MARKET AND ECONOMIC
REVIEW & OUTLOOK

AN UPDATE FROM THE ADVISORS AT GASKIN ASSET MANAGEMENT ***CHARLOTTE, NORTH CAROLINA***

The following letter was written for you by the undersigned. The opinions expressed are those of your advisors at Gaskin Asset Management and do not necessarily reflect the opinions of Raymond James or its affiliates. We know this is a long letter, but we hope you will invest five minutes in reading it. Thank you.

LIBERATION FROM LOCKDOWNS

We believe this year will mark the end of government enforced COVID-19 restrictions as the virus reaches endemic status. In a recent piece in *The Wall Street Journal*., Stephen Fidler and Eric Sylvers note that while Omicron is proving to be far less dangerous to infected individuals, it is more highly transmissible.[i] In response to this new reality, governments worldwide, such as Austria, Denmark, and even the United Kingdom are relaxing restrictions even as case counts rise. After nearly two years of harsh restrictions, world governments are beginning to recognize that life must return to normal despite an ever-present virus.

While we do not have any special expertise regarding viruses, we do have some experience in reading trends and patterns and calculating odds of success. And we also have considerable experience in observing human decision-making through watching investors act on what they believe to be in their own best interest. It seems to us that the virus is peaking like a dot-com stock in late 1999. Like the dot-com's of the late '90's, we do not expect the virus to disappear overnight but it is changing and the decisions we make going forward will surely need to adapt also. It is important to pause here for a moment of clarity. It is not specifically the change in the virus that will impact the markets directly. Rather, it is the response of our government's fiscal policy, the Federal Reserve's monetary policy, and our decisions as individual consumers and investors that will determine how the coming months and years will play out in the investment markets. Unfortunately, much of this is out of your and our control. The table has already been set for a generous serving of inflation. As we predicted in earlier newsletters, inflation was the inevitable outcome of loose fiscal and monetary policy. Of course, disrupted supply chains brought about by an economically toxic mix of shutdowns, reorganizations, lockdowns, travel bans and all the disconnects from our normally functioning economy had a significant impact on price increases also. The supply chain will correct itself. That's how free markets work. For instance, Amazon just announced that it is increasing its annual U.S. Prime subscription rate by 17% to offset rising shipping and wage costs.[ii] We believe it is the fiscal and monetary policy decisions and the economy's reaction that will greatly influence the remainder of this year.

MARKET SUMMARY

Nearly two full years into the COVID-19 pandemic, the U.S. stock market roared ahead reaching new highs in 2021. The S&P 500, after a double-digit return of 18.40% in 2020 continued its tear throughout 2021 finishing with a total return of 28.71% including dividends. [See chart below] Unlike 2020, the market rose broadly across U.S. economic sectors with double-digit gains in all major S&P 500 sectors. Corporate profits for the third quarter were up 20.7% when compared to 2020 and more than 22% when compared to the pre-COVID peak reached at the end of 2019.[iii] In spite of the robust market performance of the last two years, investors are becoming increasingly anxious. Barron's Ben Levisohn notes that the University of Michigan's Index of Consumer Sentiment dropped to 70.6 last year.[iv] This is a particularly interesting indicator since the last time it dropped to this level was 2008, when the S&P 500 index dropped 38%. Given the economy's strength at this point, it's a little difficult to understand the gloomy mood. Then again, we are two years into a pandemic that has taken more lives and lasted longer than most imagined. Oh, and did we mention that most everything costs more today?

GASKIN ASSET MANAGEMENT

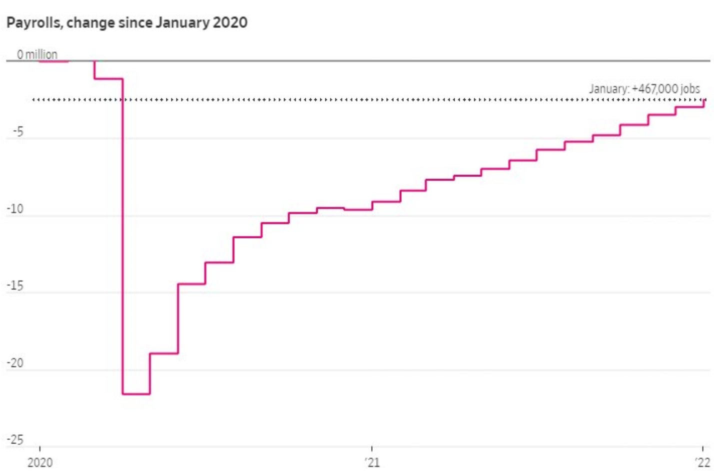
7615 Colony Road, Suite 100, Charlotte, NC 28226
(704) 544-7990 • (800) 407-2249 • (704) 544-7454 (fax)
www.GaskinAsset.com

	Total % Return			
SELECT MARKET INDEXES & SECTORS	**December 2021**	**2021 4th Quarter**	**2021 Year to Date**	**2020 Year to Date**
S&P 500	4.48%	11.03%	28.71%	18.40%
Dow Jones Industrial Average	5.53%	7.87%	20.95%	9.72%
Russell 1000 Value	6.31%	7.77%	25.16%	2.80%
Russell 1000 Growth	2.11%	11.64%	27.60%	38.49%
Russell 2000 Small Cap	2.23%	2.14%	14.82%	19.96%
MSCI EAFE International	5.12%	2.69%	11.26%	7.82%
S&P 500 Consumer Discretionary Sector	-0.25%	12.84%	24.43%	33.30%
S&P 500 Energy Sector	3.08%	7.97%	54.64%	-33.68%
S&P 500 Financials Sector	3.33%	4.57%	35.04%	-1.69%
S&P 500 Health Care Sector	8.98%	11.17%	26.13%	13.45%
S&P 500 Information Tech Sector	3.38%	16.69%	34.53%	43.89%
Bloomberg US Aggregate Bond	-0.26%	0.01%	-1.54%	7.51%
Dow Jones Crude Oil	13.96%	2.84%	62.24%	-60.33%
Dow Jones US Real Estate Investment Trust	9.01%	17.22%	45.91%	-11.20%

Source: Morningstar; Performance reflects price returns as of market close on Dec. 31, 2021.

ECONOMIC SUMMARY

Unemployment numbers, which had spiked in the Spring of 2020, continued to decline as economic activity began to return to normal last year. The unemployment rate declined to 3.9% in December according to the U.S. Bureau of Labor Statistics (BLS) which is nearly where it was before the pandemic.[v] At 61.9%, labor force participation remained 1.5% below the February 2020 level. As evidenced in the nearby chart, employment numbers have steadily climbed to a point approaching pre-pandemic levels.

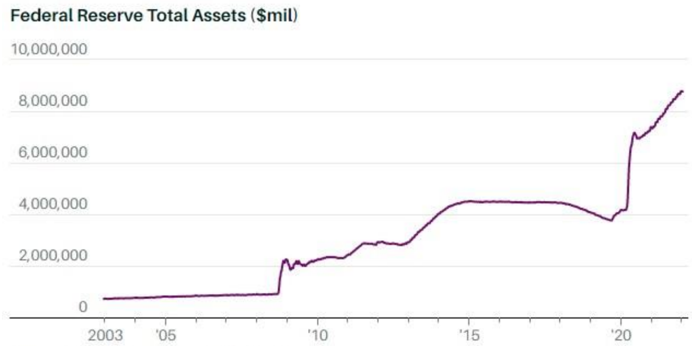


Source: The Wall Street Journal. February 4, 2022

Inflation as measured by the Consumer Price Index for All Urban Consumers (CPI-U) continued to climb throughout last year ending up 7.0% representing the largest 12-month increase since June 1982.[vi] The energy index rose 29.3% last year while food index increased 6.3%. You probably don't need the U.S. BLS to tell you that things cost more today. Whether it's a stop at the gas station, a trip to the grocery store, dinner out, or the purchase of a new car, you have probably noticed the following three economic factors: 1) There appears to be a shortage of workers. 2) Shelves are less fully stocked, and more items are on backorder. 3) Virtually everything costs more than it did before the pandemic. By the way, as a little reminder, the inflation rate was less than 2% before the pandemic. Today, with inflation expanding to levels unseen since the early 1980's, we expect money market rates, mortgage rates, and bond yields to climb but they remain at historically low levels for now.

There are many economic factors to blame for inflation at this stage. As stated in previous newsletters, we believe the Federal Reserve's loose monetary policy as evidenced by the chart nearby may well be the largest driving factor for current and projected inflation. The Fed increases the money supply (M2) by injecting dollars into the economy.

This is accomplished through asset purchases as noted in the chart nearby. Since it has been both loose fiscal policy and loose monetary policy that has created the current level of inflation, we believe it will take the unwinding of those policies to return inflation to pre-pandemic levels. On January 26, Fed Chairman Jerome Powell indicated the Fed's intention to begin raising its short-term interest rate target in March in addition to a plan to begin reducing the nearly $9 trillion balance sheet.[vii]



Source: Federal Reserve Bank of St. Louis

A ROUGH START FOR 2022

Volatility was the trend for domestic and foreign equity markets in January, as well as the domestic bond market, albeit to a lesser extent. The broad-market S&P 500 flirted with a 10% pullback, for example. The ups and downs in the domestic equity indices stabilized briefly ahead of the Fed's meeting, which left short-term interest rates unchanged, but turned skittish shortly after Fed Chair Jerome Powell announced there was "quite a bit of room" to raise rates in the near future. The market seemed to have priced in three hikes this year but may have presumed the announcement meant the central bankers planned two more moves in response to inflationary pressures, explains Raymond James Chief Investment Officer Larry Adam. Powell said that no decisions have been made as yet, but he could not rule out raising rates more aggressively if warranted.

With uncertainty regarding inflation, economic slowing (though it remains at a healthy growth rate) and a Fed tightening cycle upon us, we may be in for several months of volatility before the market can resume its uptrend, notes Joey Madere, senior portfolio strategist, Equity Portfolio & Technical Strategy. Headwinds also include geopolitical tensions between Russia and Ukraine as well as uncertainty over the direction of U.S. policy. In Washington, D.C., the current focus appears to be on economic competition and China policy, which has the potential to boost next-generation technology and domestic manufacturing, adds Washington Policy Analyst Ed Mills.

BOTTOM LINE

As we approach the two-year anniversary of this bull market where, historically, returns become more moderate, volatility increases, and investors become more discerning (e.g., selectivity becomes critical), we believe it is important that investors remain patient, committed to their investment strategy, and avoid any knee-jerk portfolio moves. We believe inflation will persist as long as demand for goods and services outstrips supply which will continue to be influenced by supply chains in need of realignment and excess liquidity. We remain hopeful that the pandemic will continue to recede in the coming months. We wish you continued safety and good health in the days to come. Thank you for your continued faith and confidence.

Robert J. Gaskin, CIMA®
Managing Principal
Senior Financial Advisor, RJFS

Paul A. Gaskin
Senior Portfolio Manager
Senior Financial Advisor, RJFS

The information contained in this report does not purport to be a complete description of the securities, markets, or developments referred to in this material.

The information has been obtained from sources considered to be reliable, but we do not guarantee that the foregoing material is accurate or complete. Any information is not a complete summary or statement of all available data necessary for making an investment decision and does not constitute a recommendation.

This information is not intended as a solicitation or an offer to buy or sell any security referred to herein.

Investments mentioned may not be suitable for all investors.

Stocks offer long-term growth potential, but may fluctuate more and provide less current income than other investments. An investment in the stock market should be made with an understanding of the risks associated with common stocks, including market fluctuations.

*Government bonds in this example are represented by the Ibbotson U.S. Long-Term (20-Year) Government Bond Index. Bond price is the capital appreciation (price return) of the index. Bond yield is the yield to maturity of the index. An investment cannot be made directly in an index.

**S&P 500 Index – [a registered trademark of the McGraw Hill Companies] is an unmanaged index of common stocks representing 500 industrial, utility, transportation and financial companies of the US markets (mostly NYSE issues).

Investment Management Consultants Association (IMCA®)is the owner of the certification marks "CIMA®", and "Certified Investment Management Analyst®." Use of CIMA® or Certified Investment Analyst® signifies that the user has successfully completed IMCA's initial and ongoing credentialing requirements for investment management consultants.

RJ #4275944

---

[i] Fidler, Stephen & Sylvers, Eric, "Falling U.S. Hospitalizations, Infections Bolster Hope Omicron Wave Is Waning", The Wall Street Journal. January 31, 2022
[ii] Reuters, Morning News Call, "Earnings Roundup", February 4, 2022, p.1
[iii] Wesbury, Brian, "S&P 5,250 – Dow 40,000", First Trust Monday Morning Outlook, December 13, 2021 p.1
[iv] Levisohn, Ben, "It's the Best Market Run in Years. Why Is Everybody So Glum?", Barron's, January 3, 2022, p.5
[v] News Release, Bureau of Labor Statistics, "The Unemployment Situation – December 2021", January 7, 2022
[vi] News Release, Bureau of Labor Statistics, "Consumer Price Index – December 2021", January 12, 2022
[vii] Derby, Michael, "Jerome Powell's Comments Over the Past Year Show Mounting Inflation Concerns", The Wall Street Journal., January 26, 2022.