Capital Market Summary

The S&P 500 Index® concluded 2021 by rising just over 11% to finish the year, driving full year performance to 28.71%[1]. This is now the third time in the last 10 years where this benchmark index exhibited gains in excess of 25%[1]. Volatility, as indicated by the VIX® Index, finished the year at a reading of 19.67, slightly below where it began the year. Typically, for every 16 points on the VIX, one should expect about 1% daily moves in the S&P 500 Index. Therefore, this indicator is implying that a slightly lower but similar level of volatility should be expected in 2022 when compared to 2021. Given how sedate 2021 was in markets, Vicus Capital is of the opinion that this level was simply too elevated at the start of last year, and that 2022 is likely to experience at least as much volatility as 2021 if not more[2].

While all sectors displayed strong, double-digit returns in 2021, there was still a decent amount of dispersion over the course of the year. The fourth quarter saw Technology and Materials as the top gainers, rising 16.69% and 15.20% respectively[1]. The laggards of the quarter were Financials with a gain of 4.57% and Communication Services, the only sector with a loss, albeit just 0.01%[1]. Over the year, the market was clearly in a "risk-on" environment that saw Energy as the best performing sector with a gain of 54.64%[1]. Real Estate was second at 46.19%[1]. Financials and Information Technology rose 35.04% and 34.53% a piece[1]. The middle of the pack included Materials, Health Care, Consumer Discretionary, Communication Services and Industrials which all gained between 21.12% and 27.28%[1]. Finally, defensive components of the market provided the weakest appreciation with respective gains of 18.63% and 17.67% for the Consumer Staples and Utilities sectors[1]. Smaller domestic firms, represented by the S&P 400 Mid Cap Index® and S&P 600 Small Cap Index® underperformed large cap stocks during the fourth quarter with gains of just 8.00% and 5.64%, but finished closer on the year as they rose 24.76% and 26.82%[1].

FactSet is estimating 21.3% earnings growth for the fourth quarter of 2021. If this comes to fruition, it will mark four straight quarters of growth in excess of 20%. Similar to last quarter, earnings estimates rose slightly as the fourth quarter played out.

Because market prices have risen even faster than earnings estimates, the forward price-to-earnings ratio (Forward P/E) increased from 20.1 at the end of the third quarter to 21.2 as the year concluded. This continues to be elevated relative to history

Strategic Allocation Positioning

Asset Class	Underweight			Neutral	Overweight		
	Max	Mod.	Slight		Slight	Mod.	Max
Fixed Income							
Traditional				●			
Non-Traditional				●			
Overall Equity							
Domestic				●			
International				●			
Domestic Equity							
Large Cap			●				
Mid Cap				●			
Small Cap					●		
Growth				●			
Value				●			
International Equity							
Developed Markets					●		
Emerging Markets			●				

1 *Morningstar.com (December 31, 2021)*
2 *VixCentral.com (December 31, 2021)*

continued

with the five- and 10-year averages at 18.5 and 16.6 respectively. Corporate revenue growth is also expected to be robust, with estimates for an annual increase of more than 15%. Based on the low 2020 earnings and estimates rising throughout the fourth quarter, FactSet is now estimating full year profit growth to be 45.1%, which would be a record, and to see another 9.2% in 2022[3].

In foreign equity markets, the MSCI EAFE Index® (developed international) rose 2.69% during the fourth quarter to achieve 11.26% for the whole of 2021[1]. Simultaneously, the MSCI Emerging Markets Index® declined 1.31% bringing the year-to-date performance to -2.54%[1]. The U.S. Dollar, as calculated through the U.S. Dollar Index, or DXY, rose another 2.0% since the start of the quarter, and as foreign stock returns include currency fluctuations, this helps to explain part of the underperformance of non-U.S. equity[4].

After rallying for three quarters in 2021, the Bloomberg Commodity Index® sank a modest 1.56% in the fourth quarter which lowered its total return for the year to 27.11%[1]. Natural gas reversed a huge third quarter gain with a decline of just under 40% in the fourth quarter[1]. Oil, on the other hand, continued its slow ascent and rose 2.04%. Agricultural commodities gained 6.26% while copper was up 9.42%[1]. These gains are unsurprising due to the rise in inflation seen in the fourth quarter. Precious metals also displayed positive returns in the final quarter of the year with gold rising 4.33% and silver, 7.11%[1].

The bond market closed out a rare down year with a gain of 0.01% for the Bloomberg Barclay's Aggregate Bond Index® in the fourth quarter. On the whole of the year, the index declined 1.54%. Municipals rebounded from their year of underperforming taxable bonds and their index gained 0.72% for the quarter and 1.52% for 2021 in total. Foreign bonds, many of which commenced the year with negative yields (and which many still possess), dropped 0.67% in the fourth quarter which brought their total return on the year to -4.71% as yields around the globe rose moderately. Treasury Inflation Protected Securities (TIPS) outperformed most bond types as inflation rose and gained 2.36% for the quarter and just under 6% on the year. Non-traditional sectors of fixed income outperformed their investment grade counterparts in most circumstances. Specifically, high yield municipals, high yield corporates and bank loans gained 1.16%, 0.71%, and 0.75% for the quarter and 7.77%, 5.28%, and 5.20% for the year respectively. Convertibles, which were the highest performing fixed income asset class in 2020 fell 1.9% in the fourth quarter but still gained 3.87% on the year. And finally, emerging market bonds struggled with both rising interest rates and a rising U.S. dollar which led to declines of 0.44% for the quarter and 1.8% for the entirety of 2022.

Capital Market Outlook

Despite the Omicron variant of the coronavirus circulating rapidly around the United States, economic data including, but not limited to jobless claims, housing starts, retail sales, and wage growth have been higher than recent years. Surpassing expectations provided fuel for some of the strongest financial market performance since the 2008 recession. In fact, since the market's bottom on March 23, 2020, it gained 100.17% through the end of 2021[5]. As we look forward to 2022, we will consider the implications of expected situations that will affect portfolio performance. These areas include the coronavirus' constantly changing circumstances, inflation concerns, and the Federal Reserve's monetary policy.

As this is being written, the United States is experiencing a significant rise in cases of COVID-19 in the Omicron wave, but hospitalizations have been declining since the second week of December[6]. Barring a significant change in the virus' evolution, most of our research indicates that we will continue to see new strains uncovered, but because an ever-greater portion of the population either has been inoculated or recovered from a prior infection, the effects on the broader economy should wane. This is not to say that the effects of the disease are behind us, but more that the expected toll on the

3 *Factset. Earnings Insight (December 17, 2021)*
4 *MarketWatch. DXY/U.S. Dollar Index (DXY) Advanced Charts (December 31, 2021)*
5 *Morningstar.com (December 31, 2021)*
6 *CDC.Gov. Rates of COVID-19-Associated Hospitalization (January 1, 2022)*

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economy in particular is of a smaller magnitude than what we experienced in 2020 or in the "Delta wave" of 2021. Given what we believe we know about the Omicron variant being less virulent (less severe infection) coupled with its very high level of transmissibility, we remain hopeful that this will usher in the end of the pandemic[7]. Still, Vicus Capital will remain vigilant, watching for any changes that could provide opportunities for us to enact modifications to portfolio allocations.

During the final months of 2021, the country collectively experienced a level of inflation not seen in many decades. Americans under the age of 40, unless they've lived overseas, have never experienced an environment such as this in their adult lives[8]. It leaves many to wonder, "Why are we experiencing this inflation now?" The answer is multi-faceted. Global goods production, shipping, and transportation have all been disrupted. Massive spending by governments around the world has inflated corporate, personal, and governmental balance sheets with cash. Additionally, the pandemic has caused some individuals to reconsider their current employment situation and/or has caused hesitancy to work in perceived higher risk environments. Compounding these issues are elevated consumer demand, likely spurred on by increased levels of savings. Put together in combination, each of these issues makes its own contribution to the current levels of inflation we are all experiencing.

7 USA Today. Karen Weintraub. Yes, Omicron has Overtaken Delta. No, It's not March 2020. (December 21, 2021)
8 Tradingeconomics.com. United States Inflation Rate (December 31, 2021)

Transportation of goods around the world has been curtailed for many reasons. The coronavirus has dampened employment and those in the sectors that move goods around the country and the world are no less effected than everyone else and perhaps more so. Not only do shipping firms have to conduct business with fewer employees, but consumers are buying at rapid rates. Why are they doing this? First, consumers are feeling good about their net worth. Between the end of 2019 and the middle of 2021, household net worth rose by more than 113%, the largest 1.5 year rise on record[9]. Note that this started prior to and is inclusive of all declines from the pandemic. Healthy consumer balance sheets have led to increased spending exactly at a time when the economy would have a difficult time delivering goods. Additionally, because the pandemic has made it more difficult to participate in the service economy, consumers have pivoted to spending more on goods such as buying new electronics instead of going on vacation.

Simultaneously, there is a dearth in the supply of semiconductors. Originally instigated by a massive fire at Japanese chipmaker Renesas Electronics, the lack of supply of semiconductors has continuously plagued a variety of industries[10]. Cryptocurrency mining, particularly for bitcoin is very demanding on certain types of semiconductors, specifically graphics processing units (GPUs). Therefore, a second substantial reason for tightness within the semiconductor market is that approximately 25% of all GPUs are being sold for this "new" purpose, generating a demand that would not have been planned for just a year or two ago[11]. Finally, over the same timeframe, an ever-greater number of people are working from home and requiring new electronics containing semiconductors to do so. Combining supply disruptions with unanticipated demand has pressured the semiconductor industry tremendously, and while we expect new supply to come online in the coming years, relief will be far from immediate.

9 BCA Research. Global Investment Strategy. Has the World's "Easiest Macroeconomic Problem" Finally Been Solved? (October 29, 2021)
10 NikkeiAsia. Yoichiro Hiroi. Renesas Expects Bigger Damage from Fire at its Chip Factory. (March 29, 2021)

Another major contributor to inflation has been energy prices. During the pandemic, energy commodities tumbled in response to major demand concerns. If people ceased to move about the world, the expectation would be for energy consumption to tumble. This expectation certainly came true in the first few months of the pandemic, and consequently the futures market began to price near-term deliveries of oil for less than zero dollars. In fact, prices sank as low as negative $37.63 at one point[12]. As the economy opened, markets realized that production had been severely curtailed during the first few months of the pandemic and reversing this would not be instantaneous. Oil has climbed rapidly in the time period since, but with inflation as a calculation of annual price change, we would anticipate that much of the inflation tied to energy prices is now already priced in and is likely to have a much more muted effect moving forward.

11 Digitaltrends.com. Jacob Roach. 25% of the GPUs Sold in the First Part of 2021 Went to Crypto Miners. (June 16, 2021)
12 BBC.com. US Oil Prices Turn Negative as Demand Dries Up. (April 21, 2020)

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The net results of these concurrent supply chain disruptions are elevated costs and shipping delays. While ocean marine shipping is historically a volatile market, the cost of shipping a container from Shanghai to Los Angeles increased from $1,500 in mid-2019 to nearly $5,000 as 2021 came to a close[13]. Parcel shipping carriers UPS and FedEx have announced their largest price increases in nearly a decade as well[9]. These are symptoms of the effects of inflation which has reached 6.8% per the Bureau of Labor Statistic's November reading, and we expect this to potentially rise slightly more before starting to decline at some point in the middle of 2022[14].

While it is important to understand the effects of inflation, we expect them to "recede" over the course of 2022 rather than an anticipation for them to "reverse." By this, we mean that we do not believe prices will revert to a prior level, but simply refrain from increasing at the current, rapid pace.

This brings us to the Federal Reserve's role in maintaining full employment and low, steady inflation. Since 2008, the Federal Reserve's response to turmoil in financial markets has been to use its balance sheet to create a more stable environment. They enacted many programs with the goal of maintaining liquidity and solvency within a variety of financial institutions from municipal bond issuers like state governments, to the mortgage market, and even directly to corporations. The bulk of their actions were to buy mortgage and treasury bond issuance, and this has driven their balance sheet from just over $4 trillion pre-pandemic to nearly $9 trillion today[15]. The results of this were obvious in markets with an historically rapid recovery from the market bottom. However, now that we're experiencing inflationary forces and the economy is not as dependent on support, we need to analyze the potential effect of the balance sheet declining and the expected rise in interest rates.

In the most recent release of minutes from the Federal Reserve's December 14-15 meeting, they plan to accelerate the pace at which they are reducing asset purchases[16]. Previously they were reducing purchases by $30 billion per month. Now, they are planning to reduce purchases by $60 billion per month. At this pace, the Federal Reserve will no longer be adding to its balance sheet by the end of March 2022. While this may appear to be simply the obscure operations of a financial institution, from their actions we are able to discern their goals so that we can take advantage of the environment within our portfolio allocations. When they conclude adding to the balance sheet, the next step will be one or both of the following: increasing the federal funds interest rate and/or allowing the balance sheet to fall further.

We believe that the most likely measure will be to increase the federal funds rate, as it is a maneuver the market is more familiar with and has seen many times. Reducing the balance sheet is something that Federal Reserve officials have experimented with in 2018. However, when the market began to show signs of stress as the year concluded, they reversed course and resumed investing principal and interest payments back into treasury bonds which prevented the balance sheet from declining further[11].

Hopefully, it is reasonably easy to identify why these three investment themes are heavily related. The pandemic's path is likely to dictate the speed at which supply chains normalize, the Federal Reserve's policy is expected to take its effects into account, and their actions will seek to control inflationary forces in the economy. These interrelated circumstances will combine to create the economic (and thus, market) environment of 2022.

To respond, Vicus Capital has positioned its portfolios in a manner that seeks to benefit from the expected situation. Because of inflationary forces, expected Federal Reserve action, and rising economic growth, we expect interest rates to rise. To take advantage of this, we continue to hold our stance of a reduced duration within our fixed income allocations. Specifically, this means that we are reducing our allocations' sensitivity to changes in bond prices. On the equity side, we remain tilted towards companies that are smaller in market capitalization as these firms are generally

13 Wall Street Journal. Jennifer Smith, Paul Berger, and Lydia O'Neal. Shipping and Logistics Costs are Expected to Keep Rising in 2022 (December 19, 2021)

14 Bureau of Labor Statistics. Consumer Price Index – November 2021 (December 10, 2021)

15 Federal Reserve of St. Louis. Assets: Total Assets (Less Eliminations from Consolidation) (December 31, 2021)

16 Minutes of the Federal Open Market Committee December 14-15, 2021 (December 15, 2021)

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more cyclically oriented and thus, should benefit in an environment of robust nominal growth which is defined as real GDP growth plus the inflation rate. As we noted last quarter, we remain confident that this positioning will permit portfolios to benefit from what we believe is the forthcoming environment, but without taking on undue or excessive risks. As we commence the new year and continue to look for opportunities, we want to wish everyone a happy and healthy 2022.

Economic Perspectives

Economic Growth & Profits

- Real gross domestic product (GDP) for the third quarter of 2021, according to the Bureau of Economic Analysis (BEA), came in at an annualized rate of 2.3% versus 6.7% in the second quarter. This rise in GDP was created by increasing non-residential investment and goods inventory. It was slightly offset by a decrease in exports, residential fixed investment, and federal government spending[17].
- Looking to the corporate realm, the BEA observed that corporate profits from current production increased $96.9 billion in the third quarter of 2021 which is only about 1/3 of the gain seen in the second quarter and is commensurate with the change in GDP[17].

Interest Rates

- The Federal Reserve noted that it will continue using its "full range of tools" to support the goals of promoting maximum employment and price stability. As was the case last quarter, the Federal Reserve remains committed to maintaining its accommodative monetary policy with the hallmarks of low interest rates and asset purchases of both treasury bonds and mortgage-backed securities but is now reducing its asset purchases by $30 billion per month[18]. At this current pace, they will no longer be adding to their balance sheet by March 2022.
- The Federal Reserve also notes that "The path of the economy continues to depend on the course of the virus...[but] progress on vaccinations and an easing of supply constraints are expected to support continued gains in economic activity and employment as well as a reduction in inflation[18]."

Employment

- Total non-farm payroll employment rose by 210,000 in November which caused the official unemployment rate decline 0.4% from 4.6% to 4.2%. The labor force participation rate ticked up marginally to 61.8% but is still 1.5% lower than the pre-pandemic time period[19].
- In November, job gains were led by professional and business services, transportation and warehousing, construction, and manufacturing which added 90,000, 50,000, 31,000 and 31,000 jobs respectively[19].
- The average workweek for all employees on private non-farm payrolls increased slightly to 34.8 hour. The average hourly earnings rose by 8 cents per hour to $31.03, 4.8% higher than one-year ago[19].
- The broader U-6 measurement of unemployment continued its decline and now sits at 7.8% on a seasonally-adjusted basis; far lower than the 11.6% reading observed in November 2020[19].

Inflation

- According to the Bureau of Labor Statistics, the Consumer Price Index for All Urban Consumers (CPI-U) rose 0.8% in November on a seasonally-adjusted basis after increasing 0.9% in October. This resulted in a total 12 month increase of 6.8%; a level not encountered since June 1982. The largest contributors were fuel costs (+58.0%), used

17 U.S. Department of Commerce: Bureau of Economic Analysis - Gross Domestic Product: 3rd Quarter 2021 (December 22, 2021)

18 U.S. Federal Reserve - Federal Reserve Issues FOMC Statement (December 15, 2021)

19 U.S. Department of Labor: Bureau of Labor Statistics - The Employment Situation, November 2021 (December 3, 2021)

continued

vehicles (+31.4%), new vehicles (+11.1%), and food (+6.1%)[20].

- The Core-CPI, a popular indicator that looks at all items except food and energy, rose 4.9%, implying that much, but not all, of the inflationary spike has been associated with those more volatile categories. Over the prior 12 months, the Core-CPI lags the CPI-U by 1.9%, demonstrating that food and energy costs have heavily driven the direction of the index despite only equating to about 20% of the index's composition[20].

Risks and Observations

- Recent stock market performance has elevated equity price multiples and, as the brisk pace of economic growth is expected to wane over 2022 and beyond, this could result in valuation being an impediment to further appreciation.
- Inflation remains an important item to monitor as CPI, noted above, is currently over triple the Federal Reserve's target. While we expect that we may be seeing the peak of inflation currently, it remains a risk to the economy at large and specifically to the fixed income asset class as inflation typically leads to rising bond yields and falling bond prices.
- While all signs are pointing to the Omicron variant of the coronavirus as being mild relative to prior strains, Vicus Capital will continue to monitor the evolving situation to determine if allocation changes would be prudent.
- The Chinese real estate market continues to operate on tenuous ground. As their economy slows from the high growth of the past few decades, it is likely that their central planners will seek to stimulate capital markets with liquidity. This is apt to induce a period of elevated volatility as market participants are now faced with balancing expectations of stimulus against concerns over debt levels and a slowing economy.
- Lastly, we will continue to monitor the actions of the Federal Reserve. With bond purchases set to decline to zero by March, all eyes will be on changes to the federal funds rate, the interest rate that the Federal Reserve directly controls. Rising interest rates may cause shifts not only in fixed income markets, but in equity markets as well. This is due to companies not having a uniform sensitivity to changes in rates based on their debt loads, current valuations, and varying rates of growth. Over the course of 2021, we have increased exposure to cyclical equities that we believe will benefit from the upcoming environment and have reduced fixed income duration to lower our portfolios' sensitivity to potential declines in the bond market caused by rising interest rates.

20 U.S. Department of Labor: Bureau of Labor Statistics - Consumer Price Index, November 2021 (December 10, 2021)

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Disclosure

Opinions and/or statements regarding market trends and estimates provided are subject to change without notice and are based upon current market conditions. Portions of the information and historical data provided in this document have been gathered from reliable sources and provided to Vicus Capital and is believed to be accurate and credible. Vicus Capital makes no guarantee as to the complete accuracy of this information. Please remember that past performance may not be indicative of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product (including the investments and/or investment strategies recommended or undertaken by Vicus Capital), or any non-investment related content, made reference to directly or indirectly in this document will be profitable, equal any corresponding indicated historical performance level(s), be suitable for your portfolio or individual situation, or prove successful. Due to various factors, including changing market conditions and/or applicable laws, the content may no longer be reflective of current opinions or positions. Moreover, you should not assume that any discussion or information contained in this document serves as the receipt of, or as a substitute for, personalized investment advice from Vicus Capital. To the extent that a reader has any questions regarding the applicability of any specific issue discussed above to his/her individual situation, he/she is encouraged to consult with the professional advisor of his/her choosing. Vicus Capital is neither a law firm nor a certified public accounting firm and no portion of the newsletter content should be construed as legal or accounting advice. If you are a Vicus Capital client, please remember to contact Vicus Capital, in writing, if there are any changes in your personal/financial situation or investment objectives for the purpose of reviewing/evaluating/revising our previous recommendations and/or services. A copy of Vicus Capital's current written disclosure statement discussing our advisory services and fees is available upon request. Various investments and securities are mentioned in this document. The inclusion of these investments and securities in the presentation should NOT be considered a recommendation to purchase or sell any securities or investments mentioned. Consult your investment professional on how the purchase or sale of securities and investments meets your investment objectives and risk tolerances.

Financial Planning and Investment Advisory Services offered through Vicus Capital, Inc., a federally Registered Investment Advisor.

Index Returns Table

Index	Total Return (%) 3 Mo (Mo-End) USD	Total Return (%) 1 Yr (Mo-End) USD	Total Return (%) Annualized 3 Yr (Mo-End) USD	Total Return (%) Annualized 5 Yr (Mo-End) USD
DJ Industrial Average TR USD	7.87	20.95	18.49	15.51
S&P 500 TR USD	11.03	28.71	26.07	18.47
S&P 400 Mid Cap TR USD	8.00	24.76	21.41	13.09
S&P 600 Small Cap TR USD	5.64	26.82	20.11	12.42
MSCI KLD 400 Social GR USD	12.04	31.63	28.03	19.75
MSCI EAFE NR USD	2.69	11.26	13.54	9.55
MSCI EM NR USD	-1.31	-2.54	10.94	9.87
Bloomberg U.S. Agg Bond TR USD	0.01	-1.54	4.79	3.57
Bloomberg Global Agg Bond TR USD	-0.67	-4.71	3.59	3.36
S&P GSCI Spot	0.62	37.05	14.45	7.10
S&P Target Risk Cons. TR USD	2.07	4.99	9.48	6.97
S&P Target Risk Mod. TR USD	2.77	7.12	11.03	8.05
S&P Target Risk Aggr. TR USD	5.55	15.62	17.09	12.23

Source: Morningstar® as of December 31, 2021

The Dow Jones Industrial Average is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange (NYSE) and the NASDAQ. The MSCI U.S. Broad Market Index is comprised of nearly 100% of the total market capitalization of U.S. stocks traded on the NYSE and the NASDAQ. The S&P 500 Index is a market capitalization free-float adjusted index of the prices of 500 large capitalization common stocks traded in the United States. The S&P 400 Mid Cap Index serves as a barometer for the U.S. mid-cap equities sector and includes stocks with total market capitalization that ranges from roughly $750 million to $3 billion. The S&P 600 Small Cap Index covers a broad range of U.S. small cap stocks and is weighted according to market capitalization covering about 3-4% of the total market for U.S. equities. The MSCI KLD 400 Social Index is a free float-adjusted market capitalization index designed to target U.S. companies that have positive environmental, social, and governance (ESG) characteristics. The MSCI EAFE Index is a market capitalization weighted index and is designed to measure the equity market performance of developed markets (Europe, Australasia, and Far East) excluding the U.S. and Canada. The MSCI EM NR USD Index is a free-float adjusted market capitalization index that is designed to measure the equity market performance in the global emerging markets. The Bloomberg Aggregate Bond Index is a market-capitalization weighted index that is considered to be representative of U.S. traded investment grade bonds. The Bloomberg Global Aggregate Bond Index includes government securities, mortgage-backed securities, asset-based securities and corporate securities to simulate the universe of bonds in the market. The S&P GSCI Spot is a composite index of commodity sector returns which represents a broadly diversified, unleveraged, long-only position in commodity futures. The S&P Target Risk series of indices comprise multi asset class indices that correspond to a particular risk tolerance with varying levels of exposure to equities and fixed income intended to represent stock and bond allocations across a risk spectrum. The market indices referenced are unmanaged. You cannot invest directly in an index.