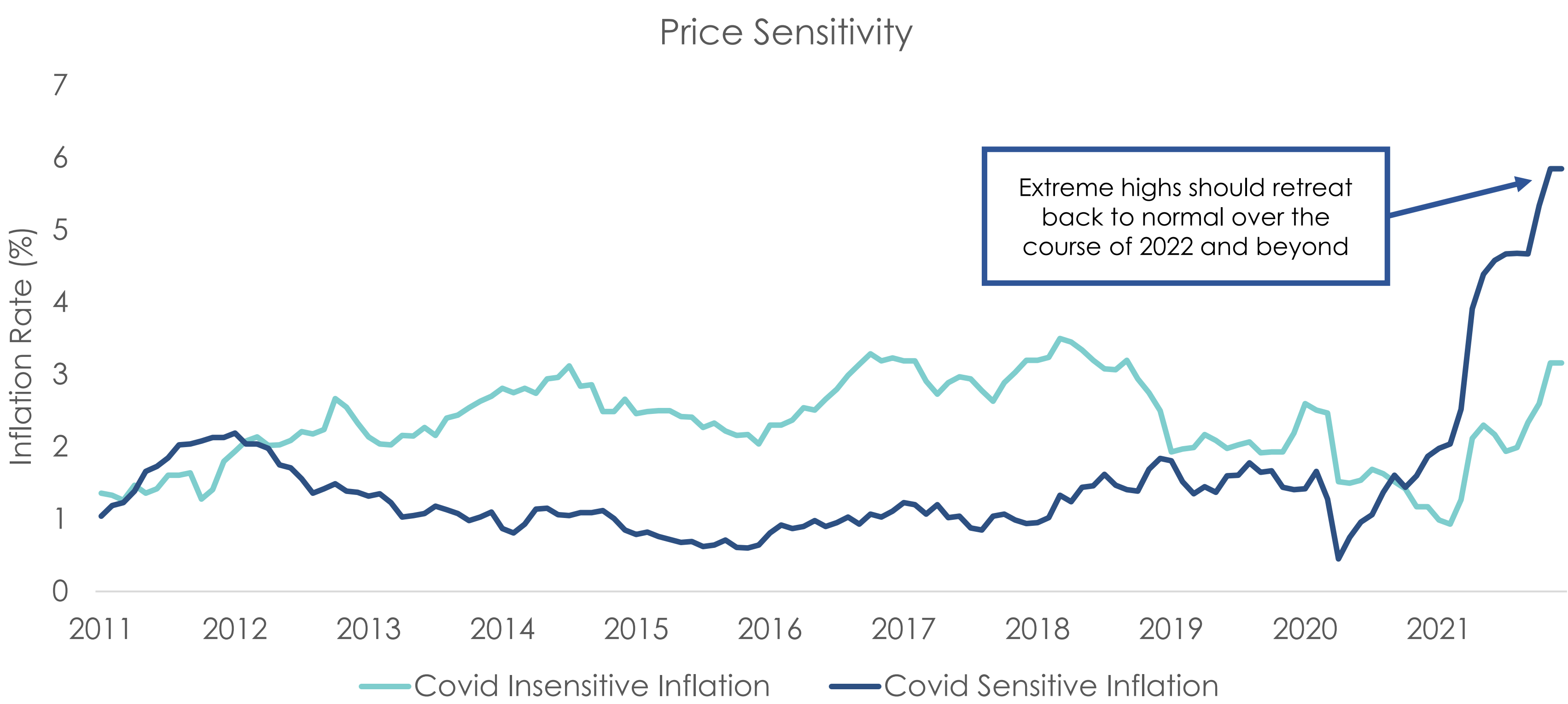
Inflation

Refer to appendix for disclosures and data sources

INFLATION RATE BASED ON COVID SENSITIVITY

Monetary supply, increased consumer spending, and supply chain disruptions are all contributing to the recent inflation spike. As the pandemic continues its recovery, we see a portion of the underlying inflation contributors coming down to historical averages.

Investment Outlook: We have inflation hedges built into portfolios, and still think equities are the best solution during this environment.



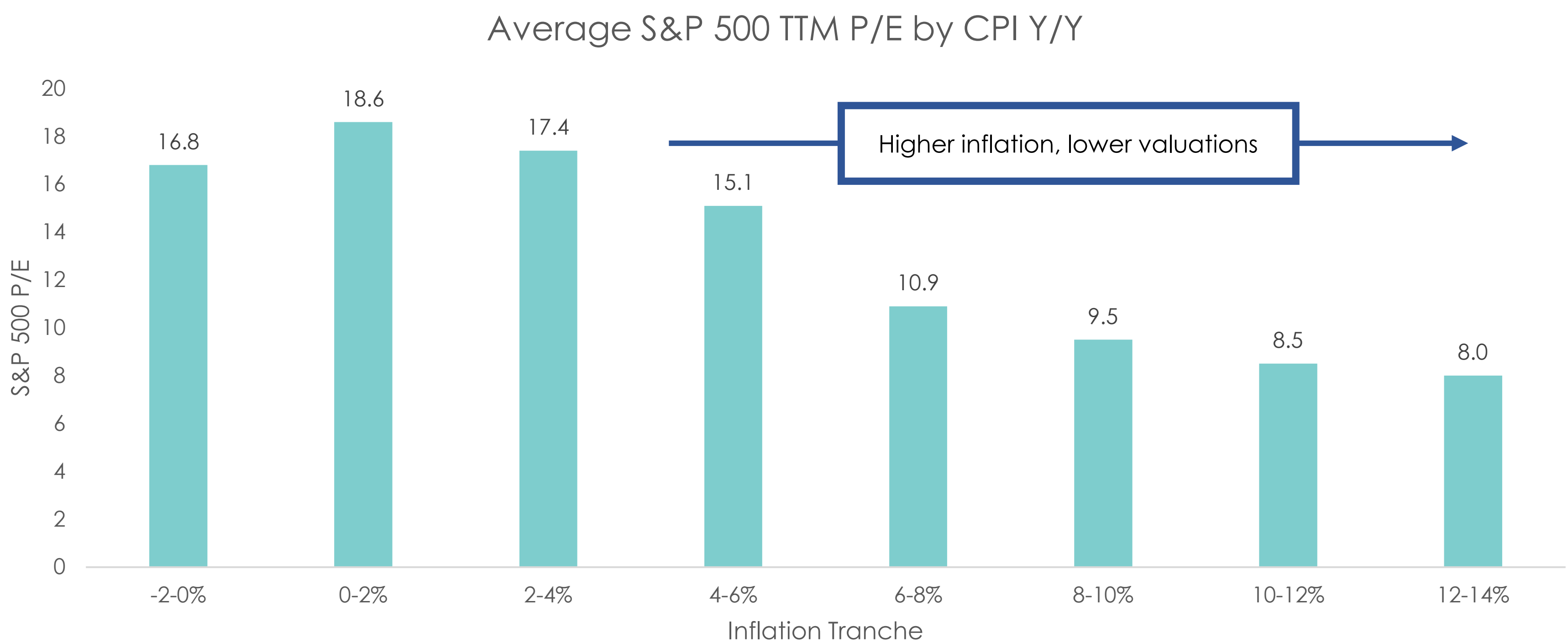
Inflation is higher, but there are still transitory areas: Covid sensitive products (i.e., cleaning supplies, telecommunications gadgets) are contributing significantly more to inflation than insensitive areas; this implies that once herd immunity is achieved, inflation rates may return to normalcy faster.

Refer to appendix for disclosures and data sources

INFLATION EMPHASIZES THE ROTATION INTO VALUE

In December 2021, the U.S. Consumer Price Index increased 7% year-over-year, the largest change since 1982.

Investment Outlook: Increased demand for goods (vs. services), higher income levels from fiscal support, and supply chain disruptions all combined to drive inflation higher over the past year. As these trends reverse, we expect inflation to moderate in 2022.



Inflation

- High inflation can cause the Fed to raise rates, which could cause P/E (price-earnings) multiples to contract as investors reassess the required returns on all assets in a higher risk-free rates environment.
- This is especially relevant to high growth technology stocks, whose elevated P/E multiples reflect the value of their future earnings that must be discounted to the present; a higher discount rate would cause the present value of these future earnings to fall, reducing the multiples that investors are willing to pay for these stocks.

ASSET CLASS PERFORMANCE SUMMARY

ASSET CLASS	PERFORMANCE		
Growth	**2021 Q4**	**2021**	**2020**
Global Equities	+6.7%	+18.5%	+16.3%
U.S. Large Cap Equities	+11.0%	+28.7%	+18.4%
U.S. Mid-Cap Equities	+6.4%	+22.6%	+17.1%
U.S. Small-Cap Equities	+2.1%	+14.8%	+19.9%
International Developed Equities	+2.7%	+11.8%	+7.8%
Emerging Markets Equities	-1.7%	-4.6%	+18.3%
Opportunistic Yield			
High Yield	+0.7%	+0.5%	+7.1%
Income & Stability			
U.S. Tax-Exempt Fixed Income	+0.7%	+1.5%	+5.2%
U.S. Taxable Fixed Income	0.0%	-1.5%	+7.5%

Sources: Ycharts as of 12/31/2021.

Performance values are the returns of the respective indices and are not inclusive of management fees: Global Equities = MSCI All Country World Index, U.S. Large Cap = S&P 500 Composite, U.S. Mid Cap = Russell Midcap, U.S. Small Cap = Russell 2000, International = MSCI EAFE Net, Emerging Markets = MSCI EM (Emerging Markets) Net, U.S. Tax Exempt Fixed Income = Bloomberg Barclays U.S. Municipal Index, U.S. Taxable Fixed Income = Bloomberg Barclays U.S. Aggregate Index, High Yield = Bloomberg Barclays U.S. High Yield Corporate Index. Past performance is no guarantee of future results.

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Page 2, 18: Asset Class Returns are the returns of the respective indices and are not inclusive of management fees: Global Equites = MSCI All Country World Index, U.S. Large Cap = S&P 500 Composite, U.S. Mid Cap = Russell Midcap, U.S. Small Cap = Russell 2000, International = MSCI EAFE Net, Emerging Markets = MSCI EM (Emerging Markets) Net, U.S. Tax Exempt Fixed Income = Bloomberg Barclays U.S. Municipal Index, U.S. Taxable Fixed Income = Bloomberg Barclays U.S. Aggregate Index, High Yield = Bloomberg Barclays U.S. High Yield Corporate Index. Past performance is no guarantee of future results. Data is from Ycharts as of 12/31/2021.
Page 6: Our World In Data [COVID-19], https://ourworldindata.org/covid-cases, Time period: 1/22/2020 – 1/10/2022. Data as of 1/11/2022.
Page 7: Weekly Economic Index: via New York Federal Reserve; Daily TSA Throughout (Smoothed to a 7-day average)): Transportation Safety Administration; Apple Mobility Index: Apple. Data as of 1/12/2022.
Page 8: Charles Schwab Sector Performance by Business Cycle. Data as of 1/12/2022.
Page 9: Job Openings: Job Openings and Labor Turnover Survey via Ycharts; Separations (Three sets: Quits, Layoffs & Discharges, & Other): Job Openings and Labor Turnover Survey via Ycharts; Labor Costs: Employment Cost Index via Ycharts; [All data originally produced by the Bureau of Labor Statistics]. Data as of 1/11/2022.
Page 10: Goods Consumption = U.S. Personal Consumption on Goods via Ycharts: Monthly, Seasonally Adjusted Annualized Rate ($), https://ycharts.com/indicators/us_personal_consumption_expenditures_on_goods_monthly, Time period: 1/31/2018 – 11/30/2021; Services Consumption = U.S. Personal Consumption on Services via Ycharts, Monthly, Seasonally Adjusted Annualized Rate ($), https://ycharts.com/indicators/us_personal_consumption_expenditures_on_services_monthly, Time period: 1/31/2018 – 11/30/2021; Personal Income = U.S. Personal Income via Ycharts, Monthly, Seasonally Adjusted Annualized Rate ($), https://ycharts.com/indicators/us_personal_income_monthly, Time period: 1/31/2018 – 11/30/2021. Data as of 1/11/2022.
Page 11: Housing prices = U.S. House Price Index via Ycharts; Rental prices = U.S. Rental CPI via Ycharts; House vacancies = U.S. Home Vacancy Rate via Ycharts; Rental vacancies = U.S. Rental Vacancy Rate via Ycharts; Housing starts = U.S. Housing Starts (Monthly) via Ycharts. Data as of 1/11/2022.
Page 12: FactSet. Study based on total returns. Data as of 1/12/2022.
Page 13: Strategas 2022 outlook. Data as of 1/11/2022.
Page 14: Bloomberg asset class returns. Rolling returns between 1950-2020. Data as of 12/31/2021.
Page 15: JPM Guide to the Markets Q1 2022. High or low inflation distinction is relative to median CPI for the period 1988 to 2020, which was 2.5% y/y. Data as of 12/31/2020.
Page 16: Bloomberg, Time period: 1/1/2011-12/31/2021. U.S. Federal Reserve Bank of San Francisco Covid Insensitive vs Sensitive inflation rates. Study conduced by Adam Shapiro "A Simple Framework to Monitor Inflation." Data as of 1/12/2022.
Page 17: Strategas 2022 outlook. Data as of 1/11/2022.