The Longo Group

TED LONGO, STEVE LONGO & CHRIS COLLINS
SENIOR WEALTH MANAGEMENT ADVISORS
2054 GAUSE BLVD. E. | SLIDELL LA 70461
985-445-1042 | 833-475-6646 (Toll-Free)
INFO@LONGOGROUP.NET | WWW.LONGOGROUP.NET

THE ECONOMY AT A GLANCE

ECONOMIC HIGHLIGHTS

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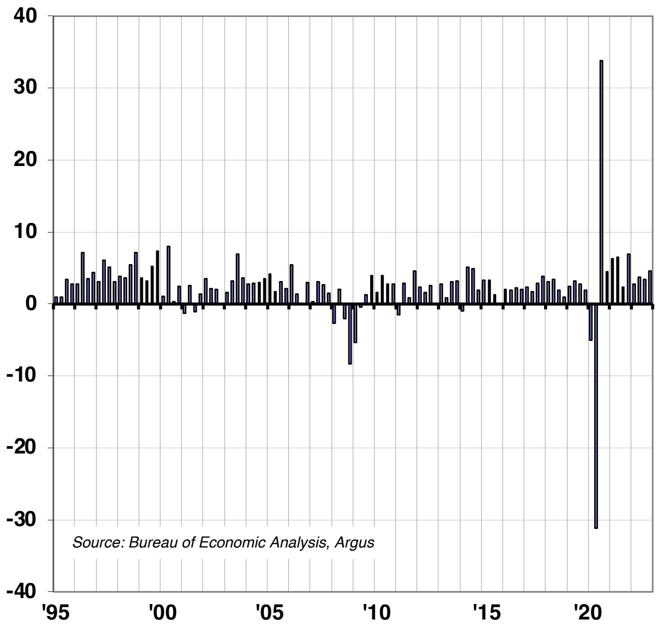
GDP SOARED 6.9% IN 4Q

The rate of growth in U.S. GDP accelerated sharply in 4Q21, to an annualized 6.9%, in line with our estimate and above the 2.3% rate recorded in 3Q. Full-year GDP growth averaged 5.6%. There were several pockets of strength in 4Q, including Investments into Intellectual Property Products (up 10.6%) and Personal Consumption Expenditures on Services (up 24.5%). Inventories reversed a three-quarter decline and increased sharply. Segments of the economy that struggled a bit included PCE-Durable Goods (up only 0.5%), PCE-Nondurable Goods (-0.1%), and Investment into Structures (-11.4%). The PCE price index rose 6.5%, compared to an increase of 5.3% in 3Q. Excluding food and energy prices, the PCE price index rose 4.9%, compared to an increase of 4.6% in 3Q. The 4Q GDP report is a snapshot of the economy between the Delta and the Omicron variants. We look for slower -- but positive -- growth in 2022-2023. In related news, the Labor Department reported that initial unemployment claims dropped 30,000 to 260,000 for the week ended January 22. This is another signal that the overall U.S. economy is in solid shape.

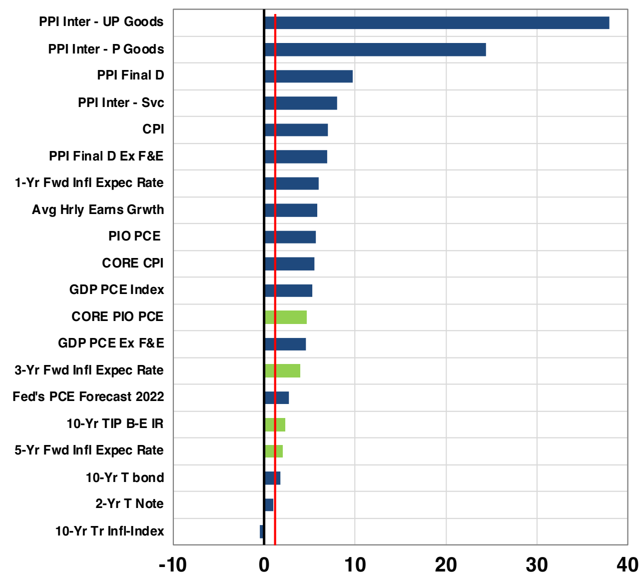
REAL GDP (% GROWTH/QTR)



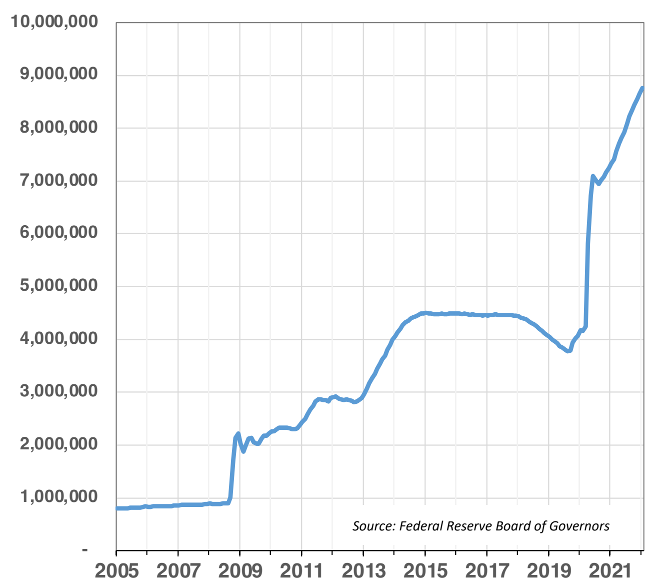
INFLATION AND THE FED

Pricing pressures are percolating at the producer level, and mainstream measures of inflation are elevated as well. We track 20 inflation measures on a monthly basis. On average, they indicate that prices are rising at a 7.2% rate. This is high, but lower than last month's 7.9%. Drilling down to core inflation -- which we obtain by averaging core CPI, market-based PCE ex-food & energy, the five-year forward inflation expectation rate, and the 10-year TIPs breakeven interest rate -- our reading is 3.6%, with the all-important five-year target rate at 2.0%. While inflation has been elevated for the past several months, the markets lately seem to have lost confidence that the central bank can bring prices under control in the near term. At its latest Open Market Committee meeting, the Fed, as expected, opened the door to a series of fed funds rate hikes in the months ahead. In its statement after the meeting, the central bank commented that "with inflation well above 2% and a strong labor market, the Committee expects it will soon be appropriate" to raise the fed funds rate. The current fed funds target rate is 0.00%-0.25% and has been at this rock-bottom level since the early days of the pandemic. Fed Chair Jerome Powell noted that the Fed's next meeting in March is likely to mark the start of the rate hikes. By then, the bank also will have completed its asset purchasing program. Since the meeting, bond yields have risen and stock prices have fallen. We expect the Fed to raise rates at least three times this year, before moving to the sidelines ahead of the mid-term elections. In addition, we expect the Fed to lighten its balance sheet, which currently includes $2.7 trillion in mortgage-backed securities. Once it decides to pare back its holdings, we expect the MBS portfolio to be reduced by $100 billion per month through a combination of principal paydowns and outright sales. That process would take a little over two years. In addition, the duration of MBS will extend, as homeowners with lower rates will have no incentive to refinance or prepay their mortgages. This duration extension will also help steepen the curve.

INFLATION MEASURES (% CHANGE Y/Y)



FEDERAL RESERVE BALANCE SHEET (FED ASSETS, $ MIL)

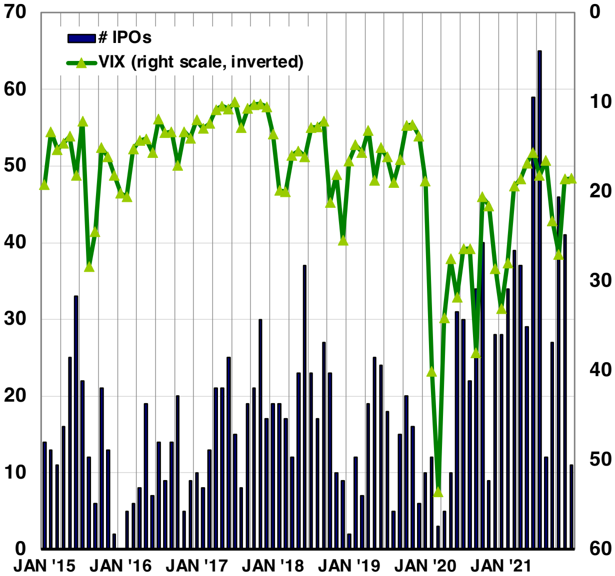


FINANCIAL MARKET HIGHLIGHTS

HOT MARKET FOR NEW ISSUES

The IPO market remained hot in 4Q21, with 98 companies going public, bringing full-year activity to 428 newly listed companies. IPO activity rose 27% year-over-year in 4Q21, though activity fell 6% from the prior quarter. Secondary offerings declined 22% year-over-year. Investor demand was strong for IPOs, and investors often were rewarded: the average non-SPAC IPO opened 16% above its offering price in 4Q21. Unicorns found conditions favorable, and many firms left the ranks of private ownership to move to the public markets. Demand for SPACs cooled a bit. Looking into 2022, we think the market for IPOs will remain strong. The IPO pipeline is in line with recent quarters, with about 125 companies having filed with the SEC (more than 425 including SPACs). In addition, there are still some promising blockbuster unicorns in the pipeline. These companies have likely learned from previous unicorns, such as Uber and SmileDirectClub, that they should be showing profit projections and offering fair voting and ownership policies during their (still virtual) road shows.

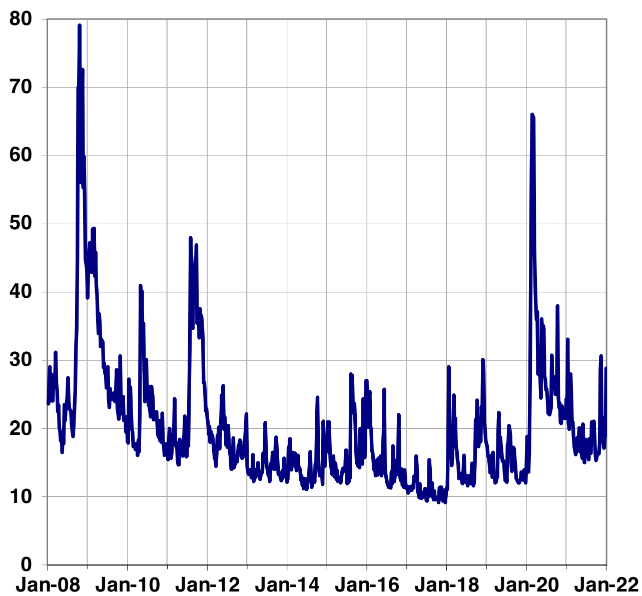
IPO ISSUANCE



INVESTOR FEARS ESCALATING

Investors live in a new world of volatility. Back in the day (the middle of the previous decade), the VIX volatility index had averaged in the low to mid-teens. The onset of the pandemic led to a spike in the index and an average reading of 29 in 2020 and then 20 in 2021. After the peak VIX reading of 85 in March 2020, the index slowly moved back toward those mid-teen readings, enduring speed bumps along the way such as a recession, a series of COVID-19 waves, an extraordinarily divisive U.S. presidential election, and now fears of inflation. In the past month, however, investors' nerves have been rattled by the Omicron variant as well as by changes in interest rate policy at the Fed. The S&P 500 is down year-to-date, but that's par for the course. Since 1920, the S&P has recorded a 5% pullback three times a year on average and a 10% correction once every year and a half. On our S&P 500 valuation model, stocks had been priced for perfection (above the normal fair-value range) and are responding to higher interest rates and a slowdown in corporate profit growth. In this environment, we recommend that investors focus on the stocks of high-quality companies with strong balance sheets and experienced management teams.

VOLATILITY INDEX (WEEKLY CLOSE)



ECONOMIC CALENDAR

Previous Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
1-Feb	ISM Manufacturing	January	58.8	59	59	NA
	Construction Spending	December	0.4%	0.4%	0.7%	NA
3-Feb	ISM Non-Manufacturing	January	62.3	62	61	NA
	Factory Orders	December	1.6%	1.0%	0.1%	NA
	Non-farm Productivity	4Q	-5.2%	2.5%	2.5%	NA
	Unit Labor Costs	4Q	9.6%	1.5%	1.5%	NA
4-Feb	Non-farm Payrolls	January	199000	250000	238000	NA
	Average Weekly Hours	January	34.7	34.8	34.8	NA
	Average Hourly Earnings	January	0.6%	0.5%	0.5%	NA
	Unemployment Rate	January	3.9%	4.0%	3.9%	NA

Next Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
15-Feb	PPI Final Demand	January	0.2%	NA	NA	NA
	PPI ex-Food & Energy	January	0.5%	NA	NA	NA
16-Feb	Retail Sales	January	-1.9%	NA	NA	NA
	Retail Sales; ex-autos	January	-2.3%	NA	NA	NA
	Business Inventories	December	1.3%	NA	NA	NA
	Import Price Index	January	-0.2%	NA	NA	NA
	Industrial Production	January	-0.1%	NA	NA	NA
	Capacity Utilization	January	76.5%	NA	NA	NA
17-Feb	Housing Starts	January	1702 K	NA	NA	NA
18-Feb	Leading Economic Indicators	January	0.8%	NA	NA	NA
	Existing Home Sales	January	6.18 Mil.	NA	NA	NA

Investors