

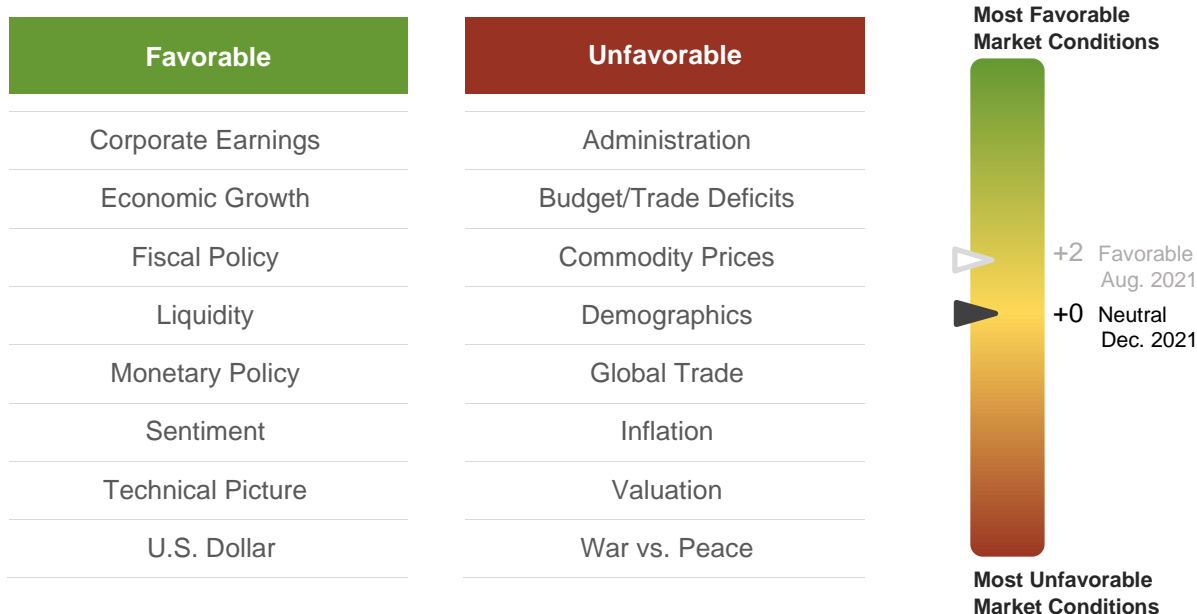


Market Gauge

December 2021

GAUGE REMAINS NEUTRAL INTO 2022; INFLATION KEY

Here, we sort 16 building blocks of market strength into two categories: favorable to market conditions, or unfavorable. We use the difference between the two to gauge the overall environment for U.S. stocks. We are staying Neutral (+0) into year-end as the market seeks balance between key headwinds and tailwinds.



RISKS PRESENT BUT GROWTH OUTLOOK STRONG

As it stands now, our categorization of the market's strengths and weaknesses is evenly distributed. However, we remain largely positive due to some of our more important categories falling on the "Favorable" side of the register: **Monetary Policy** (still-accommodative despite moves to tighten), **Liquidity** (ample), **Corporate Earnings** (persistently strong), and **Sentiment** (cooling). Further, tracking estimates for Q4 **Economic Growth** are robust (pre-Omicron, at least) – the Atlanta Fed real GDP estimate for 4Q21 is currently at ~10% q/q SAAR. This would be a historically strong print.

On the opposite end of the spectrum, **Valuation** appears extended on an absolute basis, especially when one considers that, as of writing, the rate of inflation is 6.2%. Higher inflation and multiple contraction have historically gone hand in hand, and upward pressure on long-term interest rates should further challenge the market's rich valuation. Rising geopolitical tensions (**War vs. Peace**), continued **Inflation** pressure, and longer-term questions about **Budget/Trade Deficits** also weigh on our view of the market.

The Strategas Market Gauge is meant to be a snapshot of a moment in time, and not a predictive tool. See page two for more on our 16 building blocks, and what we look for to label each one "favorable" or "unfavorable."

HOW DO WE DECIDE HOW TO CATEGORIZE EACH BUILDING BLOCK?

Administration: Are the White House priorities market-friendly? How do they view taxes, regulation, trade/tariffs, etc.?

Budget/Trade Deficits: Are deficits growing or shrinking? Are they projected to grow or shrink over coming years?

Commodity Prices: Do commodity prices (e.g., gold, copper, oil) reflect economic growth or contraction?

Corporate Earnings: Are the earnings of U.S. companies growing? Are profit margins expanding?

Demographics: Is the demographic trend (population growth, average citizen age, worker-to-retiree ratio) positive?

Economic Growth: Did GDP grow or drop in the previous quarter? Are leading indicators rising or falling?

Fiscal Policy: Are the major policy initiatives from the White House and Congress pro-growth and market-friendly?

Global Trade: Are current attitudes pro-globalization and free trade or pro-nationalism and protectionism?

Inflation: Is there price stability around the Federal Reserve's new target? Are we experiencing deflation or hyperinflation?

Liquidity: Is there more money or less money circulating in the financial system than there has been recently?

Monetary Policy: Are interest rates accommodative or tight? Are other central bank programs market-friendly?

Sentiment: Are investors broadly optimistic (a negative) or pessimistic (a positive) about the market?

Technical Picture: What is current price action telling us? What do market breadth, trend, and momentum look like?

U.S. Dollar: Is the dollar strengthening or weakening versus other world currencies? What are the factors causing the move?

Valuation: Do stocks look expensive or cheap vs. historical averages?

War vs. Peace: What do the world's geopolitical tensions look like? Are they inhibiting global economic growth?

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