Q1 2022

Quarterly perspectives

UMPQUA

Private Bank

The key to living your best life now while planning for the future is to have meaningful yet clear conversations with your most trusted partners. The Quarterly Perspectives newsletter brings you our most insightful ideas coupled with our most recent and relevant market analysis. This proactive guidance is designed to help you with a wide array of financial decisions.

Bidding farewell to 2021

A recap of the year that was

If 2020 will be remembered as the year when everything changed, then 2021 may go down in the history books as the year we faced those changes and did everything we could to overcome them. Though the COVID-19 virus has continued to mutate into new variants that have had a direct impact on the markets, we are hopeful that as the number of those who are vaccinated continues to increase, the likelihood of a less volatile market will increase as well. After all, the last time we saw an end to a global pandemic was in 1919 – and what did that usher in? The Roaring Twenties.

This time last year, we used our newsletter to urge you to maintain perspective as you continued to evaluate your goals. As we move forward, recovering from the pandemic together, our previous request has not changed. You should absolutely meet with your financial professional to adjust your plan if it needs adjusting, but in this time of persistent uncertainty, it is just as important to stay the course. If you made it through 2020, one of the most volatile years in recent memory, then 2021 may have felt like a sigh of relief, especially with the markets looking more like they had in years past.

Let's take a quick look back at each quarter of 2021 and how the S&P 500 fared.

Quarter	S&P 500
Q1	**+6.17%**
The third straight strong quarterly performance during a worldwide pandemic	
Q2	**+8.17%**
Riding the coattails of 2021's first quarter, Q2 was actually even stronger	
Q3	**+0.23%**
September alone saw the S&P 500 lose 4.76 percent of its value	
Q4	**+9.62%**
The latest virus variant, omicron, reared its ugly head and quickly caused a great deal of market volatility	

What does the future hold?

The 2022 economic outlook is cautiously optimistic

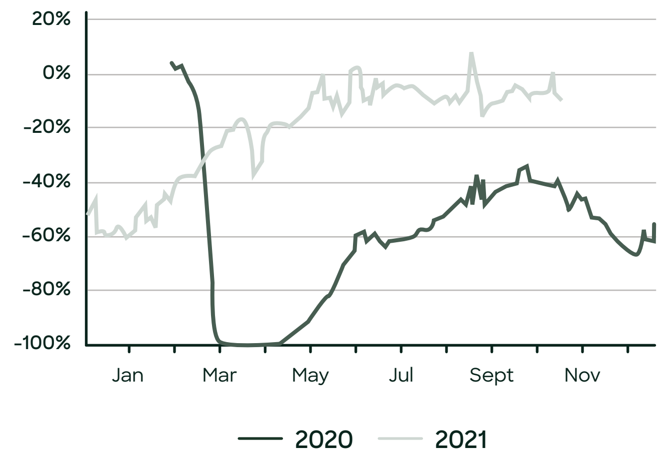
Some of 2020's most negatively impacted industries – restaurants, entertainment, and retail – saw a resurgence in 2021. In fact, the latter improved even beyond pre-pandemic numbers, while restaurants and the entertainment industry saw significant year-over-year increases. However, there are other industries that are still inching closer to where they once were, albeit while having shown recent improvement. For example, as restrictions on countries' borders have lessened, travel has seen a decent uptick.

In looking at economic growth in 2021, ask yourself what fueled it. Was it caused by increased inflation? Was it because of actions taken by the Fed? Or was it due to pent-up consumer demand?

Much like influenza, many believe COVID-19 – or some variation of it – is here to stay, though in a more manageable way than what we've seen thus far. In turn, it's seeming more and more likely that the virus's economic effects will likely linger for several years. Look at remote working situations, for example. Will they become permanent and end up affecting varied economic sectors in the long term? Will the government's increased debt obligations cause potential taxes to be imposed?

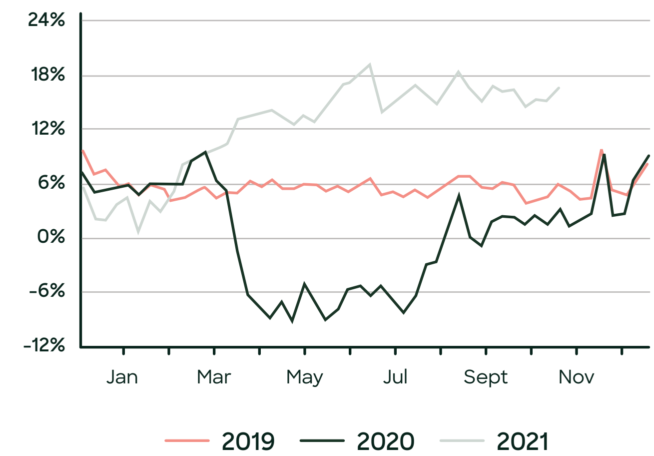
Additionally, newer concerns, like labor shortages and increased wage demands, may even cause corporate profits to start being squeezed. And an end to supply chain issues (which we'll get to next) may not necessarily be on the immediate horizon. But we are still optimistic – albeit cautiously – that we are headed in the right direction.

OpenTable state of the restaurant industry



As of November 3, 2021 (7-day average)
Sources: OpenTable, First Trust Advisors

Weekly retail sales



As of October 30, 2021
Sources: Bloomberg, Redbook Research, First Trust Advisors

2 questions about supply chain management

You've likely seen the photos: dozens of ships and their multicolored containers anchored off the southern California coast. At one point in mid-October, more than 200,000 40-foot-long shipping containers were floating there, creating a two-week backlog at the Port of Los Angeles, which subsequently began to run a 24/7 operation to make up for lost time. However, even at this extreme working capacity, the port's operation only increased by about 10 percent.[1]

Article continued on following page

❶ What caused the shortage?[2]

- Factories in manufacturing economies – especially eastern Asian countries and European industrial powerhouses – were hit hard because of COVID, and their production was halted for a period of time
- Thus, shipping companies wrongly anticipated a period of reduced consumer demand
- Now, production and shipping are trying to catch up, but they are still in disarray from disruption
- Additionally, businesses have miscalculated how low they could realistically keep their inventory

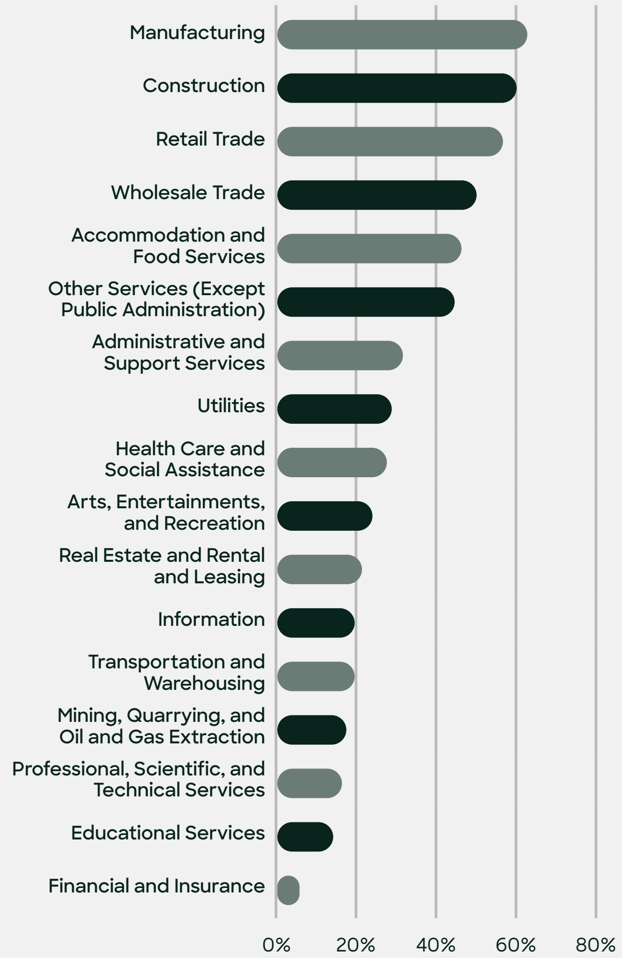
❷ When will it end?[2]

- Much like inflation (which we'll be covering next), governments and businesses around the world have indicated they believe supply chain issues will be transitory
- Many analysts, however, believe that the issues will likely continue throughout 2022 and potentially beyond

Sources: 1) "In pictures: Supply chain problems in the US," CNN. 19 October 2021. 2) "How the Supply Chain Broke, and Why It Won't Be Fixed Anytime Soon," Peter S. Goodman. New York Times. 31 October 2021.

Supply-chain disruptions by sector

In the last week, did this business have domestic supplier delays? (percentage saying yes)



Source: 17 June 2021. U.S. Census Bureau; CEA Calculations.

Historic inflation levels

How it happened and how we're moving forward

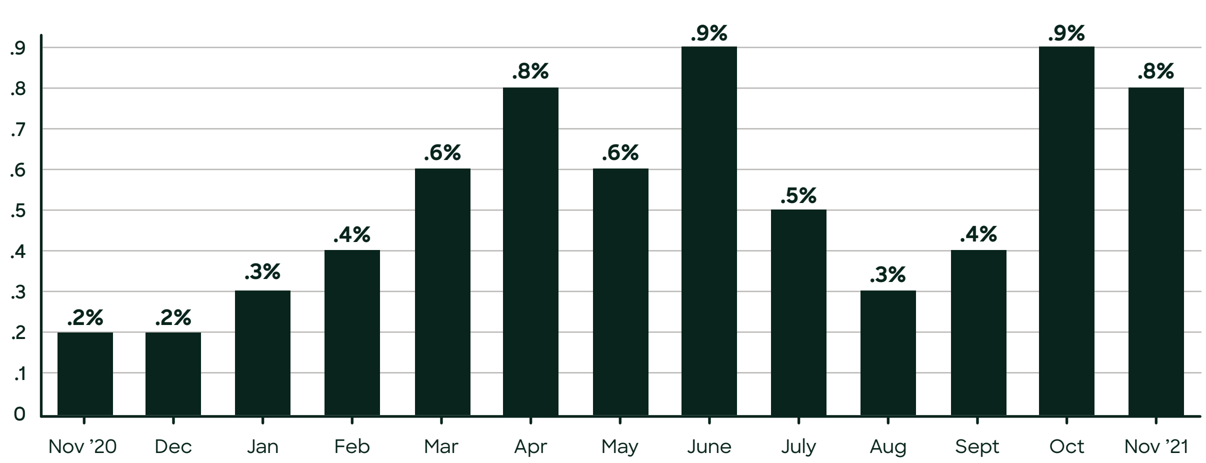
In November of 2021, the U.S. Bureau of Labor Statistics tracked a 0.8% increase in the Consumer Price Index for All Urban Consumers (CPI-U) on a seasonally adjusted basis, after seeing a 0.9% increase the month before in October.

But the figure that captured the attention of economists and consumers alike across the United States during November last year was 6.8% – from November 2020 to November 2021, we saw a 6.8% increase in the CPI-U before seasonal adjustment. This is the largest 12-month increase in the index we've seen since 1982.[1]

6.8% increase

in the CPI-U before seasonal adjustment

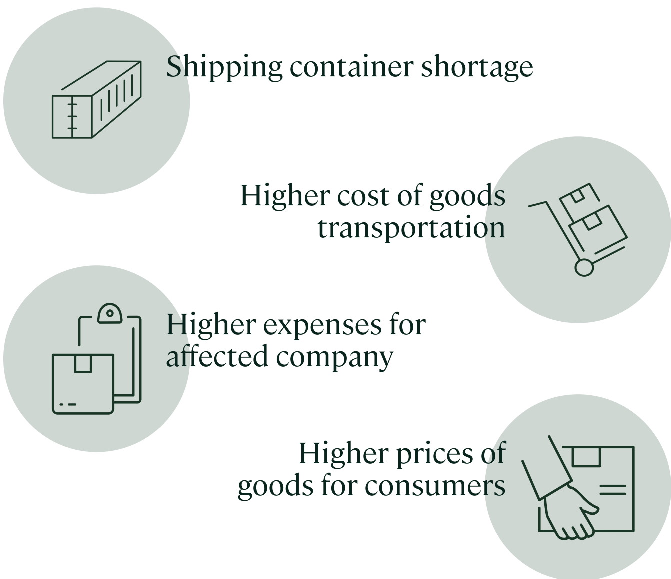
One-month percent change in CPI for all urban consumers (CPI-U), seasonally adjusted, Nov. 2020–Nov. 2021



Sources: U.S. Bureau of Labor Statistics

How did we get here?

The demand pendulum has swung from low (during the pandemic) to high (currently) as people are spending the money on goods and services that they could not during lockdowns. Companies across the world are having trouble keeping up, as supply chains that were badly hit by the pandemic are now being rebuilt. For example, an issue like a shortage of shipping containers can ultimately result in higher consumer prices, driving inflation up.[2]



Along with growing demand, higher energy prices are also pushing inflation up. You probably noticed when you were filling your gas tank over the holidays – oil, gas, and electricity have become more expensive all around the world. In fact, half of the CPI-U flux we've seen is due to higher energy prices.

Where do we go from here?

In autumn of 2021, policymakers such as Fed Chair Jerome Powell and Treasury Secretary Janet Yellen asserted that the price pressures were "transitory" and related to pandemic-specific issues.[3] In response to the rapid economic boom in 2021, the Fed announced the commencement of a tapering strategy was to be completed by June of this year (see article below).

However, by late November, the Fed quickly changed their tune. Powell indicated that the tapering schedule would pick up the pace and wrap up by March of this year and that it was about time to retire the term "transitory" in reference to inflation. Furthermore, several members of the Federal Open Market Committee indicated that we can expect to see interest rate hikes this year, since inflation has persisted.[4]

Unfortunately, Q4 of 2021 caused some sour feelings from consumers regarding rising prices of goods, as well as a demand for higher wages to keep up with these higher prices. There's still plenty of debate among economists about the lingering impacts that this inflationary environment will have on the economy more immediately and for years to come. How quickly will supply chain issues be repaired? Will corporate profits start to get squeezed due to labor shortages and increased wage demand?

And the big question mark – how long will this inflationary period last?

Strategies for protecting your purchasing power

It's an important time to meet with your Relationship Manager at Umpqua Private Bank to discuss how this inflationary period could affect you. We recommend exploring strategies to protect your purchasing power, such as:

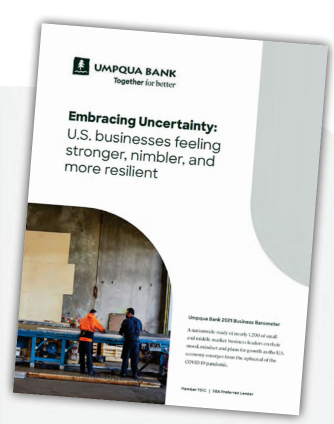
- ✓ Owning quality assets (vs. cash/cash alternatives)
- ✓ Properly leveraging debt
- ✓ Staying engaged with your financial plan and adjusting as needed

Sources: 1) "News Release Bureau of Labor Statistics", U.S. Bureau of Labor Statistics. 10 December 2021. 2) "Why is inflation currently so high?" European Central Bank. Eurosystem. 16 November 2021. 3) "Federal Reserve issues FOMC statement", Federal Reserve. 3 November 2021. 4) "Stocks plunge as Fed indicates it could accelerate tapering amid Omicron fears", Fortune. Nicole Goodkind. 30 November 2021.

Emerging from the Pandemic, Embracing Uncertainty

Umpqua Bank 2021 Business Barometer

We conducted a nationwide study of nearly 1,200 small and middle market business leaders on their mood, mindset, and plans for growth as the U.S. economy emerges from the upheaval of the COVID-19 pandemic.



HERE'S WHAT WE FOUND OUT

Fed tapering: Goals and potential impacts

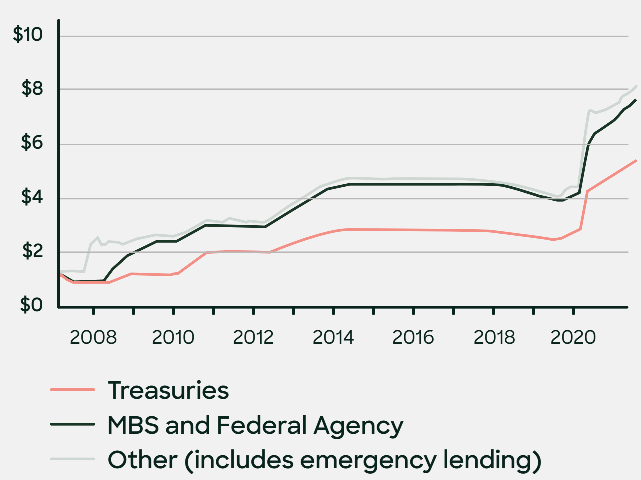
Fed "tapering" refers to the systematic decrease in the amount of assets purchased by the central bank each month. A tool that can only be employed after an economic stimulus program has been executed, Fed tapering is the first step of winding down, or completely withdrawing, a stimulus program.

The idea is that, once a recession is "corrected" with stimulus from the central bank, it must be balanced out again with a slow and calculated decrease of the amount of assets it purchases – or tapering.

The Fed's balance sheet ballooned from $4.3 trillion in March 2020 to $8.5 trillion by September 2021. This decision was made by the Fed to stimulate the economy in response to the pandemic, a technique known as "quantitative easing" (QE). Since June of 2020, the central bank has been buying $80 billion of Treasury securities and $40 billion of agency mortgage-backed securities each month.[1] Central banks do this to put money back in the economy, but it can't go on forever.

Now that we've see the "correction" in the economy that the QE was meant to achieve, we're now in the midst of the "balancing out" process via the cutback in assets purchased per month by the Fed. Starting in January 2022, the Fed will buy $60 billion of bonds each month, which is half the total amount that was purchased monthly during the QE period and $30 billion less than it bought in December. In his post-meeting press conference on December 15, 2021, Fed Chair Jerome Powell announced that the Federal Open Market Committee (FOMC) would double the rate at which it reduces monthly asset purchases, concluding the program by March 2022 instead of the previously forecasted June 2022.[2]

Federal Reserve balance sheet: Assets



Source: Federal Reserve H.4.1 via Haver Analytics

The interest-ing part of tapering

One of the main goals of the Fed's monetary policy is to promote moderate long-term interest rates. With interest rates at a historic low during 2020, Chair Powell stated intentions to keep short-term rates near zero through 2022.[3]

Along with indicating the end of a stimulus period, tapering is often an indication that the Fed is going to tighten its monetary policy, one result being the increase of short-term interest rates through the federal funds rate. Powell made several attempts to separate the idea of tapering from interest rate hikes in public discourse.[4] But members of the FOMC solidly leaned toward rate hikes – only six of the 18 members predicted fewer than three increases this year. No members saw interest rates staying where they are now, anchored near zero.[5]

Market impacts

Following the Great Recession of 2008, the market reaction from the announcement of Fed tapering in 2013 resulted in a "taper tantrum", or a rise in bond yields. Worried that the market would crumble, investors began to panic and sell their bonds, pushing 10-year U.S. Treasury yields from 2% in May 2013 to 3% by December 2013.[6] Despite Chairman Ben Bernanke's insistence that the tapering would be gradual, he could not stop the knee-jerk reactions of investors and the resulting increase in interest rates.

Although the 2013 announcement led to a taper tantrum, most economists don't expect a similar occurrence in 2022. The Fed has been much more communicative and transparent in their plans for tapering and their approach toward monetary policy in the next few months. Since the Fed's announcement of tapering, the markets have generally reacted favorably with a noticeable dip in late November after the announcement of the accelerated timeline.

Although it's something to keep an eye on, tapering is no cause for panic. So keep calm, and don't make rash decisions.

Sources: 1) "What does the Federal Reserve mean when it talks about tapering?" Eric Milstein, Tyler Powell, and David Wessel. Brookings. 15 July 2021. 2) "Fed is expected to speed up end of bond buying and signal interest rate hikes are coming", CNBC. Patti Domm. 10 December 2021. 3) "Transcript of Chair Powell's Press Conference", The Federal Reserve. 22 September 2021. 4) "Time for Fed to taper bond purchases but not to raise rates, Powell says", Reuters. Lindsay Dunsmuir and Ann Saphir. 22 October 2021. 5) "Fed will aggressively dial back its bond buying, sees three rate hikes next year", CNBC. Jeff Cox. 15 December 2021. 6) "Fed Tapering and Its Impact on the Markets", Mrinalini Krishna. The Balance. 29 October 2021.

Information you need, when you need it

Check our latest blog on the issues of resilience, recovery, and opportunity, **"Women Leaders Convene to Discuss Economic Opportunity for All."**

READ ARTICLE

We're here for you

Social distancing doesn't mean you can't still get great advice and guidance. Your financial professional at Umpqua Private Bank can help in times like this by:

- ✓ Helping you stay focused on the big picture
- ✓ Bringing specific ideas and strategies to you based on your unique situation
- ✓ Acting as a sounding board as you consider financial decisions
- ✓ Partnering with you to navigate the ever-changing economic and market landscape
- ✓ Providing insight into how current conditions affect your plans by modeling scenarios specific to your situation

As always, our team is here to support you no matter what the future holds. We appreciate being your partner and the opportunity to continue with you on your journey. Now is a great time to contact your financial professional at Umpqua Private Bank to discuss additional 2022 ideas. Let's connect!

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