

## Q: What should be on every investor's Christmas list?

**Brian Lockhart:** It is indeed that time of the year when lists are made in hopes that Santa will come to the conclusion that we were more nice than naughty this last year. Most investors have enjoyed 2021 with a few notable exceptions, so let's consider what we think every investor should be asking for this Christmas.

### #1 – A Fed Chairman who fears inflation.

Inflation is the enemy of savers and excess savings is used to provide capital to bring about economic opportunity and growth. As noted in the prior question, I believe investors received an early Christmas present with the re-appointment of Jerome Powell as Fed Chair, given the policy uncertainty of the Fed Governor most believe was the alternative.

### #2 – Volatility to go into hibernation.

The wicked smart team at Crestmont Research published data on just how important it is to understand the impact of volatility on investment portfolios. When volatility is muted, it historically has meant a great time to own risk assets like stocks. When volatility rises, particularly in the top quintile, risk assets tend to perform poorly.

### #3 – A slow leak in the Chinese real estate bubble.

Bubbles need to be deflated so we do not wish for an expansion of the bubble, but that air will slowly leak out instead of a bursting. There is enough global liquidity if everyone plays nice, while an abrupt ending to the China debt bubble could send the world economy reeling.

**Clint Pekrul, CFA:** Well, I think the first item on any investor's list should be an end to the Covid situation. The pandemic has brought havoc to people's lives and turned the global economy on its head. Effective vaccinations will hopefully bring the virus under control and allow people and business to return to normal. From an investment standpoint, there are two things of critical importance that investors should wish for. First, the Federal Reserve needs to get their inflation call right. Obviously, inflation is ticking higher, and if the central bank raises rates too quickly to combat rising prices, we risk an economic slowdown and possible stagflation. Conversely, if the Federal Reserve is too slow to raise rates, inflation could become more of a problem. If the Fed gets the call correct, investors will be happy.

Second, investors should hope that forward earnings will ultimately support current valuations. The S&P 500 is trading at an extreme multiple based on historical averages. This could continue if companies report solid earnings. The risk, however, is that we've come too far too fast with respect to valuations. The risk to the downside seems to grow with each passing year. So, hope for strong earnings support in the year ahead. In summary, if the Fed can successfully balance the interest rate and inflation equation and earnings meet or beat expectations, 2022 could be a promising year.