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December 9, 2021

Dear Valued Investor,

Our resurgent economy grew at over a 6% pace in the first half of 2021 and is on track for over 5% growth for the year by the time 2021 draws to a close. During the early recovery, we had a hand up from stimulus and policy that saw us through a period of unique challenges. In 2022, the economy may be ready for a handoff, back to a greater emphasis on the individual choices of households and businesses. How smoothly that handoff is executed may determine the course of the recovery.

As the U.S. economy moves more to mid-cycle, our forecast is 4.0–4.5% gross domestic product (GDP) growth in 2022. Fiscal and monetary policies played big roles in the economic recovery in 2021, but we see the baton being passed in 2022—from stimulus bridging a pandemic recovery to an economy growing firmly on its own, with consumers, productivity, small businesses, and capital investments all playing a part in the next stage of economic growth.

As the world moves past COVID-19 globally, Europe and Japan could be ripe for potentially better economic growth in 2022. Meanwhile, emerging market economies may disappoint as growth in China could be constrained by regulatory crackdowns.

2021 was the year nearly everything was in a shortage, and it translated to added inflationary pressures. Record numbers of ships waiting at ports, a lack of materials, unfilled job openings, higher commodity prices, and a myriad of supply chain disruptions have added to price pressures. We believe inflationary pressures may steadily decrease over the next year as conditions improve.

We expect solid economic and earnings growth in 2022 to help U.S. stocks deliver additional gains next year. If we are approaching—or are already in—the middle of an economic cycle with at least a few more years left, then we believe the chances of another good year for stocks in 2022 are quite high. We favor U.S. over developed international, tilt value over growth, and prefer cyclical sectors over defensives.

We expect interest rates to move modestly higher in 2022 based on near-term inflation expectations above historical trends and improving growth expectations once the impact of the COVID-19 Delta and Omicron variants recede. However, an aging global demographic that needs income, higher global debt levels, and rebalancing into fixed income from equities may keep interest rates from going much higher over the next year. Nonetheless, with starting yields still low by historical standards, bond returns are likely to be flat to the low-single digits in 2022.

LPL's *Outlook 2022: Passing the Baton* provides insight and analysis for the next set of challenges the economy and markets may face. Happy holidays, and please contact your advisor if you have any questions.

Sincerely,

Ryan Detrick

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