ALASKA PERMANENT CAPITAL MANAGEMENT
Registered Investment Adviser

Mid-Cycle Investing Requires Selectivity

APCM's 2022 Market Outlook: 5 Key Takeaways

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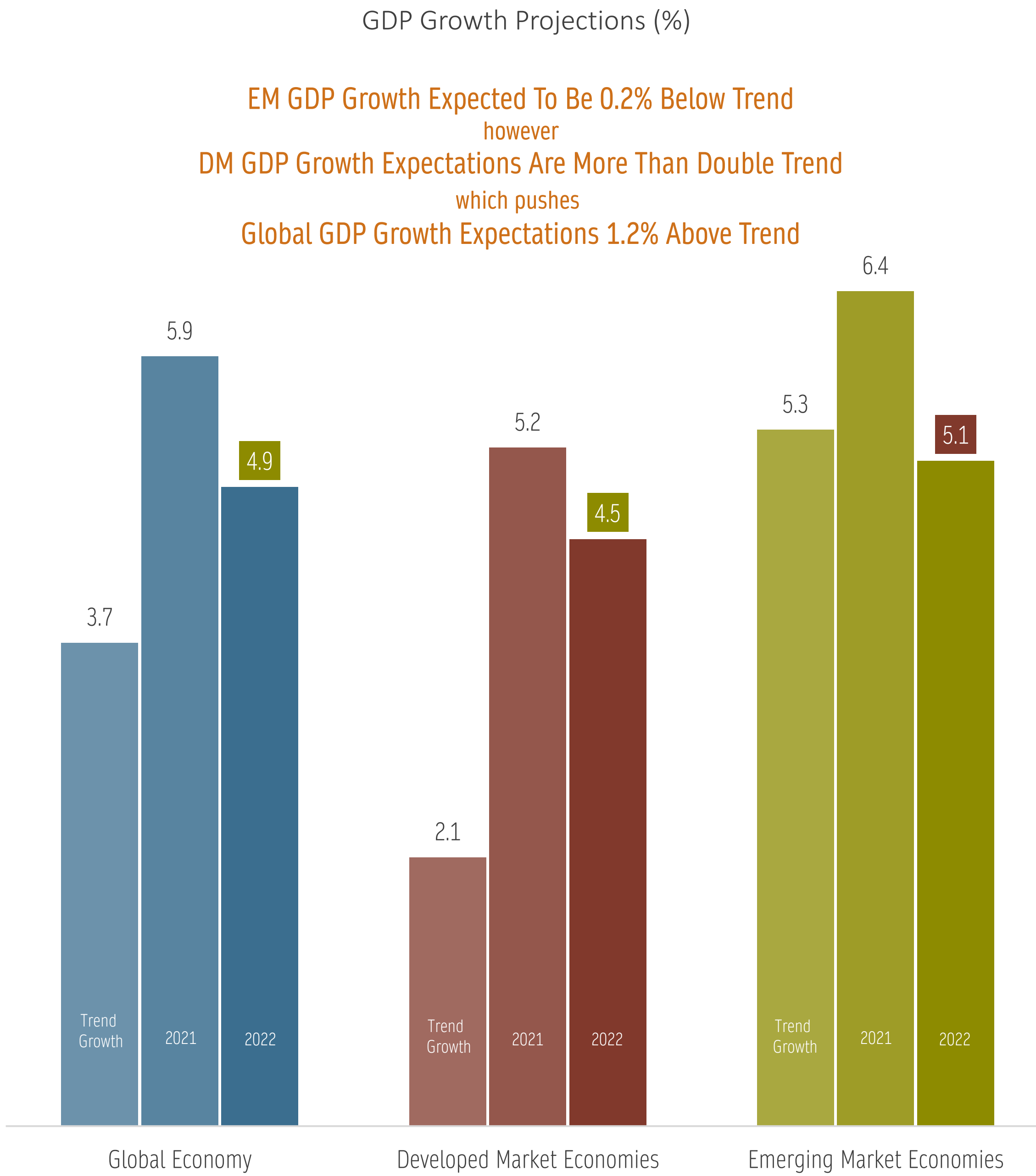
1. Slower, Not Slow

The global economic picture for 2022 looks bright heading into the year, with real global GDP growth expected at 4.9% - slower than 2021 at 5.9%, but still above the 3.7% trend in place prior to the COVID crisis.

Extremely accommodative policies in response to the pandemic continue to provide favorable conditions for business and consumer spending, which we expect will be the main driver of growth for 2022.

The exception to the above trend growth outlook is emerging markets in aggregate, driven by significant slowdown in China growth, the largest emerging market economy.



Source: Bloomberg, IMF
Trend growth denotes the 10-year pre-pandemic average annual growth rate.

1-Year Return for Various Rate Changes	U.S. 10-Yr	UK 10-Yr	FR 10-Yr	JPY 10-Yr	DE 10-Yr
+100 bps	-6.08%	-7.45%	-7.94%	-7.83%	-8.08%
+75 bps	-4.18%	-5.50%	-5.81%	-5.94%	-6.01%
+50 bps	-2.24%	-3.50%	-3.62%	-3.96%	-3.88%
+25 bps	-0.23%	-1.45%	-1.37%	-1.90%	-1.70%
Current Yield	1.83%	1.23%	0.36%	0.15%	-0.02%
-25 bps	3.90%	2.79%	3.30%	2.50%	2.83%
-50 bps	6.04%	4.98%	5.72%	4.85%	5.19%
-75 bps	8.22%	7.72%	8.21%	7.31%	7.60%
-100 bps	10.45%	9.50%	10.77%	9.89%	10.07%

Source: Bloomberg

2. Risk Control to Struggle

Central banks are reducing the amount of economic support they are providing by increasing interest rates and reducing bond purchases giving strong economic growth and inflationary pressure. Higher interest rates will exert downward pressure on bond prices in 2022. With yields as low as they are, rates do not need to rise much to push total return into negative territory.

The 10 Year U.S. Treasury currently yields 1.83% and for every 1% rise in interest rates price would be expected to fall 6.08%. Currently, most strategist are not forecasting a full 1% rise in interest rates so the total return on fixed income investments will likely be modestly negative.

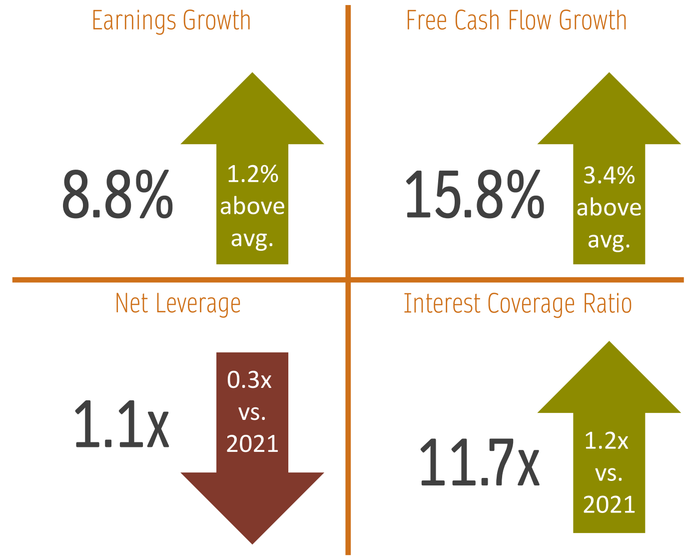
However, it is still important to hold bonds in a well-diversified portfolio as a hedge against an equity market or economic relapse. If rates decrease by 1% prices would rise by 10.45%.

3. Fundamentals Support Risk Assets

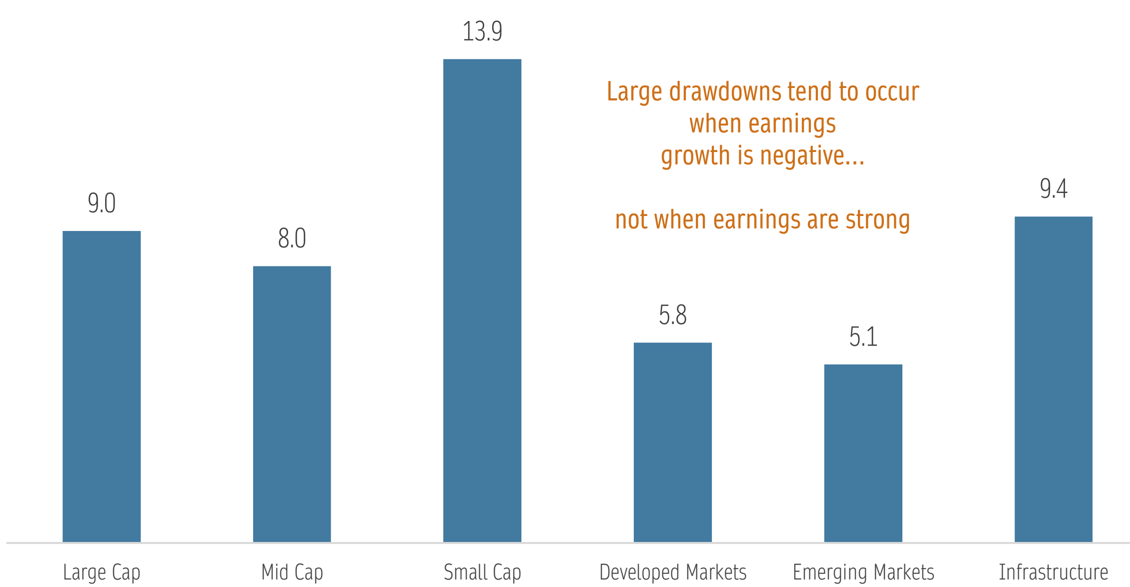
Stock fundamentals are key metrics for a company, such as cash flow and return on assets. This data impacts the price or perceived value of a stock. Corporate fundamentals are currently strong, buoyed by a combination of fiscal and monetary policies since the onset of the pandemic, low interest rates, and strong earnings in 2021. As depicted in the graphic, key measures of corporate health are expected to remain robust.

Earnings growth is important because it is one contributor to total returns, and historically the stock market usually doesn't peak until earnings peak. As we look into 2022, earnings are expected to be positive across the global stock market. Small companies have the strongest outlook while emerging markets have the weakest.

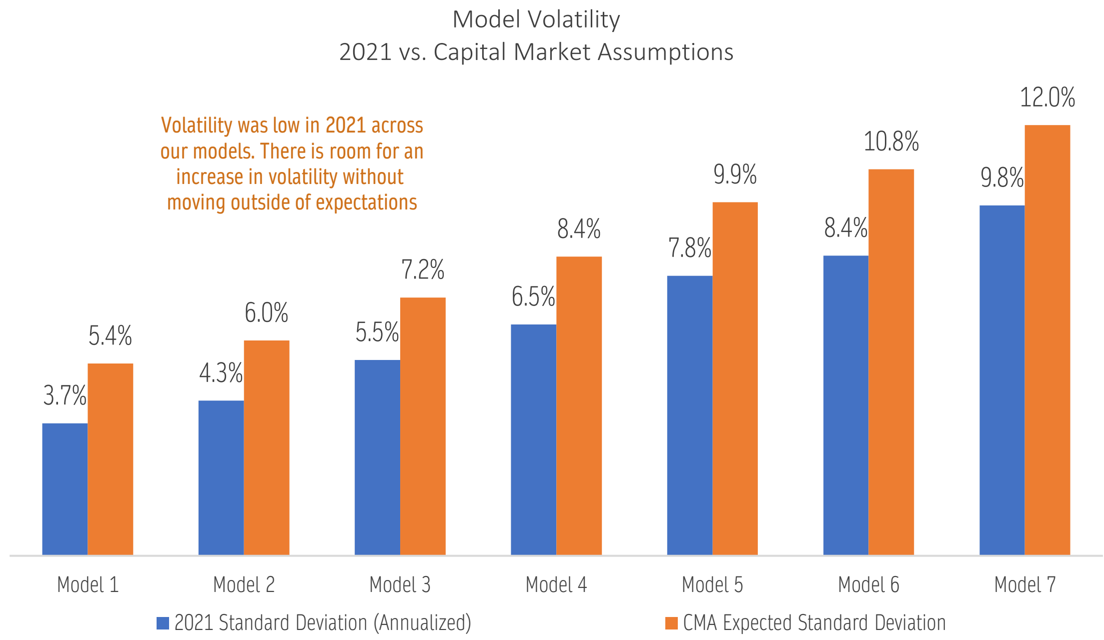
2022 S&P 1500 Corporate Health Expectations

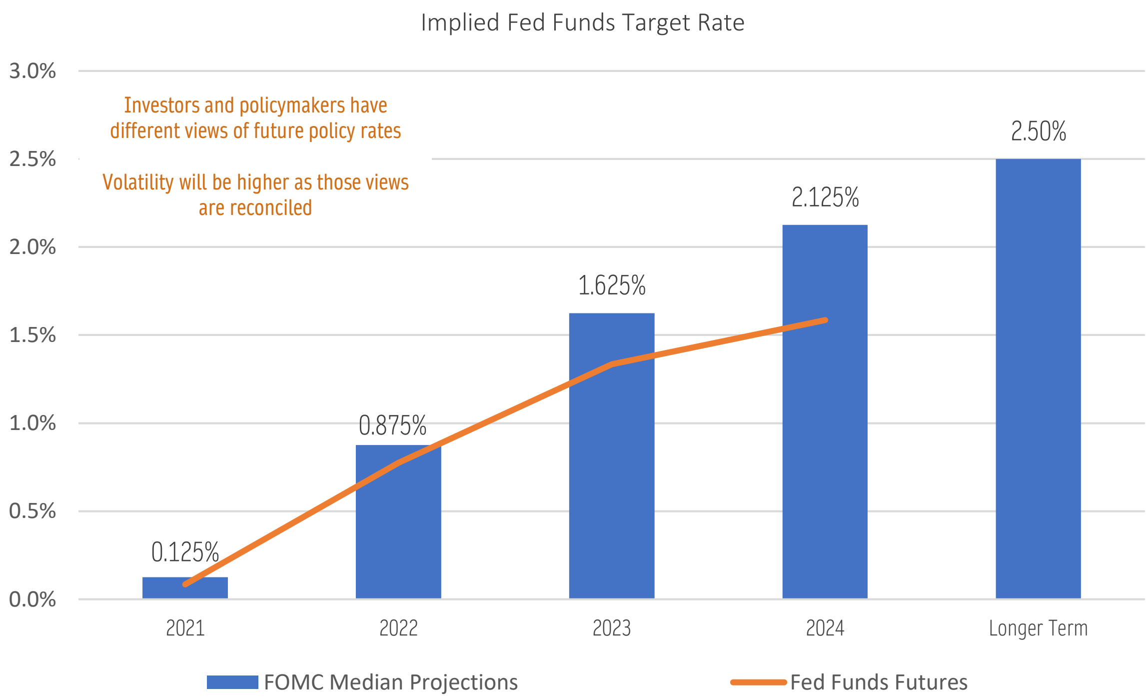


2022 EPS Growth Estimates



Source: FactSet





Source: Bloomberg, Windham Portfolio Advisor, The Federal Reserve

4. Expect More Volatility Relative to 2021

We expect uncertainty to be elevated in 2022, which will lead to higher volatility than we've seen in 2021 driven by high valuations (some segments of the stock market are expensive) and inflation that may come in uncomfortably high before it moderates.

However, significant downside risk is unlikely unless the Fed shifts from removing accommodation to meaningfully slowing growth to combat inflation. Additionally, investors and policymakers will need to see progress on supply chain issues, labor force tightness, and wage pressures.

During the portfolio construction process, our team assesses long-term return outcomes utilizing both low and high volatility regimes. This allows us to assess client's ability to meet their stated goals and objectives despite inevitable market volatility. Volatility was low in 2021 across all our strategies and there is room for an increase in volatility without moving outside of expectations.

5. Exposure Matters Now

Last year, during the recovery phase of this cycle, simply owning more stocks was sufficient to boost portfolio returns. Now that we have entered the expansion phase (economic growth slower, not slow), being more thoughtful about exposure is necessary.

We look to emphasize exposure to companies that have strong sales-to-labor ratios given the tight labor market and wage pressures. Additionally, we are adding exposure to areas of the equity market that have either better valuations, strong company fundamentals or lower relative volatility.

Exposures in U.S. small companies, Japanese stocks, natural resource companies, and infrastructure stocks are the most attractive using this framework.