Cambridge ADVISORS inc. INVESTMENT MANAGERS

INVESTMENT PERSPECTIVE DECEMBER 2021

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MARKET COMMENTARY

Stock returns were mixed again this quarter. Large cap stocks in the S&P 500 surged 11.03% during the quarter to end the year near record highs. Their year-to-date return is 28.71%. The Russell 2000 Index of small cap stocks also surged nearly 10% during the quarter but then gave up much of its gain and ended the quarter with just a 2.14% gain. Its year-to-date return is 14.82%. International stocks in developed markets gained just 2.69% for the quarter bringing their year-to-date return to 11.26%. Emerging market stocks started the quarter strong but their gains were erased with a -1.31% loss for the quarter and a year-to-date loss of -2.54%. Bond yields fluctuated but ended with the Barclays U.S. Aggregate Bond Index basically flat for the quarter and still down -1.54% so far this year.

The best performing industries this year were energy, real estate, financials and technology. The other seven industries all lagged the S&P 500.

COVID cases are rising again with the new Omicron variant spreading quickly even in the vaccinated population. The CDC has warned against taking cruises even if vaccinated due to outbreaks but other businesses and restaurants have remained mostly open and sporting events and concerts have live audiences again. Businesses and people have made modifications to adapt to this new normal as COVID and new variants seem to be with us longer than people had hoped. However, the economy is not affected as much as before by COVID making another widescale shutdown unlikely.

2021 BENCHMARK RATES OF RETURN

INDEX	FOURTH QUARTER	YTD
S&P 500	11.03%	28.71%
Russell 2000	2.14%	14.82%
International	2.69%	11.26%
Fixed Income	0.01%	-1.54%
JPMorgan Diversified*	4.08%	12.43%

*25% S&P 500 large cap stocks,10% Russell 2000 small cap stocks, 15% MSCI EAFE international stocks, 5% MSCI EME emerging market stocks, 5% REITs, 25% Barclays US aggregate bonds, and 5% each in short term Treasuries, high yield global bonds, and commodities.

Third quarter GDP growth was 2.1%. Consumer spending slowed due to supply chain bottlenecks which were blamed for slower homebuilding and weaker auto sales. COVID and labor shortages also contributed to the slower growth. Looking ahead, David Kelly, chief strategist with JPMorgan, expects fourth quarter GDP growth to pick back up but to slow back to 2% by the end of 2022. Next year, the government will not be helping the economy as much as it has recently with stimulus spending. Some features of the American Rescue Plan will expire such as the enhanced Child Tax Credit. Although the Build Back Better Act did not pass in 2021, it's not likely dead and could possibly pass in a revised form with compromises on spending and tax reform.

Corporate earnings continue to grow and that growth is helping to support stock prices. Profits for the full year of 2021 are projected to be 42.7% higher versus 2020. In dollar terms, JPMorgan projects the S&P 500 Index will reach a new high of $200 per share of earnings in 2021. Earnings growth is expected to continue in 2022 and 2023 but could be slower due to wage inflation and potentially higher interest rates and corporate tax rates.

Unemployment is now 4.2% - the lowest it has been since the pandemic began and businesses are still posting job openings and trying to fill positions. Next year unemployment is projected to be back below 4% and labor shortages are expected to continue. Businesses have not been able to attract the number the employees they need to run at full capacity. As this continues, we will likely see businesses turn to technology to outsource or automate more functions to make up for a lack of workers. Many companies are paying more to attract and retain employees so wage inflation is expected to continue even if other inflation abates.

The US inflation rate is the highest it has been in 40 years. In November, headline CPI was up 6.8% year

We value our relationship with you, and we are always available to meet with you in person or by phone. Please do not hesitate to call or email us with any questions that you may have. Also, if your situation has changed, please contact your advisor so we can determine if any changes are needed in your account.

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over year. As the year goes on, this number should naturally come down—energy prices rose rapidly this year when the economy reopened compared to a year ago when it was closed and will not likely continue to grow that quickly again. In addition, supply chain issues should get resolved and the increase in demand for travel and entertainment also won't likely continue at the same clip as it did when we went from shutdowns to openings. But some inflation like food and housing is likely here to stay. Even the Fed has stopped using the word "transitory" when describing inflation.

The Fed also announced that it will accelerate the taper of its bond purchases which are now expected to be done by March. After that, the Fed plans to start raising short-term interest rates—three rate hikes in 2022 and 2023 are projected. Money market funds should start to earn more than the 0% they have been earning as short-term rates rise. The 10-year Treasury bond yield rose from 0.91% at the end of 2020 to 1.51% at the end of the year. This resulted in negative returns for the Aggregate Bond Index as depreciation in bond prices outweighed the interest earned on bonds. Longer term bond yields are expected to continue rising, although probably not as rapidly as short-term rates. Regardless, low but rising yields would continue to pressure bond returns. With inflation high and yields low, it is a difficult environment for bond investors at least in the short-term.

Analysts continue to favor stocks over bonds but mostly because bond returns are likely to remain muted. Volatility is higher with stocks, though, so more risk averse investors will still want to include bonds in their allocations because they are less correlated to stocks than most alternatives. We continue to explore opportunities in newer asset classes. "Target outcome" or "buffer" ETFs allow investors to take part in stock market appreciation but also provide some protection if stock prices fall. Digital currency is growing in popularity and becoming more accepted both as a currency and an investment. Structured products may provide opportunities to earn a higher income stream than available in bonds to investors who can withstand some risk.

We continue to encourage investors not to try to time the market or chase returns but to align your investment portfolio with your risk tolerance. We use Riskalyze software to help us measure your risk tolerance so we can help ensure you have the appropriate risk in your investments. We compare your risk score to the risk score of your investment portfolio to see if adjustments might be necessary. If you are unsure about the risk in your portfolio or have any questions, please talk to your advisor.

CAMBRIDGE ADVISORS NEWS

We are happy to announce that Justin Anderson is a new partner of Cambridge Advisors! Justin joined Cambridge Advisors in 2007 as an advisor and will now be assuming the role of Vice President as well. Justin received his undergraduate degree and MBA from UNL. He also has earned the Certificate in Blockchain and Digital Assets. Justin's ownership marks an important milestone in the succession plan of Cambridge Advisors so that we can stay an independent, employee owned firm. In our industry, consolidation is a continuing trend but we believe it is in our best interests and our clients' best interests to remain independent at this time. We believe the way we do things is best in class with the systems we use, the people we have and the services we provide, and we want to continue moving forward and remain in control of our future.

We also want to thank you for the trust you place in Cambridge Advisors. It's the people we serve that make us want to keep working and growing and striving to find more and better ways to help you reach your financial goals. We appreciate our relationships with each of you.

Coming soon...Cambridge Advisors is upgrading our phone system to a voice over internet platform. Our main office number will remain the same. In addition, we will soon have a system in place so that you can text with your advisor as well. Our goal is to make it easier for you to communicate with your advisor in whichever way you prefer.

As a reminder, Cambridge Advisors is fully open and meeting with clients in person. We can also participate in video chat meetings with clients who do not feel comfortable coming into our office. We can easily conduct review meetings for our clients who wish to meet virtually.

2022 Retirement Contribution Limits

Retirement Plans	2021	2022
401k and 403b Plans	$19,500	$20,500
Catch up contributions*	$ 6,500	$ 6,500
IRAs		
Traditional or Roth IRA	$ 6,000	$ 6,000
Catch up contributions*	$ 1,000	$ 1,000
SIMPLE IRA	$13,500	$14,000
Catch up contributions*	$ 3,000	$ 3,000

*If you are age 50 or older, you can make additional catch up contributions