Goodman Financial
MONEY MANAGER • FINANCIAL ADVISOR • PHILANTHROPY
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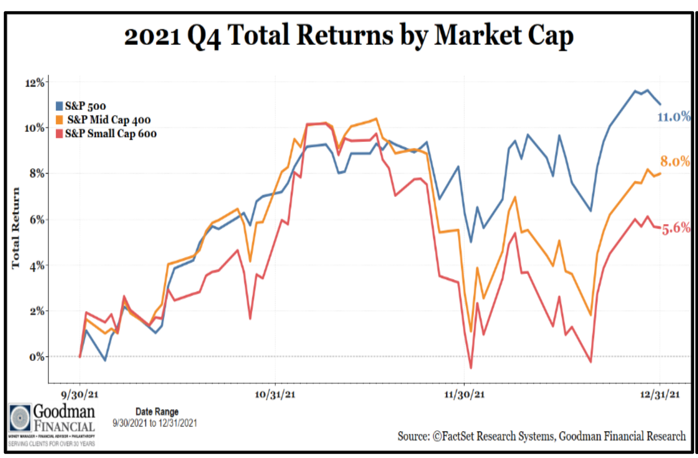
Q4 2021
MARKET & ECONOMIC REVIEW
Major Equity Market Indexes & Commentary

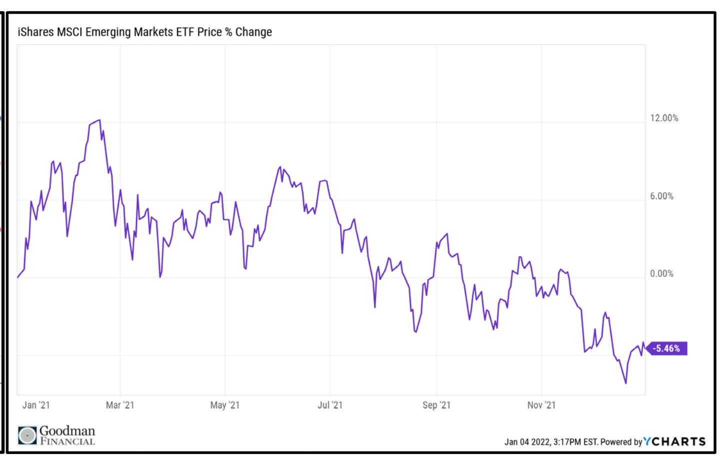
INDEX	DESCRIPTION	9/30/21	LOW CLOSE	HIGH CLOSE	12/31/21	QTD RETURN*
S&P 500	A market-capitalization weighted index of 500 large U.S companies.	4,308	4,300	4,793	4,766	+10.6%
DJIA	Dow Jones Industrial Average or "The Dow"; A price-weighted average of 30 major U.S. companies.	33,844	33,844	36,489	36,338	+7.4%
Nasdaq Composite Index	A market-capitalization weighted index comprised of over 3,000 companies, mostly in the technology and biotech industries.	14,449	14,255	16,057	15,645	+8.3%
Russell 2000	A market-capitalization weighted index tracking U.S. small-cap stocks.	2,204	2,140	2,443	2,245	+1.9%
NIKKEI 225	A price-weighted index comprised of Japan's top 225 most established companies (in Yen).	29,453	27,529	29,808	28,792	-2.2%
MSCI Emerging Markets	An index comprised of 23 MSCI indices from emerging economies including Brazil, China, India, Mexico, Russia, South Africa, and the UAE.	1,253	1,190	1,301	1,232	-1.7%
Stoxx Europe 600	An index comprised of 600 companies based in one of 18 EU countries including Austria, Belgium, Denmark, France, Germany, Ireland, Spain, and the United Kingdom (in Euro).	455	451	490	488	+7.3%

*** Excludes effects of dividends** **Sources: FactSet**

EQUITY MARKETS COMMENTARY

- U.S. stocks led performance among global equities in Q4, while Japanese and Emerging Markets posted losses. In the U.S., the large-cap S&P 500 bested its small and mid-cap brethren by a decent margin, as seen in the chart below (left). Returns in Q4 capped off an amazing year, where almost all the major U.S. equity averages posted returns north of 20%.
- Given the fact that we are in the midst of the worst global pandemic in the last 100 years, it is even more amazing that most stock indices have also delivered 20% type annualized returns for the past 3 years. This past 3-year period of returns marks one of the best 3-year periods ever, and the best since the glory days of the late 1990's. Given these outsized returns (in a stock market that historically goes up about 10% a year on average), it is probably time for investors to dial down their return expectations for stocks in the coming next few years.
- Emerging market losses in the quarter are due predominately to negative returns for mega-cap Chinese stocks like Alibaba, Tencent, Meituan and JD.com, which make up a large weight in most emerging markets indices. Those Chinese stocks have suffered from damaging government edicts that appear arbitrary and capricious, and thus causing investors to flee from those stocks. This has also caused Emerging Markets to be among the worst performing global stock markets in 2021, as seen in the chart below (right) which shows the iShares MSCI Emerging Markets ETF performance this year, down 5.5%.





Q4 2021
MARKET & ECONOMIC REVIEW
Fixed Income Rates & Commentary

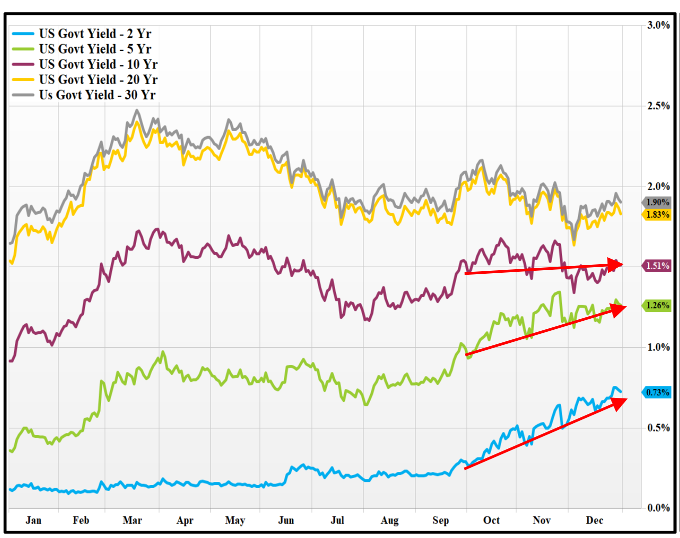
DESCRIPTION	9/30/21	12/31/21	QTD CHANGE IN BASIS POINTS*	DESCRIPTION	9/30/21	12/31/21	QTD CHANGE IN BASIS POINTS*
Federal Funds Target Rate	0.00%-0.25%	0.00%-0.25%	0	15 Yr. Mortgage Rate	2.15%	2.33%	+18
90 Day Treasury Bill	0.04%	0.06%	+2	30 Yr. Mortgage Rate	2.88%	3.11%	+23
2 Yr. Treasury Note	0.28%	0.73%	+45	Prime Rate (U.S.)	3.25%	3.25%	0
10 Yr. Treasury Note	1.53%	1.52%	-1	LIBOR (3 Month)	0.13%	0.21%	+8
30 Yr. Treasury Bond	2.08%	1.90%	-18	5-Year CD	0.27%	0.28%	+1

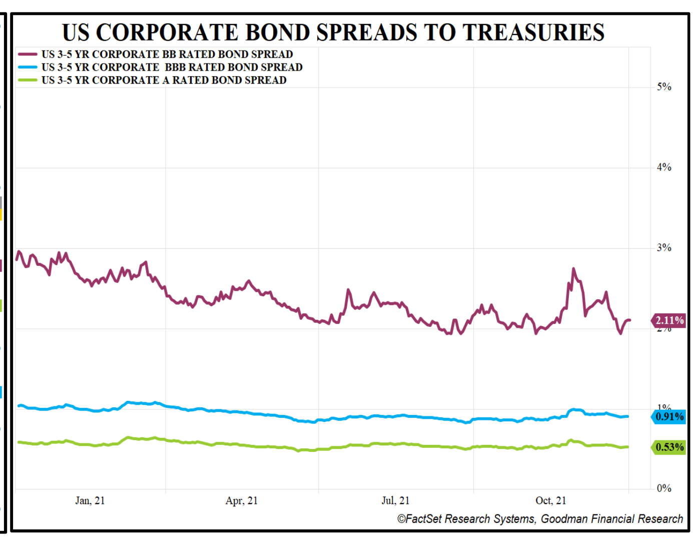
***One basis point is equal to 1/100th of 1% or 0.01%**

Sources: FactSet, Wall St. Journal, U.S. Treasury

FIXED INCOME COMMENTARY

- It was an interesting quarter for interest rates as the yield on the 10-year treasury bond was essentially flat for the quarter, while yields for the 2-year and 5-year treasury bonds **increased** by 0.45% and 0.27%. This can be seen in the chart below (left). These moves at the so-called "short end" of the yield curve reflect recent Federal Reserve (Fed) meetings where they are now signaling higher Fed Funds rates in 2022 – possibly as many as three rate hikes. This more "hawkish" tone by the Fed came as a surprise to investors, who prior to this quarter, had expected possibly only one rate hike in 2022, if even that. It appears the Fed has now gotten serious about the need to deal with high inflation levels that look to be more persistent than transitory. In fact, last quarter we even commented that it was "surprising that the Fed could be complacent at this time". Well, it looks like that is no longer the case! The good news is that these higher interest rates in the 2-5 year spectrum of the yield curve means that we will get higher yields when we reinvest maturing bonds this year.
- Corporate credit spreads (the difference in yield between a corporate bond and a U.S. treasury bond of the same maturity) have been relatively calm this year, especially for investment grade corporate bonds, as seen in the chart below (right). Meanwhile, spreads for the highest level of non-investment grade (so called "high yield") corporate bonds (the S&P BB rated bonds) did decline almost a full percentage point. This spread "tightening" for BB rated bonds provided a tailwind for returns for high yield bonds, which was one of the best bond categories for the year. You may recall that in late 2019 we believed the BB bond spread had the potential to fall and thought it was a good time to allocate some of our fixed income dollars to this category. This provided some tailwind to fixed income returns in those portfolios that owned BB rated bonds.





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Q4 2021 MARKET & ECONOMIC REVIEW

U.S. Economic Commentary

INDICATOR	DESCRIPTION	9/30/21	12/31/21	QTD CHANGE*
Weekly Initial Claims for Unemployment Insurance (in Thousands)	The number of new filings for unemployment insurance benefits. Most economists believe claims below 300,000 indicate a healthy labor market environment. **Initial claims dropped this quarter to the lowest level since October 1969 - when the U.S. population was 40% lower, reflecting an exceptionally strong job market.**	326	198	↓ -39.3%
Unemployment Rate	The percentage of total labor force that is unemployed but actively seeking employment. The U.S. Federal Reserve targets a long-run unemployment rate of between 4.5% and 5%. **The December unemployment rate surprisingly breached the 4% level, falling to 3.9%, and now approaching the 3.5% level it was prior to the pandemic, a 50-year low at the time.**	4.8%	3.9%	↓ -90 bps
Average Weekly Earnings	The average weekly salary earned by private, nonfarm employees. **Wage growth is beginning to accelerate, growing 4.7% year-over-year this quarter. This will cause some persistency to overall inflation for the near future.** **This wage growth still falls short of inflation causing real wage growth to be negative.**	$1,066	$1,086	↑ +1.9%
Index of Consumer Sentiment	This index is published by the University of Michigan and reflects consumer attitudes towards the state of the economy. **Falling sentiment is likely due to the following: falling real wages due to record high inflation; fears about the Covid Omicron variant; and falling housing affordability.**	72.8	70.6	↓ -3.0%
ISM Purchasing Managers Index (PMI®)	This index represents economic activity in the manufacturing sector. Any value above 42.9 represents economic expansion. **While the index did decline this quarter, manufacturing is still growing in order to replenish continued low customer inventories that were reduced by Covid related supply chain issues.**	61.1	58.7	↓ -3.9%
Existing Home Sales (in Millions) *	This data is provided by the National Association of Realtors®. It is a seasonally adjusted annualized rate and reflects completed transactions in houses, townhomes, and condominiums. **Existing home sales continued to rise this quarter despite inventories that are 13% lower and prices that are 14% higher than a year ago.**	6.29	6.46	↑ +2.7%
US Capacity Utilization: Manufacturing *	The ratio of production capacity being used to produce finished products compared to the total capacity available. **Utilization picked up from last quarter as manufacturers work to catch up to strong demand. This measure would likely be higher but for continuing supply chain issues.**	77.0%	77.5%	↑ +0.6%

***These items are as of 11/31/21, the date of the most recently published statistics**

Sources: FactSet, Federal Reserve Bank of St. Louis, The University of Michigan, U.S. Census Bureau, U.S Department of Labor, Institute of Supply Management

U.S. ECONOMIC HEALTH

- One worrying and mysterious economic indicator is the University of Michigan Consumer Sentiment Index, as seen in the chart below (left). The indicator has fallen from the 100 level just before the pandemic started, to the current reading of 70.6, and is now lower than when the Covid pandemic started. So, what is causing this pessimism by consumers, especially as jobs are plentiful (nearly 11 million jobs are currently unfilled), unemployment is near 50-year lows, wage growth is now above recent trends, and their savings are at recent highs, helped by government stimulus payments and a stock market at all-time highs? Probably the biggest reason has to do with recent record inflation. The Consumer Price Inflation (CPI) index is up 6.9% year-over-year in the latest report. While wages are growing, they are not keeping up with that level of inflation, as seen in the chart below (right) – and that has many consumers worried. Also contributing to negative sentiment is the latest Covid Omicron variant and the fatigue that consumers feel from yet another Covid mutation wave. Finally, those consumers who are renters are disheartened by being priced out of the current red-hot housing market. Housing affordability is at generational lows – made all the more frustrating for potential homebuyers given that mortgage rates at near all-time lows. So far, this pessimism hasn't shown up in consumer spending data…yet. This is especially important to the U.S. economy as consumer spending accounts for nearly 70% of GDP. Accordingly, we will be watching consumer spending measures closely for any sign of softness.