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The Weiss Report
Smart and Steady
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Earnings, Economic Growth, and Vaccines Push Stocks to New Records in 2021

Before we get to the recap of the markets, particularly the 4th quarter, we'd like to thank all of you for a wonderful 2021. Together we collectively worked through the continuation of COVID, market volatility, and perhaps most painful (for Lowell) an OSU loss to Michigan in November. All of us at Weiss Wealth Management hope nothing but the best for you and your families in 2022!

Additionally, we would like to take a moment to note that this begins the 25th year of The Weiss Report. What started as an opportunity for Lenny to provide an insight into how he thinks for clients has morphed into a family project over the last decade or so. It is so meaningful for us to have the opportunity for our family to take care of and inform you and your families.

Stocks overcame numerous headwinds during the past three months, including a resurgence in COVID cases, the Federal Reserve moving aggressively to end the current QE program, and a lack of additional stimulus from Washington, to hit new all-time highs in the fourth quarter and produce very strong returns for 2021. The fourth quarter started with a continuation of the volatility that we saw at the end of the third quarter, as in early October there was still little progress in Washington on extending the debt ceiling, avoiding a government shutdown, or providing investors clarity on future tax changes contained in the Build Back Better bill. That political uncertainty combined with concerns over third-quarter corporate earnings results following a series of negative earnings pre-announcements to send stocks lower to start the fourth quarter. But by the middle of October, Republicans and Democrats had extended the debt ceiling and avoided a government shutdown, while many of the tax increases proposed in the Build Back Better bill were removed from the bill, which eased investor anxiety about future tax increases. Additionally, the third-quarter earnings season proved to be better than feared as corporate America again proved resilient. The vast majority of companies posted better-than-expected results and 2022 S&P 500 earnings expectations rose yet again. Each of those positive developments helped send the S&P 500 sharply higher in October as the S&P 500 recouped all the September losses and hit a new all-time high late in the month.

The positive momentum continued in early November, as the S&P 500 drifted steadily higher given the tailwinds of 1) Clarity from Washington, 2) Strong earnings, and 3) Declining COVID cases. Additionally, while the Federal Reserve announced it would begin to reduce, or taper, its Quantitative Easing (QE) program starting in November, the pace of the reductions met investor expectations and markets continued to rally and hit new all-time highs in mid-November. But on Thanksgiving Day, the World Health Organization declared the Omicron variant of COVID-19, which had just been discovered in South Africa, a "variant of concern" and that designation caused a sharp selloff in stocks, partially thanks to very low liquidity, as governments once again closed borders to international travel, and the world wearily braced for another increase in cases.

Additionally, at Congressional testimony in late November, Federal Reserve Chairman Jerome Powell surprised markets by stating that due to persistently high inflation, the Fed would likely need to accelerate the just-announced tapering of QE and endorsed doubling the pace of reduction. That acceleration came less than a month after the Fed's initial tapering announcement, and it caused markets to price in sooner-than-expected interest rate hikes in 2022. Concerns about future Fed policy combined with Omicron uncertainty led to declines in stocks late in November and the S&P 500 finished the month with a small loss.

Markets rebounded in December, however, thanks to less aggressive messaging on rate hikes from the Fed combined with governments not imposing economically crippling lockdowns in response to the surging Omicron outbreak. First, at its December meeting, the Fed announced it will accelerate the tapering of QE in 2022, and that QE would end in mid-March, about three months earlier than expected. The Fed also signaled it expected to raise interest rates three times in 2022 to combat rising inflation. But both of those announcements largely met the latest market expectations, and some reassuring commentary by Chair Powell that the Fed would remain supportive of the economy helped ease investors' concerns that interest rates would rise too quickly in 2022, and stocks rallied in the wake of the Fed decision. Then, late in the month, multiple studies implied that the Omicron variant, while more contagious than previous strains, resulted in substantially fewer severe COVID cases. So, while there would likely be new records in daily cases due to Omicron, the risk of hospitalizations and deaths remained low, and as such governments could avoid lockdowns such as those seen in March 2020. That news helped stocks extend the rally late in December, and the S&P 500 finished the month with a four percent gain.

In sum, 2021 was another historic year for markets and the S&P 500 ended near new all-time highs, as the governmental policy remained supportive of the economy, corporate earnings growth was strong, and substantial progress was made against the pandemic in the form of widespread vaccination and advancement in treatments. Those positives, in aggregate, were reflected in the very strong market returns, especially in the final quarter of the year.

<u>Q4 and Full Year 2021 Performance Review</u>

All four of the major U.S. stock indices were higher for the fourth quarter, with the tech-heavy Nasdaq slightly outperforming the S&P 500 while the Dow Industrials modestly lagged both aforementioned indices. The small-cap focused Russell 2000, meanwhile, registered only a small gain for the fourth quarter.

Concerns about economic headwinds from the Omicron variant and the Fed's more aggressive QE tapering and rate hike schedule weighed on small-cap companies especially, as investors sought relative safety in large-cap tech amidst the rising possibility of slower economic growth in 2022. On a full-year basis, all four major indices posted positive returns, with the S&P 500 slightly outperforming the Nasdaq for the first time since 2016. The Russell 2000 relatively underperformed thanks to lackluster returns during the second half of 2021, as the Delta and Omicron variants weighed on economic growth.

By market capitalization, large caps handily outperformed small caps both in the fourth quarter and throughout 2021. As mentioned, concerns about future economic growth were the main driver of large-cap outperformance and small-cap underperformance especially in the second half of 2021. The aforementioned Delta and Omicron variants were headwinds on economic growth in the second half of the year, while the Fed potentially hiking rates more than expected made the growth outlook for 2022 less certain, and those two factors drove a rotation from small caps to large caps in the third and fourth quarters.

From an investment style standpoint, a late-year rally in large-cap tech helped growth outperform value both in the fourth quarter and for the full year. That outperformance reflected the deceleration in economic growth during the second half of 2021 due to the Delta and Omicron variants.

On a sector level, 10 of the 11 S&P 500 sectors finished the fourth quarter with positive returns, with the tech and real estate sectors leading the way higher. Tech benefitted from that rotation to safety amidst COVID and Fed policy uncertainty, while real estate rose as investors priced in a continued rise in inflation, as real estate has had strong historical returns during periods of elevated inflation. For 2021, however, energy was by far the best-performing sector in the market as a surge in oil and natural gas prices helped energy handily outperform all other market sectors. Real estate, tech, and financials were also strong performers for the full year 2021, as investors sought protection from inflation via real estate and financials, while tech benefitted from continued strong earnings growth and the familiar defensive rotation following the Delta and Omicron waves.

The only S&P 500 sector to post a negative return for the fourth quarter was communication services, as investors rotated out of internet-focused tech stocks and into more diversified technology companies such as Microsoft, Apple, and others. Financials also relatively underperformed, but still registered a positive return as concerns about sooner-than-expected Fed rate hikes in 2022 led to a flattening of the yield curve, which was a headwind on bank stocks. On a full-year basis, traditionally defensive sectors lagged, but still logged substantially positive annual returns. Utilities and consumer staples were the worst performing sectors for the full year, as investors focused on companies with more positive exposure to higher inflation and economic growth.

S&P 500 Total Returns by Month in 2021

Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
-1.01%	2.76%	4.38%	5.34%	0.70%	2.33%	2.38%	3.04%	-4.65%	7.01%	-0.69%	4.48%

Source: Morningstar

US Equity Indexes	Q4 Return	2021 Return
S&P 500	11.03%	28.71%
DJ Industrial Average	7.87%	20.95%
NASDAQ 100	11.28%	27.51%
S&P MidCap 400	8.00%	24.76%
Russell 2000	2.14%	14.82%

Source: YCharts

Internationally, foreign markets saw modest gains in the fourth quarter as declines in emerging markets partially offset gains in developed markets. Emerging markets dropped in the fourth quarter in reaction to a stronger U.S. dollar while the Omicron variant also weighed on global economic growth estimates. Developed markets posted a positive return for the fourth quarter, although they badly underperformed the S&P 500. For the full year 2021, foreign markets registered solidly positive returns but, again, handily underperformed the S&P 500 as only moderate gains in developed markets were offset by a modest annual decline in emerging markets.

Commodities saw gains in the fourth quarter as both oil and gold logged positive returns. Oil rallied late in the quarter on fading concerns that Omicron would materially impact consumer demand for refined products around the globe. Gold, meanwhile, saw a small gain in the fourth quarter thanks to continued high inflation readings, a decline in the U.S. dollar, and a general increase in market volatility following the Omicron surge. For 2021, commodities posted a large, positive return due to the significant gains in oil futures and other energy commodities which surged as the global economy reopened and demand increased amidst still-constrained supply thanks to a disciplined OPEC+ group. Gold, however, saw a modestly negative return for 2021 as the increasing attractiveness of alternative investments, such as Bitcoin and other cryptocurrencies, combined with a stronger dollar to weigh on precious metals.

Switching to fixed income markets, the leading benchmark for bonds (Bloomberg Barclays US Aggregate Bond Index) experienced a fractionally positive return for the fourth quarter but declined for the full-year 2021, as the potential for sooner-than-expected Fed rate hikes combined with still-high inflation weighed on most bond classes.

Looking deeper into the fixed income markets, longer-duration bonds outperformed those with shorter durations in the fourth quarter, which again reflected the market's pricing in potentially sooner-than-expected Fed rate increases.

Higher-yielding, but lower-quality corporate bonds posted a positive return and outperformed on a full-year basis, as investors flocked to riskier debt amidst low rates, elevated inflation, and strong economic growth. Lower-yielding and safer investment-grade corporate debt underperformed in the fourth quarter and posted a negative return for 2021, reflecting bond investors' search for higher yield, as well as concerns about inflation and rising rates.

Q1 and 2022 Market Outlook

Markets have exhibited very impressive resilience since the pandemic began and that remained the case throughout the fourth quarter and all of 2021, as the strength of the U.S. economy and corporate America helped produce another year of substantially positive returns in stocks. And that resilient nature will continue to support markets and the economy as we begin a new year.

Like all years, however, 2022 presents numerous potential challenges to economic growth, corporate earnings, and market returns, including a reduction in global stimulus, still stubbornly high inflation pressures, political uncertainty, and the ongoing pandemic.

First, global central banks, led by the Federal Reserve, have already begun to reverse the historically accommodative policies that were enacted in response to the pandemic. The Fed specifically expects to end its QE program by mid-March and increase interest rates three times in 2022. That transition to more normal monetary policy will likely create headwinds on the economy and potentially corporate earnings, and while historically U.S. stocks have performed well during the initial phases of a Fed rate hike campaign, we will closely monitor the impact of rate hikes on economic growth and the corporate earnings outlook as we move through 2022.

The reason the Fed is more aggressively removing accommodative policies is because inflation surged to 30-plus-year highs in 2021. Positively, rising inflation did not have a negative impact on consumer spending or corporate earnings in 2021. But that risk remains as even optimists do not expect inflation to decline substantially in 2022. As we did in 2021, we will continue to monitor inflation closely to see if it becomes a negative influence on corporate margins and earnings, or consumer spending more broadly, because if that's the case it will result in a rise in market volatility.

Politics will also be a source of potential volatility in the first quarter of 2022 and beyond. Democrats failed to pass the Build Back Better social spending bill in 2021, but the process is not over, and none of us should be surprised if that legislation passes in early 2022. From a market standpoint, investors will be most focused on any potential tax increases that might reduce corporate profits or consumer spending. Given the current version of the bill, market-negative tax increases look unlikely, but the legislative process is unpredictable, and we'll continue to monitor the situation for any negative tax implications. Additionally, there will be midterm elections in November, and as is usually the case, we can expect the run-up towards the midterms to cause at least temporary market volatility.

Finally, COVID is not over. The Omicron variant, which is currently spreading across the globe, thankfully does not result in nearly as many severe cases as previous COVID variants, but it's still impacting society and businesses via worker shortages and more supply chain disruptions. And as we look ahead to 2022, we sadly must be prepared for more variants to impact the global economy, and we will continue to watch for any sustainably negative impacts from COVID on the economy or markets.

However, while markets face numerous risks as we start a new year (like they always do) there remain multiple, powerful tailwinds on stocks and other risk assets. Corporate earnings remain incredibly strong and the performance of corporate America through the pandemic has been nothing short of amazing. Interest rates, while they will likely rise in 2022, remain very, very low and not yet close to levels that would historically be considered a headwind on economic activity. Personal savings remain high, unemployment remains low, and broadly speaking the U.S. economy is in strong shape.

So, while there are risks to the markets and the economy that could result in more historically typical market volatility in 2022, on balance the outlook remains decidedly positive.

More broadly, as we consider all that has occurred in 2021 and look forward to 2022, one of the biggest takeaways from another unpredictable year in the markets is that a well-planned, long-term-focused and diversified financial plan can withstand virtually any market surprise and a related bout of volatility, including multiple COVID waves, inflation reaching 30-year highs, and the Federal Reserve removing historic accommodation.

We believe it is generally critical for you to stay invested, remain patient, and stick to the plan, as we've worked with you to establish a unique, personal allocation target based on your financial position, risk tolerance, and investment timeline.

The strong performance of markets in 2021 notwithstanding, we remain vigilant towards risks to portfolios and the economy, and we thank you for your ongoing confidence and trust. Please rest assured that our entire team will remain dedicated to helping you successfully navigate this market environment.

Please do not hesitate to contact us with any questions, comments, or to schedule a portfolio review.

Enclosure #1 – Our first enclosure is the Investment Strategy Quarterly piece from Raymond James. This provides a quick understanding of relevant themes in the investment world. Additionally it provides an economic snapshot as well as a tactical outlook. We like to include this in the Weiss Report as a handy two-page reference.

Enclosure #2 – Our second enclosure is a piece by Brian Wesbury from First Trust Advisors that provides an introduction to 2022 themes for the economy and markets.

Enclosure #3 – Our last enclosure is a new writing from our team member Lenny Weiss. He provides an important contextual conversation about the panic cycle of markets securities traded on the NASDAQ system. The Dow Jones Industrial Average (DJIA), commonly known as "The Dow" is an index representing 30 stock companies maintained and reviewed by the editors of the Wall Street Journal. The Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 300 Index, which represent approximately 8% of the total market capitalization of the Russell 3000 Index. The S&P MidCap 400® provides investors with a benchmark for mid-sized companies. The index, which is distinct from the large-cap S&P 500®, measures the performance of midsized companies, reflecting the distinctive risk and return characteristics of this market segment. The MSCI EAFE (Europe, Australasia, and Far East) is a free float adjusted market capitalization index that is designed to measure developed market equity performance, excluding the United State & Canada. The EAFE consists of the country indices of 22 developed nations. The MSCI ACWI ex USA Investable Market Index (IMI) captures large, mid, and small cap representation across 22 of 23 Developed Markets (DM) countries (excluding the United States) and 24 Emerging Markets (EM) countries. With 6,211 constituents, the index covers approximately 99% of the global equity opportunity set outside the US. The MSCI Emerging Markets is designed to measure equity market performance in 25 emerging market indices. The index's three largest industries are materials, energy, and banks.

One cannot invest directly in an index. Past Performance does not guarantee future results. Sector Investments are companies engaged in business related to a specific sector. They are subject to fierce competition and their products and services may be subject to rapid obsolescence. There are additional risks associated with investing in an individual sector, including limited diversification. Investing in oil involves special risks, including the potential adverse effects of state and federal regulation and may not be suitable for all investors. Bond prices and yields are subject to change based upon market conditions and availability. International investing involves special risks, including currency fluctuations, differing financial accounting standards, and possible political and economic volatility.

Investing in commodities is generally considered speculative because of the significant potential for investment loss. Their markets are likely to be volatile and there may be sharp price fluctuations even during periods when prices overall are rising.

Enclosure #2: Information was developed by First Trust, an independent third party. The opinions of Brian Wesbury are independent from and not necessarily those of RJFS or Raymond James.

*Prices of DJIA and NASDAQ as of 01/07/2022 close.

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INVESTMENT STRATEGY QUARTERLY QUICKVIEW

JANUARY 2022

THEMES

2022 Economic Outlook: Turbulence Ahead

The US economy experienced a number of surprises in 2021, some good and some bad. The outlook for the coming year is likely to be even more volatile with inflation and Federal Reserve policy as the major factors. Higher inflation in the spring of 2021 was narrow and expected to be transitory, but by the end of the year there were growing fears of a more persistent, broader increase in inflation. With that, financial markets expect tighter monetary policy and a possible policy mistake. Time will tell, as they say, but investors should be prepared for the ground to shift repeatedly in 2022.

Spotlight on Supply Chains

Supply chain disruptions have wreaked havoc on the global economy since the pandemic began nearly two years ago. While supply chain constraints remain severe, there are tentative signs that some of the logjams are beginning to ease. With new capacity being added across the supply chain, cargo spending shifting from sea to air, and a ton of goods still waiting to come onshore, it is highly likely that the inflationary environment we're grappling with today is setting up to bring significant disinflationary pressures later in 2022 or early 2023.

2022 Equity Outlook: Bullish on Earnings

As we move into 2022, we remain positive on equity markets but believe the pace of market ascent should moderate and normal periods of volatility should return as Federal Reserve policy normalizes, along with the rate of economic and earnings growth. We view the positives as outweighing the negatives and recommend a balanced, but pro-cyclical tilt to portfolio positioning, using pullbacks and rotation in favored stocks and sectors as an opportunity.

2022 Fixed Income Outlook: Rethinking Fixed Income

A regime change is upon us and uncertainty around policy and the economy is rising. The opportunity set for individual investors to generate income is not limited to asset class categorization. Investors can manage volatility, optimize cash flow, and mitigate inflation risk by comparing risk/income tradeoffs in different income producing instruments. Capital markets are in transition to a reflating mindset. Successful income planning and investing now requires actively managing market and inflation risk.

For more information, refer to the full **Investment Strategy Quarterly**.

Economic Snapshot

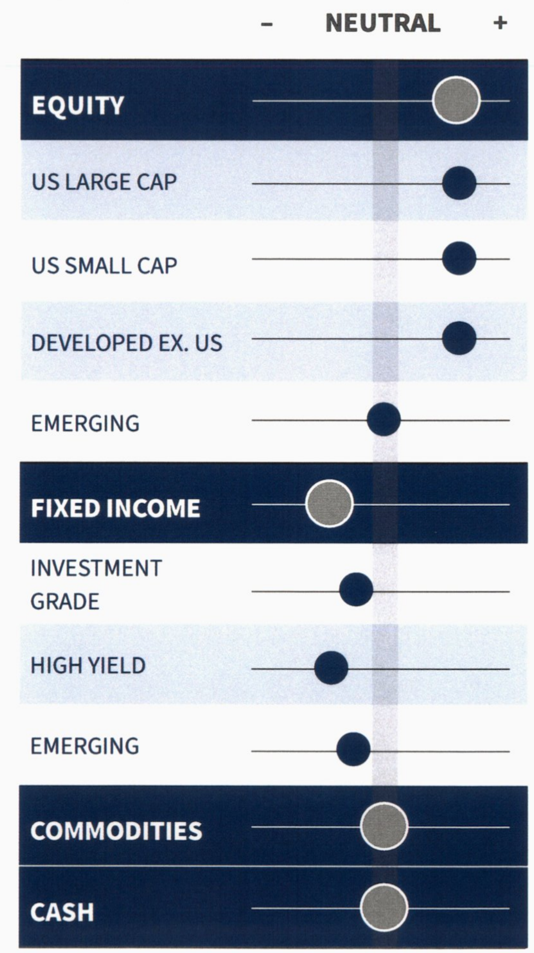
Economic Indicator

FAVORABLE	GROWTH
	EMPLOYMENT
	CONSUMER SPENDING
	BUSINESS INVESTMENT
	MANUFACTURING
	HOUSING AND RESIDENTIAL CONSTRUCTION
	THE DOLLAR
	REST OF THE WORLD
NEUTRAL	LONG-TERM INTEREST RATES
	FISCAL POLICY
UNFAVORABLE	INFLATION
	MONETARY POLICY

From Scott Brown, Ph.D.,
Chief Economist, Raymond James

Tactical Outlook

(9-12) months)



The tactical asset allocation outlook above reflects the Raymond James Investment Strategy Committee's recommendations for current positioning. Your financial advisor can help you interpret each recommendation within this material relative to your individual asset allocation policy, risk tolerance and investment objectives.

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INVESTMENT STRATEGY QUARTERLY QUICKVIEW

JANUARY 2022

Capital Markets Snapshot

EQUITY	AS OF 12/31/2021*	4Q 2021 RETURN**	12-MONTH RETURN**
DOW JONES INDUSTRIAL AVERAGE	36,338.30	7.37%	18.73%
S&P 500 INDEX	4,766.18	10.65%	26.89%
NASDAQ COMPOSITE INDEX	15,644.97	8.28%	21.39%
MSCI EAFE INDEX	2,336.07	2.74%	11.78%
RATES	**AS OF 12/31/2021**	**AS OF 9/30/2021**	**AS OF 12/31/2020**
FED FUNDS TARGET RANGE	0-0.25	0-0.25	0-0.25
3-MONTH LIBOR	0.05	0.05	0.09
2-YEAR TREASURY	0.73	0.28	0.13
10-YEAR TREASURY	1.52	1.52	0.93
30-YEAR MORTGAGE	3.11	3.01	2.67
PRIME RATE	3.25	3.25	3.25
COMMODITIES	**AS OF 12/31/2021***	**4Q 2021 RETURN**	**12-MONTH RETURN**
GOLD	$1,828.60	4.08%	-3.51%
CRUDE OIL	$75.21	0.24%	55.01%

*Price Level
**Total Return

Sector Snapshot

	SECTOR	S&P WEIGHT
OVERWEIGHT	CONSUMER DISCRETIONARY	12.6%
	FINANCIALS	10.7%
	COMMUNICATION SERVICES	10.3%
	INDUSTRIALS	7.7%
	ENERGY	2.7%
EQUAL WEIGHT	INFORMATION TECHNOLOGY	29.3%
	HEALTH CARE	13.2%
	MATERIALS	2.5%
	REAL ESTATE	2.7%
UNDERWEIGHT	CONSUMER STAPLES	5.8%
	UTILITIES	2.5%

DISCLOSURE:

Data is provided by the Investment Strategy Group. This material is for informational purposes only and should not be used or construed as a recommendation regarding any security. All expressions of opinion reflect the judgment of Raymond James & Associates, Inc. and are subject to change.

International investing involves special risks, including currency fluctuations, different financial accounting standards, and possible political and economic volatility. These risks are greater in emerging markets. Commodities trading is generally considered speculative because of the significant potential for investment loss. Sector investments are companies engaged in business related to a specific sector and are are subject to fierce competition and their products and services may be subject to rapid obsolescence. There are additional risks associated with investing in an individual sector, including limited diversification. There is no assurance that any of the forecasts mentioned will occur. Asset allocation and diversification do not guarantee a profit nor protect against loss. Dividends are not guaranteed and will fluctuate. The value of REITs and their ability to distribute income may be adversely affected by several factors beyond the control of the issuers of the REITs. There is no assurance that any investment strategy will be successful or that any securities transaction, holdings, sectors or allocations discussed will be profitable. It should not be assumed that any investment recommendation or decisions made in the future will be profitable or will equal any investment performance discussed herein.

Past performance is not indicative of future results. The performance mentioned does not include fees and charges which would reduce an investor's returns. Fixed income securities are subject to interest rate risk. Generally, when interest rates rise, bond prices fall, and vice versa. Specific sector investing can be subject to different and greater risks than more diversified investments. Investing in small-cap and mid-cap stocks generally involves greater risks, and, therefore, might not be appropriate for every investor. High-yield (below investment-grade) bonds are not suitable for all Investors. When appropriate, these bonds should only comprise a modest portion of your portfolio. Specific sector investing such as real estate can be subject to different and greater risks than more diversified investments. Declines in the value of real estate, economic conditions, property taxes, tax laws and interest rates all present potential risks to real estate investments.

INDEX DESCRIPTIONS: Please note that all indices are unmanaged and investors cannot invest directly in an index. An investor who purchases an investment product which attempts to mimic the performance of an index will incur expenses that would reduce returns. Standard & Poor's 500 (S&P 500): Measures changes in stock market conditions based on the average performance of 500 widely held common stocks. Represents approximately 68% of the investable U.S. equity market. The Dow Jones Industrial Average is an unmanaged index of 30 widely held securities. The NASDAQ Composite Index is an unmanaged index of all stocks traded on the NASDAQ over-the-counter market. The MSCI EAFE (Europe, Australia, Far East) index is an unmanaged index that is generally considered representative of the international stock market. The returns noted do not include fees and charges which will affect an investor's return.

Bond prices and yields are subject to change based upon market conditions and availability. If bonds are sold prior to maturity, you may receive more or less than your initial investment. There is an inverse relationship between interest rate movements and fixed income prices. Generally, when interest rates rise, fixed income prices fall and when interest rates fall, fixed income prices rise.

First Trust
Monday Morning OUTLOOK

Brian S. Wesbury – *Chief Economist*
Robert Stein, CFA – *Dep. Chief Economist*
Strider Elass – *Senior Economist*
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Bryce Gill – *Economist*

630-517-7756 • www.ftportfolios.com January 3, 2022

Welcome to 2022: The Winds of Change

Welcome to 2022! We can't imagine a more transformative year for America. After two years of unprecedented government actions, the winds of change are blowing hard. The economy has been buffeted by short-term factors since 2020; this year, long-term fundamentals should re-assert themselves as the most important drivers of economic and financial performance.

First, the obvious: COVID and COVID-related rules should have much less influence on our lives twelve months from now than they do today. Seems like everyone knows someone who has tested positive (vaccinated, or not). Cases are at record highs, but hospitalizations and deaths are not. This is good news.

Second, President Biden's Build Back Better plan to increase entitlements and taxes seems mired in the DC muck. It's still possible that a plan totaling something like $1.5 trillion or more gets passed. But we think that's unlikely. More likely? Either nothing at all, or a much smaller bill. Put yourself in the shoes of relatively moderate Democrats in Congress – being forced to vote on tax hikes in an election year is difficult, and reluctance is going to grow every week as 2022 unfolds.

Third, the mid-term election in November could dramatically limit the ability of the Biden Administration to get much done in 2023-24. Given the history of mid-term elections as well the election returns in 2021 (gubernatorial and state legislative races in New Jersey and Virginia, as well some races elsewhere), the most likely possibilities seem to be either a GOP Wave or a GOP Tsunami. Either would mean no more tax hikes and that all legislation would have to be bipartisan to pass, which should mean lots of gridlock.

Fourth, look for an economic contest between waning fiscal "stimulus" packages, rising employment and healing supply chains. The excess demand from massive government spending will decline in 2022, while supply chains appear to be healing. Business inventories are finally rising again (they need to do so after falling dramatically in 2020 and earlier in 2021) and it's hard to imagine chipmakers not ramping up production to meet enormous demand.

Fifth, the Federal Reserve has its work cut out for it. It's most recent "dot plot" suggests three rate hikes this year (25 basis points each) and the futures market for federal funds agrees. The big question is whether Fed policymakers have the guts. Given that the Biden Administration is trying to pack the Fed with as many doves as they can appoint, we'd take the "under," and think the Fed will probably raise rates only twice this year.

Sixth, it's important to watch profits, which are at an all-time high. Remember, some of the strength in corporate results of late is due to temporary and artificial government spending blowouts. Meanwhile, more jobs, lower unemployment, and lower participation could mean higher wages take a slice out of corporate earnings. We still expect profit growth of 10% or more in 2022, but this is well below what we saw in 2021.

And last, of course, are the wildcards: Will China invade Taiwan? Will Russia invade Ukraine? We think the former is very unlikely, with the possible exception of some tiny uninhabited islands off the coast of Taiwan. The latter? If your name isn't Vladimir Putin, you don't know the answer. Either of these could cause a temporary sell-off, but neither would change the fundamentals. The winds of change are still tailwinds.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
1-3 / 9:00 am	Construction Spending – Nov	+0.7%	**+0.7%**	+0.4%	+0.2%
1-4 / 9:00 am	ISM Index – Dec	60.2	**60.3**		61.1
afternoon	Total Car/Truck Sales – Nov	13.1 Mil	**12.0 Mil**		12.9 Mil
afternoon	Domestic Car/Truck Sales – Nov	10.7 Mil	**9.5 Mil**		10.4 Mil
1-6 / 7:30 am	Initial Claims – Jan 1	199K	**198K**		198K
9:00 am	ISM Non Mfg Index – Dec	67.0	**67.6**		69.1
9:00 am	Factory Orders – Nov	+1.5%	**+1.2%**		+1.3%
1-7 / 7:30 am	Non-Farm Payrolls – Dec	400K	**390K**		210K
7:30 am	Private Payrolls – Dec	370K	**370K**		235K
7:30 am	Manufacturing Payrolls – Dec	33K	**25K**		31K
7:30 am	Unemployment Rate – Dec	4.1%	**4.0%**		4.2%
7:30 am	Average Hourly Earnings – Dec	+0.4%	**+0.4%**		+0.3%
7:30 am	Average Weekly Hours – Dec	34.8	**34.8**		34.8
2:00 pm	Consumer Credit– Nov	$22.5 Bil	**$22.0 Bil**		$16.9 Bil

The Weiss Report
Vol 25 Num 1
Enclosure #3

What is Shrinkflation?

By Leonard Weiss

We first mentioned inflation in our commentary from April of last year. The coverage of the inflation increased throughout last fall as monthly readings climbed steadily. The Consumer Price Index (CPI) rose just under 7%. 2021 saw prices for goods and services rise by the largest annual rate in nearly 40 years. This is not a good thing.

The easiest way to see inflation at work is that prices rise for almost anything we buy. The price hikes can be a reaction to the underlying cost of material or labor rising and are passed on to us. There are also indirect costs that can rise and need to be passed on. Shipping and the cost of fuel for the shipper are great examples. Also, the amount of economic activity in the post Covid age also contributes to the rise in the cost of goods/services we consume. If the price of a product or service can be raised without affecting sales, the company is said to have "pricing power". Even the various "Dollar" stores are raising prices!

But there is another way of seeing how inflation erodes the purchasing power when we buy goods. It's called shrinkflation. This occurs when manufactures think raising the price of the product would affect final sales. Their market research would indicate that a buyer would reduce their purchase of the product if they price were higher at checkout. Companies that cannot raise their prices are said to be lacking "pricing power".

When this dilemma arises, the manufacturer would choose to keep the price the same, but make the content smaller, thus provide less product at a same price. This strategy works because consumer pays about the same price but the manufacture provides less product recouping its rising cost of production.

Here are ways you can see Shrinkflation at work:

Years ago, I read that consumers just don't want to pay over $2.50 for canned tuna. When I first read this the can contained 8oz. of tuna. Then 7 oz, then 6 oz, and last month had 5 oz. But it's still selling around $2.50.

If you buy NABISCO Oreo cookies you should notice the cookie is smaller than in times past and there are fewer in the pack. But the price has stayed pretty much the same.

We went to a Japanese Hibachi restaurant on New Year's night. The price and portion of their delicious chicken fried rice was unchanged. But the amount of chicken used was less than our prior visit last summer.

Any portion of potato chips or breakfast cereal also show a steady price but are in smaller packages that weigh less.

Go to almost any restaurant you like and take note that if the menu has last summer's price that the portion is likely been made smaller because the owner knows you would try a different restaurant is he raised the price.

It even effects a small food item like Kraft's Philadelphia Creem Cheese. The individual service package (a tube that opens at either end) was about 3 inches long weighing 1.5 ounces and sold for $0.99 recently. This week it the individual serving (now a cup with a vacuum seal) containing 1 ounce which sells for...you guessed it...$0.99!

In summary: Inflation is an insidious monetary condition that devalues the currency and a consumer's purchasing power. It can be seen in when we shop for good and or services and see the price higher than before. But, it can also be seen when the price is unchanged but the amount purchased is reduced from a prior time. I call this Shrinkflation.