Q1 2022 NEWSLETTER

IMPACT

FINANCIAL STRATEGIES

January 4, 2022

2022. The Year of the Tiger. Catch-22, or why the market feels like one. The length of a cricket pitch. 22 letters in the Hebrew Alphabet. The starting # of starters in an NFL game or the total squad size in Australian rules Football. Alabama was the 22nd state, and Grover Cleveland was the 22nd President of the United States (and interesting, also the 24th). Super bowl 22 (XXII) saw the Washington Redskins beat the Denver Broncos 42-10, and the 1992 Barcelona Olympics were the 22nd in modern times. Plus 22 was my High School # for Football and Basketball (and totally irrelevant here... but still…)

As I was trying to come up with some fun and catchy usages of **2022**, or how to snag your interest, I just couldn't find the right "hook." I know these newsletters are designed to discuss the markets, but this intro is usually just a note from me. As this is the 1st quarter of a new year, I also try to share my (personal) perspective of the last year and my reflections of the last 12 months. And it suddenly occurred to me that one # summarized my 2021. 22 was it. I went on 22 trips during 2021. Only a few of them were "vacation." As the world tried to re-open and business travel started again, combined with some major family health issues and a few major client milestone celebrations, I found myself constantly either packing or unpacking for the next "thing." 2021 was one of the most challenging and scary years of my life. I could not have gotten through it without the support from Stephanie, from my team, and without all the support from you; my friends and my clients. One highlight was being able to see so many of you in person again. It reminded me of why it's all worth it.

As I reflect on the pace of 2021 for all of us at IFS and our interactions with you, there was a clear common thread interwoven. It seems like everyone felt overwhelmed and overloaded in 2021. Maybe it was making up for lost opportunity of 2020, or just saying "yes" to too many requests. But 2021 felt hard, and there were many lost loved ones. For me, and for many of you, it was harder than 2020 on a personal level. Economically, things are booming in many areas; some of you of had record years, or finally exited your business in a meaningful (and highly profitable) way. However, for many of you, the double whammy of being partially shut down, and the price of labor (assuming you can even find the right team members) has wreaked havoc on your business. It just goes to show that there really is no such thing as "The Economy," and each of us are on our own journey. At IFS, we are proud to be walking alongside you as you progress through *your* journey, and as you continue to work and live for more **Moments of Impact** with your family, your loved ones, and your communities. You inspire and encourage us. Thank you.

Finally, I want to share some words of intention for 2022. I was able to spend New Year's Eve with some very dear friends, and some new friends. We each went around the table and had to share one word to embody our intention for 2022. They were so inspiring and hopeful, I realized there is nothing I can say to do a better job of sending you into 2022. So, I will share them here and wish you a 2022 full of:

Curiosity   Being (vs Doing)   Enough   Joy   Resonation   Rebounding   Discovery

Enjoy! And Happy New Year!!!

Justin

Updates regarding your Team at Impact Financial Strategies (IFS)

Before moving on to the market review I wanted to share with you some changes and service enhancements we are making in order to better serve you. As we all know, one positive thing that happened from the pandemic induced lockdowns was the speed and scope that technology helped us do great work; from anywhere. So, we have expanded and shifted our team both virtually and physically. While we have even more exciting changes to announce over the coming months, I wanted to highlight a few of these changes. I also want to say thanks for your patience as we work to upgrade our service model for you. Please feel free to take a deeper look at the background of our team on our "About Us" link on our website: https://www.impactfinancialstrategies.com/about-us.

- **Major Accolades and Shifting of Roles for Deborah Lacey, CPA, CFP®, MST**

We wanted to share the exciting news that Deborah was selected as Daniels Ethics Initiative Faculty Fellow at the Monfort College of Business at the University of Northern Colorado. As an integral part of the IFS team, and working closely with you to create Strategic Financial Plans and related Investment proposals, she continues to be instrumental in helping you achieve your personal objectives and goals. Our IFS Team is excited for Deborah as she serves in her passion to mentor and train the next generation of financial advisors as a Senior Lecturer of Accounting and Finance while also remaining here as a part of the IFS Team. When you speak with her next in your call into IFS or via email, please extend her your heartiest congratulations for this tremendous accomplishment and give-back to Northern Colorado. The connection to our local community embodies the very essence of Impact Financial Strategies, and is a reflection of our belief in service first.

- **The addition of two new IFS team members (In Office): Svetlana Koltun and Kristi Whonsetler**

Svetlana Koltun – Operations Manager and Senior Client Service Associate (SCSA).

> As I write this, Svetlana is enjoying her very first days with IFS. Rest assured, however, she comes with over 25 years of industry experience and she will add an element to the overall experience I have been trying to refine for years! She will be the one making sure that everything runs smoothly behind the scenes and will be very hands on as it comes to anything account and service related.

Kristi Whonsetler – Administrative Assistant and Branch Associate.

> Kristi joined us just over a 1 month ago, and she is the primary point of contact when you call in. She will be directing all the communications as well as helping with all things administratively for you. Kristi will be setting and confirming appointments and ensuring your interactions with IFS are thorough, efficient, and enjoyable. It has been a pleasure to get to know her better, and I am sure you will enjoy interacting with her.

We are also continuing to work with our Virtual Client Service Associate: Tracie Bailey, who has been instrumental in assisting with all things related to service and account opening, transferring, and moving of assets around on your behalf. We continue to expand that relationship, and I know she has enjoyed working with you.

Quarterly Insights – January 2022

Markets Again Overcome Pandemic Uncertainty and Fed Tapering to Hit New Highs

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.

Q4 and Full Year 2021 Performance Review

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.

International Equity Indexes	**Q4 Return**	**2021 Return**
MSCI EAFE TR USD (Foreign Developed)	2.74%	11.78%
MSCI EM TR USD (Emerging Markets)	-1.24%	-2.22%
MSCI ACWI Ex USA TR USD (Foreign Dev & EM)	1.88%	8.29%

Source: YCharts

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.

Commodity Indexes	Q4 Return	2021 Return
S&P GSCI (Broad-Based Commodities)	1.51%	40.35%
S&P GSCI Crude Oil	0.24%	55.01%
GLD Gold Price	4.09%	-3.75%

Source: YCharts/Koyfin.com

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.

US Bond Indexes	Q4 Return	2021 Return
BBgBarc US Agg Bond	0.01%	-1.54%
BBgBarc US T-Bill 1-3 Mon	0.01%	0.04%
ICE US T-Bond 7-10 Year	0.44%	-3.07%
BBgBarc US MBS (Mortgage-backed)	-0.37%	-1.04%
BBgBarc Municipal	0.72%	1.52%
BBgBarc US Corporate Invest Grade	0.23%	-1.04%
BBgBarc US Corporate High Yield	0.71%	5.28%

Source: YCharts

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.

As always, at Impact Financial Strategies, we understand the risks facing both the markets and the economy, and we are committed to helping you effectively navigate this still-challenging investment environment. Successful investing is a marathon, not a sprint, and even intense volatility is unlikely to alter a diversified approach set up to meet your long-term investment goals.

Therefore, it's 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.

Sincerely,

Justin

Justin G. Davis, MBA, CFP®

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FINANCIAL STRATEGIES

A Game of Multiples (Updated 1/5/22)			
Market Influence	Current Situation	Things Get Better If...	Things Get Worse If...
Fed Tightening	Markets expect the Fed to end QE in mid-March and for three rate hikes in 2022 (June, September, December).	The Fed backs off three rate hikes in 2022.	The Fed reinforces at least three hikes are coming (if not four).
Inflation	Inflation remains at multi-decade highs and still tops most investors' and voters' list of concerns.	Inflation begins to back off the recent highs and politicians begin to lose focus on the issue.	Omicron extends supply chain issues and inflation remains well above the Fed's target (> 4%).
Omicron	Cases are hitting new daily highs but hospitalizations remain low, and vaccines and boosters are helping to prevent widespread lockdowns.	Omicron burns itself out quickly and renders the vast majority of the population with protection against future illness (essentially ending the pandemic)	Omicron cases get so big that it forces lockdowns and hurts growth, but not enough that the Fed backs off its tightening schedule.
Expected 2022 S&P 500 EPS	**$226**	**$230**	**$215**
Multiple	20X-21X	21X	18X
S&P 500 Range	4,520-4,746	4,830	3,870
S&P 500 Target (Midpoint)	4,633	4,830	3,870
Change from today	-3.3%	0.77%	-19.3%

DISCLOSURES

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The S&P 500 is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. stock market.

The Dow Jones Industrial Average (DJIA), commonly known as "The Dow" is an index representing 30 stocks of companies maintained and reviewed by the editors of the Wall Street Journal.

The NASDAQ Composite Index is an unmanaged index of securities traded on the NASDAQ system.

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 mid-sized companies, reflecting the distinctive risk and return characteristics of this market segment..
Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represent approximately 8% of the total market capitalization of the Russell 3000 Index.

The S&P GSCI is a composite index of commodities that measures the performance of the commodity market. S&P GSCI Gold is an index tracking changes in the spot price for gold bullion. S&P GSCI Crude Oil is an index tracking changes in the spot price for crude oil. GLD is a gold index fund based on gold and holds gold and/or cash as its only assets, but shareholders are not guaranteed to receive physical gold in exchange for their shares.

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 States & Canada. The EAFE consists of the country indices of 22 developed nations.

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.

The MSCI ACWI (All Country World Index) is a free floating-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets.

The Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixedrate taxable bond market.

The Barclays US T-Bill index measures the performance of public obligations of the U.S. Treasury that have a remaining maturity of greater than or equal to 1 month and less than 3 months.

The ICE U.S. Treasury 7-10 Year Bond Index is market value weighted and is designed to include U.S. dollar denominated, fixed rate securities with minimum term to maturity greater than or equal to seven years and less than ten years.
Barclays Capital U.S. MBS Index measures the performance of investment grade fixed-rate mortgage-backed pass-through securities of GNMA, FNMA, and FHLMC.

The Barclays Capital Municipal Bond is an unmanaged index of all investment grade municipal securities with at least 1 year to maturity.
The Bloomberg Barclays US Corporate Bond Index measures the investment grade, fixed-rate, taxable corporate bond market. It includes USDdenominated securities publicly issued by US and non-US industrial, utility and financial issuers.

The Bloomberg Barclays U.S. Corporate High Yield Bond Index is composed of fixed-rate, publicly issued, non-investment grade debt, is unmanaged, with dividends reinvested, and is not available for purchase. The index includes both corporate and non-corporate sectors. The corporate sectors are Industrial, Utility and Finance, which include both U.S. and non-U.S. corporations.

Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance. Individual investor's results will vary. Diversification and asset allocation do not ensure profit or protect against loss. Holding investments for the long term does not insure a profitable outcome. Investing involves risk and you may incur a profit or loss regardless of the strategy selected.