SPRING 2022 MARKET OUTLOOK

Our Outlook

	2021	2022 Est	2023 Est	2024 Est
GDP Growth [1]	5.6%	2.7%	1.7%	1.8%
Change in Consumer Prices [2]	7.1%	6.3%	3.3%	2.3%
Fed Funds Target Rate [3]	0.25%	1.50%	2.25%	2.25%
5-Year Treasury Yield [3]	1.26%	2.00%	2.50%	2.50%
10-Year Treasury Yield [3]	1.51%	2.50%	3.00%	3.00%
S&P 500 EPS	$206	$222	$230	$240

Last Month's Rates and Returns

February 28, 2022	Value	One Month Change	YTD	1 Year Change
Fed Funds Target (Upper)	0.25%	--	--	--
2-Year Treasury Yield	1.43%	+27 bp	+70 bp	+129 bp
5-Year Treasury Yield	1.71%	+10 bp	+45 bp	+93 bp
10-Year Treasury Yield	1.84%	+6 bp	+33 bp	+38 bp
SNL 30Yr Fixed – U.S. Avg.	3.68%	+29 bp	+52 bp	+63 bp
S&P 500 Index*	4,374	-2.99%	-8.01%	16.39%
S&P Midcap 400*	2,661	1.11%	-6.18%	7.98%
S&P Small Cap 600*	1,316	1.40%	-5.97%	4.22%
S&P SuperComposite 1500*	999	-2.66%	-7.86%	15.54%
S&P 500 Growth*	2,952	-4.50%	-12.49%	16.11%
S&P 500 Value*	1,496	-1.44%	-3.04%	16.18%
World ex US, net **	282	-1.98%	-5.59%	-0.40%
Liquid Alternatives ***	180	-0.94%	-2.00%	1.43%
BB U.S. Aggregate *	101	-1.12%	-3.25%	-2.64%
Crude Oil – WTI Near Term	$96	8.59%	27.27%	55.64%
Bitcoin ****	40,838	8.25%	-14.83%	-14.26%
Gold – Near Term	$1,899	5.82%	3.93%	9.91%

** = Total return **= MSCI ACWI ex US **** = Wilshire Liquid Alternative Index **** = FT Wilshire Bitcoin Blended Price*

Security National Bank's Wealth Management Market Outlook will now publish in March, June, September, and December, a month earlier than previously.

Prepared by Damian Howard and John Gibb March 9, 2022

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Security National Bank's Wealth Management Department authors a monthly economic forecast that provides our Investment Committee and the Bank's Funds Management Committee background assumptions for use in investment decisions. We are pleased to share our economic outlook with you. Be advised our crystal ball is just as clouded as other prognosticators and that all forecasters have poor track records.

Throughout this report, we will use the abbreviations: FRB for the Federal Reserve Bank and FOMC for the Federal Open Market Committee. The FOMC is part of the FRB that meets eight times per year to set monetary policy.

We will use the terms nominal and real. Nominal values are measured in terms of money. Things that are counted in the real world. Retail sales, personal income, and expenditures are usually reported in nominal dollars. Corporate earnings and sales are reported in nominal dollars. Real values are adjusted for inflation, nominal values less inflation. Real values enable comparisons that are not distorted by inflation. GDP numbers are usually reported as real growth

We would like to point out our projections are based on what we think monetary and fiscal policymakers *will* do, not what they *should* do.

Geopolitical Events Driving Stock Prices
In February, global stocks declined by 2.58%, with U.S. stocks down 2.66% and international stocks down 1.98%.

The catalyst for the most recent sell-off was the invasion of Ukraine. Although the situation is volatile, it does not appear that the conflict will escalate beyond Ukraine. That being said, there is not much hope for a near-term solution. Geopolitical issues may result in a volatile couple of months. As seen in the chart at the right, geopolitical conflicts tend to have a short-lived impact on stock markets.

The energy sector is the only sector to show positive returns for February and the year-to-date period. Energy was the best performing sector with a return of 7.13% in February. The next best performing sector was Industrials, down 0.87%. The two worst performing sectors were Communication Services, down 6.98%, and Real Estate, down 4.91%. Year to date, the Energy sector has returned 27.59%, the next best performing sector was Financial Services, down 1.3%. The two worst performing sectors were Consumer Discretionary, down 13.28%, and Real Estate down 13.00%.

The FRB Remains on Track
It is all but certain that the FRB will raise rates on March 16. The chart below compares our rate forecast to the rate forecast computed by the CME FedWatch tool. Over the last month, the market-based CME forecast has removed the equivalent of two rate hikes from 2022.

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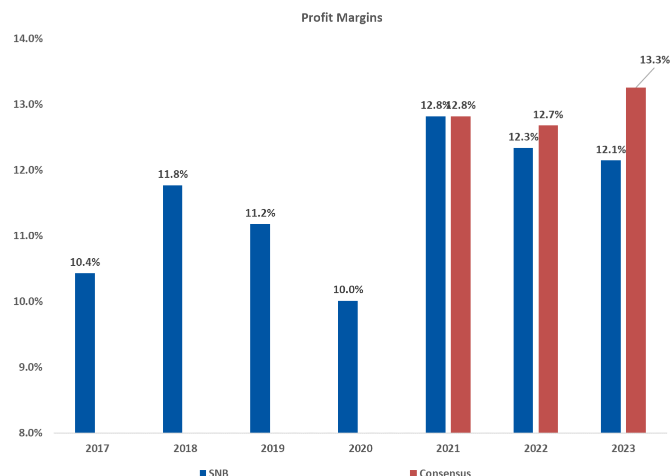
We have added a hike in May, representing five 0.25% hikes this year. Both forecasts have the Fed Funds ending 2022 at 1.50% for a combined increase of 1.25%.

Meeting Date	Fed Funds Futures	SNB Forecast
March 16	0.50%	0.50%
May 4	0.75%	0.75%
June 15	1.00%	0.75%
July 25*	1.25%	1.00%
September 21	1.25%	1.25%
November 2	1.50%	1.25%
December 14	1.50%	1.50%
2023		
February 1	1.75%	1.75%
March 15	1.75%	2.00%
May 3	1.75%	2.25%
June 14	2.00%	2.25%
July 26	2.00%	2.25%

Over the last couple of days, Treasury prices have rallied as investors seek a haven from market turmoil brought on by Russia's assault of Ukraine. It is impossible to know how far interest rates may fall or how long this flight to safety will last. The 10-year Treasury rate peaked at 2.05% on February 16. It is currently at 1.71%, a decrease of 0.34%. The yield curve has also flatted beyond six months. The drop in the benchmark Treasury has flowed through to mortgage rates. New home buyers may have a short-lived reprieve from rising mortgage rates. We expect interest rates will remain volatile for the next couple of weeks.

Earnings Expectations are Too High

Earnings expectations are likely too high and will need to be ratcheted down. This will add volatility to stock prices and earnings expectations. Ultimately, investors will likely assign a premium to higher predictability of revenue, margins, and earnings.



Consensus estimates for the S&P 500 index have record margins continuing into 2022 and improving further next year. We believe rising wage costs will erode profit margins. As consumer purchasing preferences shift back to services, goods-producing companies will lose

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pricing power, especially in Consumer Discretionary and Staples sectors. Corporations are rebuilding their inventories. As inventories are rebuilt, companies generally lose some pricing power. In addition, double ordering raises the risk of inventory obsolescence and discounting.

Not all the reduced margin expectations translate into reduced earnings. We forecast slightly higher revenue growth than consensus. This reduces the earnings impact of lower margins and is primarily due to our higher inflation expectations.

Interestingly, our concerns have not materialized in lower 2023 consensus expectations. On June 30, 2021, consensus expectations for 2023 were $229.28. By February 28, consensus expectations had risen to $246.41. We currently expect 2023 S&500 Index earnings to be $230, 7% below consensus.

Russian Invasion of Ukraine is an Unknown Unknown.
Russian geopolitics are very difficult to analyze. There may only be one person who knows what Russia will do next and he is an aging, bitter dictator. The war in Ukraine will continue to be a source for equity and fixed income volatility. The invasion adds to the overall risk that things can go horribly wrong.

One of the immediate impacts of the invasion is the rise in energy prices. WTI Crude has spiked to $111 per barrel, up 49% YTD. While energy is a smaller part of the economy, higher oil prices will lead to higher inflation. The spike in energy prices may be short-lived if the U.S. and OPEC ramp up production. It is still too early to make that call. The U.S. imported only a net $8.4 billion of petroleum products in 2021, after running a surplus of $14.0 billion the year before. The petroleum products trade balance is a rounding error compared to the $24 trillion U.S. economy. The income impact of higher oil prices on the overall economy is also relatively benign. It shifts wealth from energy-consuming sectors/states to energy-producing sectors/states.

The Security National Bank Wealth Management team's primary occupation is investing. While our Wealth Advisor John Gibb is a veteran who honorably served in wartime, he was not an admiral nor a military expert. I have even less insight into Ukrainian military matters. We will try to avoid comments on the actual fighting and outcome of the war.

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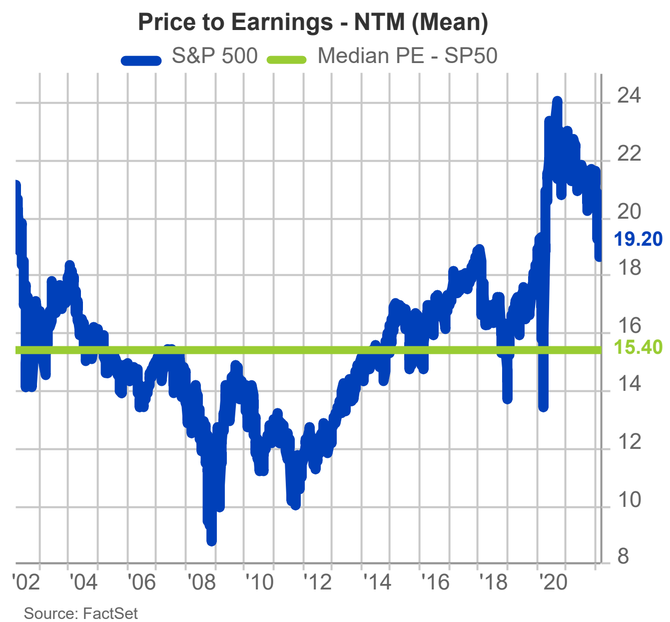
Market Multiples have Further Room to Compress

The forward 12-month P/E ratio for the S&P500 is now 19.3. On January 3, 2022, the S&P 500 closed at a record-high value of 4796.56. The forward P/E on that date was 21.4. From then to March 2, 2022, the price of the S&P 500 Index decreased by 8.56%. While the forward P/E decreased by 9.91%. The derating of the forward P/E has come primarily through falling stock prices, the P in P/E. The E, earnings, has risen only a modest 0.5%.



The market's P/E is above the five-year average of 18.0 times, above the ten-year average of 16.8 times, and above the twenty-year average of 15.4.

We do not expect the market's P/E to revert to its 20-year average anytime soon. This would require a 30% drop in stock prices. Interest rates are lower than they have been over the last twenty years. The current market valuation is a poor predictor of near-term stock market returns. The explanatory power (R2) of P/E is only slightly better at predicting long-term returns (R2 of 38% vs. 3%).

We expect the stock market to eventually trade within a 16X to 18X range. This most likely means several years of low returns while earnings growth lowers P/Es. E grows faster than P.

A 2% total return for 2022 would mean a 9% price improvement from February 2022. Investing in stocks based on a forecast of future-forward P/Es has been a foolish exercise. There is no statistical proof of its predictive power and doing that would have led an investor to miss last year's stellar gains. We have found it more profitable to invest in companies for the long haul, not the market for the short term.

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If you have any questions or comments, please contact us.

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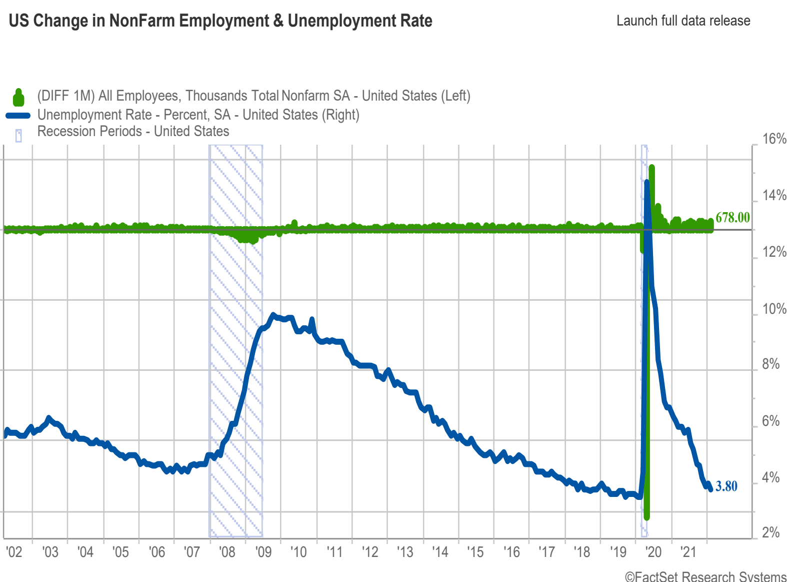
Since 1977, the Federal Reserve has operated under a mandate from Congress to "promote effectively the goals of maximum employment, stable prices, and moderate long-term interest rates" – what is now commonly referred to as the Fed's "dual mandate." For this reason, Security National Bank's Wealth Management team always starts our economic review with employment followed by inflation. We then review other factors that drive our outlook.

Employment

The U.S. Bureau of Labor Statistics (BLS) reported the economy added 678,000 jobs in February versus the consensus estimate of 400,000 jobs added. The previous two months' payrolls were revised up a total of 92,000. The unemployment rate ticked down to 3.8% as the labor force expanded by 304,000. The number of unemployed persons decreased by 243,000 to 6.3 million. Before the pandemic, the unemployment rate was 3.5%, and the unemployed persons numbered 5.7 million. By these measures, the labor market has more than substantially healed.



The private sector added 654,000 jobs versus the consensus estimate of 340,000 private-sector jobs added. Job growth was widespread, with notable gains in leisure and hospitality (up 179,000), professional and business services (up 95,000), healthcare (up 64,000), and construction (up 60,000). Auto manufacturing, the only sector with notable job losses, lost 18,000 due to its continuing supply chain struggles.

The BLS reports statistics from two monthly surveys. The household survey measures labor force status, including unemployment, by demographic characteristics. The establishment survey measures non-farm employment, hours, and earnings by industry. There can be some differences in the numbers. The household survey puts the change in employment at a gain of 304,000jobs while the establishment puts the change in employment at 678,000. The household survey put the cumulative job losses since February 2020 at 1.14 million or 0.72% of then-existing jobs. The establishment survey puts the cumulative losses at 2.1 million.

The unemployment rate decreased 0.2% to 3.8%. The number of officially unemployed persons decreased by 243,000 to 6.3 million. The broader U-6 unemployment rate rose to 7.2% from 7.1% the previous month.

The participation rate rose by 0.1% to 62.3%. The participation rate was 62.7% in February 2020. The employment-to-population ratio rose by 0.2% to 59.9%. This number was 61.2% in February 2020. If the

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employment-to-population ratio were to return to the February 2020 level, the number of employed persons would increase to 161.2 million, and an additional 3.4 million jobs would be added for an increase of 2.2%.

In December, 4.2 million persons reported that they had been unable to work at all or worked fewer hours at some point during the month because their employer closed or lost business due to the pandemic. This measure is down substantially from the 6.0 million reported last month.

Last month's average hourly earnings (wages) grew by only $0.01 per hour to $31.58 (January's number was revised down by $0.06 to $31.57). The consensus was for a 0.50% m/m increase in hourly earnings. Average hourly earnings are up $1.54 per hour, or 5.1% y/y versus a consensus estimate of 5.8%. One month does not make a trend, but slower wage growth may provide some relief on the inflation front after significant increases in prior months. Workers are returning to the workforce making it a bit easier for businesses to hire as evident by the increased participation rate and flat wages. Eight of 14 sectors saw average wages fall m/m.

The average workweek rose by 0.1 hours to 34.7 hours. Average weekly earnings increased $3.51 or 0.32% from the previous month. Average weekly earnings are up 5.15% y/y. Average weekly earnings were $1,096 ($56,983 annualized) versus $1,039 ($54,048 annualized) last year.

The economy remains only 1 to 2 million jobs below its pre-pandemic level. Adjusting for population growth, the economy is 3 to 4 million workers. The labor market has substantially recovered. The limiting factor for job growth is labor availability. The FRB should, at least, be at a neutral Fed Funds Rate at this point in the economic cycle. We view 2.25% as a good approximation of a neutral Fed Funds Rate.

Previously we laid out several interest rate scenarios. While labor markets could support a faster pace of rate hikes, the FRB is likely to be more gradual in its approach. As we mentioned earlier, we do not base our outlook on what we believe fiscal and monetary policymakers should do, but rather on the path they are likely to take. We believe the FRB should have stopped buying bonds and raised rates in early 2021. They did not; now, we are facing significant inflation. Interest rates will rise at a glacial pace, inflation will run higher for longer, but eventually, we will get to a neutral interest rate in 2023. At that point, the FRB is likely to pause for an extended time to reassess the economic landscape.

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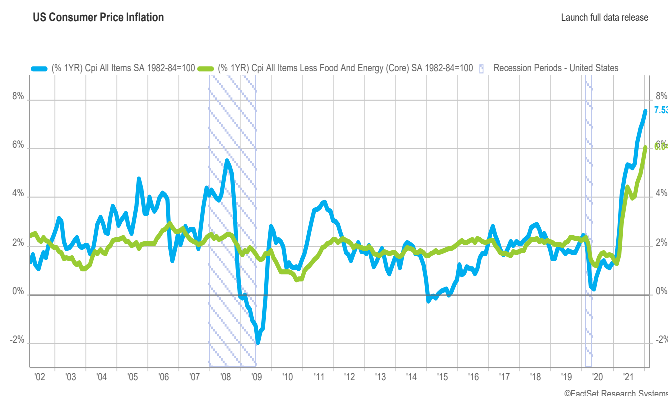
Inflation

A direct impact of the war in Ukraine is higher energy prices, especially oil. Various economists have modeled a sustained $25 per barrel increase in oil prices causing a 0.5% to 1% increase in headline inflation. Higher inflation has historically dampened consumer purchases of goods and non-energy services. Reduced goods purchases will lessen the burden on the overstretched supply chains, allowing quicker normalization. Prices for goods will moderate, especially for used cars, offsetting some of the impact of energy inflation. We have not adjusted our inflation forecast for the higher energy prices, and it is much too soon to make that call. February consumer prices will be reported March 10.

The Consumer Price Index (CPI) increased 0.65% in January, well above the consensus expectation of 0.4% and slightly above our 0.58% forecast. In January, inflation held steady versus an expectation of a decelerating trend. Consumer prices are up 7.5% y/y, the largest annual increase in 40 years (1982). Over the last six months, inflation has run at a 7.3% annualized rate.



Used car prices rose 1.5% in the January CPI report. There may be some relief in the coming months. The Manheim Used Vehicle Index which measures wholesale prices, declined slightly in the first 15 days of February and is down 1.4% since the start of the year. Price declines have accelerated over the course of the month with younger models declining faster than older models. Pricing power is slowly shifting to buyers, especially in younger vehicles.

Rent of shelter increased by 0.4% during January and is up 4.4% y/y. Last year, the y/y increase in shelter was only 1.6%. The increase in shelter inflation has added 0.9% to overall inflation. We expect shelter costs will increase an additional 1% for 2022, adding upward pressure on the CPI. According to RealPage, apartment rents are up 15% y/y for move-in leases and 8% for renewals. Occupancy is at an all-time high of 97.6%, indicating continued robust demand. Occupancy tops 96% in 146 of the nation's 150 largest metro areas. In addition to soaring rent, home prices are up close to 18.3% y/y. Shelter rent is 32% of the overall CPI basket.

Food prices rose 0.9% m/m and are up 7.0% y/y. Energy prices also rose 0.9% m/m and are up 27.0% y/y. Core prices rose 0.58% m/m and are up 6.0% y/y.

Five-Year Breakeven Inflation Rates have risen with oil prices and are now 3.14%, up from 2.81% on February 10. Breakeven Inflation Rate implies what market participants expect inflation to be in the next

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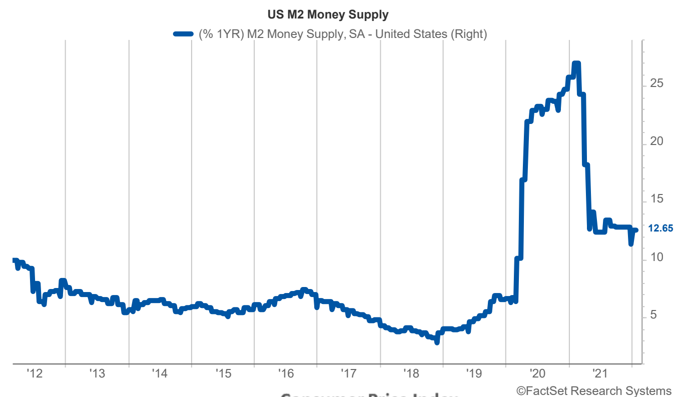
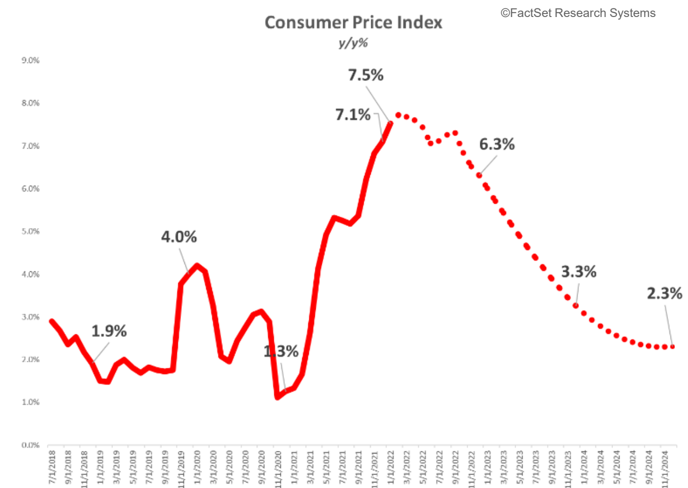
5 years, on average. 5-Year, 5-Year Forward Inflation Expectations have held steady and imply that inflation will average 2.1% from 2027 thru 2031. We believe a steady course of rate increases coupled with quantitative tightening (Q.T.) will keep inflation expectations stable long enough for the money supply growth to return to long-term growth rates of 5% to 8%.

Please see the chart below for our latest inflation forecast. Our inflation expectations have remained stable. We expect monthly inflation to have peaked in October and year-over-year measures of inflation to peak in February. The rate of inflation should fade (disinflation) as supply chains normalize.



The FRB prefers the Personal Consumption Expenditure (PCE) as its measure of inflation. Due primarily to differences in how health care costs are allocated between employers and consumers, the PCE tends to run 0.30% below the CPI.

We expect inflation to return to the FRB's target level of 2.3% (2% PCE) but not until the end of 2023 with y/y inflation not achieving the FRB's target until the end of 2024.



The FRB may feel that it needs to backstop Europe during the Ukrainian war. Higher energy prices will slow European growth and raise European inflation. Some of that inflation may be imported into the U.S. Geopolitics may force the FRB to tolerate higher inflation until the landscape becomes clearer.

Prepared by Damian Howard and John Gibb

March 9, 2022

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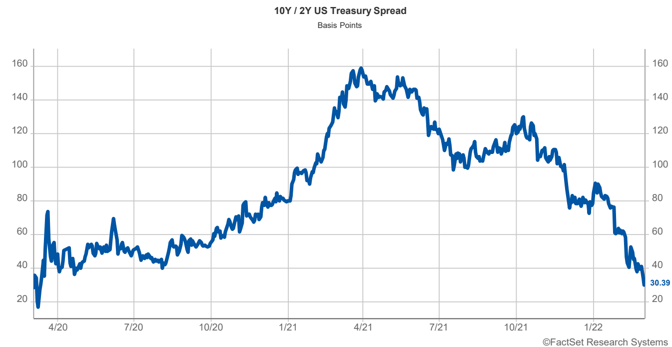
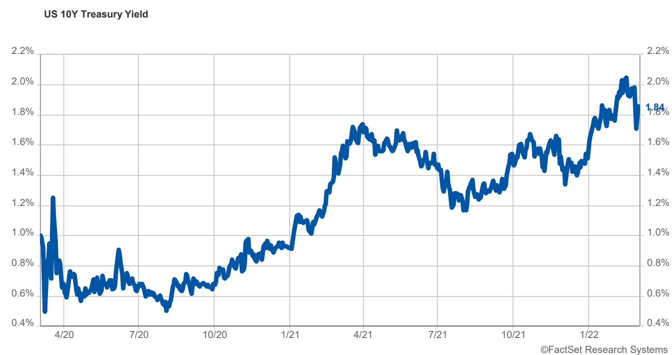
Credit Markets

As noted above, inflation continued to surprise the upside as prices rose higher month over month, resulting in an annualized CPI rate that was the highest in 40 years. Treasury yields climbed sharply on the data, with the 10-year yield increasing from 1.79% to 2.04% by mid-month on expectations that the Fed would hike rates faster than previously expected. Two-year yields rose 0.26% to 1.44%, while then 10-year and 30-year yields only rose 0.05% and 0.06%, respectively, flattening the curve.



Following the February 24 invasion of Ukraine, as investors began to reconsider the negative impact on global growth and the potential for fewer rate hikes, Treasury yields fell sharply. The 10-year yield fell to 1.83%, up just 0.05% for the month. The Bloomberg Barclays Aggregate Index lost 1.12% during the month, with prices declining 1.33%, offset by 0.21% of income.

The Fed tightening expectations, global uncertainty, and mutual fund outflows weighed on the credit markets in February. The Bloomberg Barclays (B.B.) U.S. Corporate Investment Grade index sank 2.00%, comprised of 0.32% from income, combined with a negative 2.32% price return. Credit spreads widened, rising to 1.22% vs. 1.07% the month prior. The index has an interest rate sensitivity of 8.25-years (effective duration).



The B.B. High Yield index, comprised of corporate bonds with below investment grade ratings, was also under pressure during the month with a total return of -1.03%. The index provided 0.52% of income during the month, offsetting a price decline of -1.55% Credit spreads widened by 0.17% to 3.59%, still materially below long-term averages. The index has a 4.0-year effective duration.

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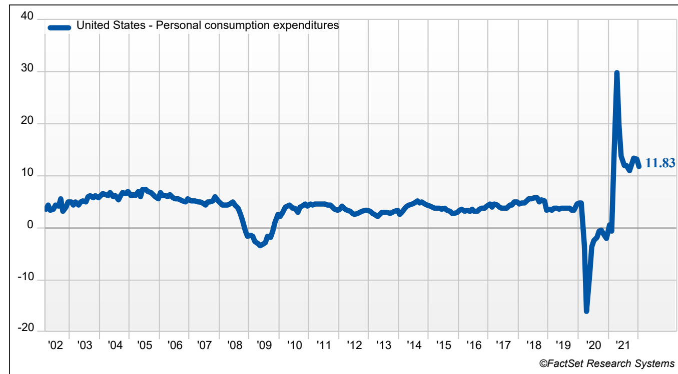
The Consumer Sector

Income is growing for American consumers, but, unfortunately, inflation is eating their gains. When adjusting for inflation, consumer purchases are down. Consumers have begun to draw down the massive nest egg established since the pandemic's start. We look for the savings rate to fall a bit further as consumers draw on some of the excess savings to support continued consumption. While the jobs market is hot, consumer confidence is shaken by the spike in inflation.

Personal income was flat in January. Disposable personal income rose 0.1% m/m. Government transfer payments were down 1.3% m/m and are down 32.2% y/y. Personal income, excluding government transfer payments, rose 0.4% m/m. The Personal Consumption Expenditures Price Index (PCE) rose 0.6% during January. As a result, real income fell 0.6% during the month. Real disposable personal income per capita was down 0.5% m/m. Despite rising wages, the consumer is falling behind.



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During the month, consumers saved 6.4% of disposable income, significantly less than the 7.4% savings rate that prevailed before the pandemic. It appears consumers dipped into their savings in January to the tune of $189 billion. We estimate that consumers continue to have $2.4 trillion in excess savings or about 14.7% of annual purchases of goods and services. About a third of this is likely to be spent over the next year or so as consumers look to maintain their level of spending.

The Consumer Confidence Index, compiled by the Conference Board, fell 0.6 points to 110.5. Consumers' perception of the present situation rose while expectations for six months fell. The present situation component rose 0.6 points to 145.1. The forward-looking expectation component fell by 1.3 points to 87.5.

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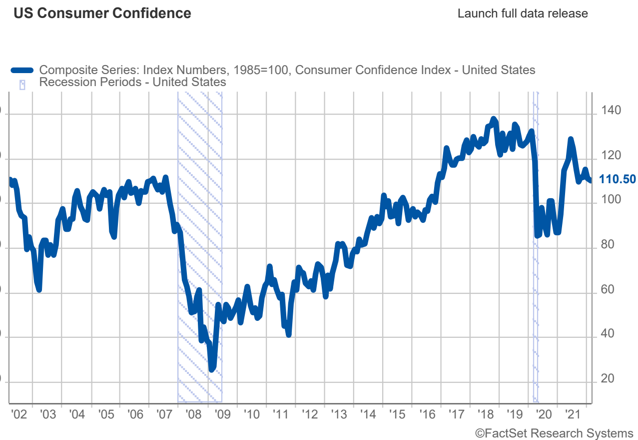
Consumers' perception of the labor market softened a bit but remained near record territory. The current conditions net employment sub-index (plentiful - hard to get) fell to 42.0 from 43.0 the previous month. This measure peaked at 44.7 in November. Consumers' perception about employment conditions in six months also softened a bit as the net sub-index (more jobs – fewer jobs) fell to 3.4 from 5.5 the previous month.



Respondents' perception about current business conditions rose as the net sub-index (good-bad) rose to -6.0 from -7.4 the previous month. Consumers' outlook about business conditions in six months improved as the net sub-index (better - worse) rose to 5.3 from 3.9 the previous month.

Consumers' perception about their household income in six months weakened slightly as the net sub-index (an increase in income – a decrease in income) fell to 3.6 from 4.1 the previous month. Slightly more households believe their economic circumstance will improve. This measure is down from 11.6 in June. Consumers are becoming more concerned, primarily due to inflation.

Consumers' expectations for inflation twelve months hence increased a bit. Consumers forecast inflation will be 7.0% in twelve months. Inflation expectations have remained above 6.0% since December 2020. Consumers' inflation expectations are elevated. They appear, however, to be stable.

Consumers' expectations of interest rates in twelve months remain elevated as the net sub-index (higher interest rates – lower interest rates) rose to 57.9 from 49.9 the previous month. Consumers are preparing for higher interest rates. The FRB's rate plan has been well telegraphed and understood by consumers. The likelihood of a rate shock is quite low.

The U.S. is anniversarying the two large stimulus checks. This will make year-over-year comparisons difficult. Y/Y government benefits fell 32.2% y/y. Personal income was down 2.1% y/y. The y/y statistics will be messy for the rest of the year and can lead to exaggerated headlines by the 24/7 news channels. Please do not be misled by such fearmongering.

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The Business Sector

The Institute for Supply Management (ISM) produces a monthly report on activity in manufacturing and the non-manufacturing (service) sectors. The reports are sentiment-driven and can be influenced by current events. Nonetheless, they do provide real-time clues to what is happening. The surveys were conducted before Russia's invasion of Ukraine. The impact of the assault was not captured in the data. This is especially true for global surveys.

January's non-manufacturing index fell 3.4 points to 56.5, below the consensus expected 61.1. Activity in the services sector has grown for 21 months in a row. While the index registered a pullback, the rate of growth remains strong. The broad-based expansion continues. Rising prices, labor shortages, and supply chain constraints have prevented the service sector from growing even faster. Growth is likely to pick up once these constraints ease. It also appears the manufacturing sector is a bit ahead of the service sector in clearing roadblocks.

Non-Manufacturing Sector	Direction	Rate of Change
Business Activity / Production	Growing	Slower
New Orders	Growing	Slower
Employment	Contracting	From Growing
Supplier Deliveries	Slowing	Faster
Customer Inventories		
Non-Manufacturing Sector	**Growing**	**Slower**
Industries Expanding	14	
Industries Contracting	4	

The business activities/production component fell 4.8 points to 55.1. Thirteen industries reported an increase in business activity for the month, while only 4 industries reported a decrease in activity. Comments from respondents include: "More operations returning to near normal."

The new orders component fell by 5.6 points to 56.1. Eleven industries reported an increase in orders, while only three industries reported a decrease in orders.

The employment index fell by 3.8 points to 48.5, indicating that employment contracted for the first time since June 2021 in the service sector. Seven industries reported an increase in employment. Eight industries reported a reduction in employment. Comments from respondents include: "Open positions are not being filled, and candidates are looking for more money."

The supplier deliveries component rose by 0.5 points to 66.2. A reading above 50 percent indicates slower deliveries, while a reading below 50 percent indicates faster deliveries. Sixteen industries reported slower deliveries. No industry reported faster deliveries.

Prices paid for materials and services increased at a modest pace. The price component rose 0.8 points to 83.1, as all eighteen industries reported higher costs.

As a frame of reference, a reading above 50 indicates expansion; a reading below 50 indicates contraction. Readings approximating 50 denote the same level of activity.

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The manufacturing index rose 1.0 points to 58.6, beating the consensus estimate of 58.0. The above-50 figure indicates the manufacturing sector has expanded for twenty-one straight months. The two forward-looking measures, new orders and production, each expanded. Unfortunately, supply deliveries worsened. The pace of inflation improved slightly.

The production component rose 0.7 points to 58.5. The new orders component rose 3.8 points to 61.7. The employment component fell 1.6 points to 52.9, indicating expanding manufacturing employment. Ten industries reported employment growth. Three industries reported a decrease in employment.

Manufacturing Sector	Direction	Rate of Change
Production	Growing	Faster
New Orders	Growing	Faster
Employment	Growing	Slower
Supplier Deliveries	Slowing	Faster
Customer Inventories	Too Low	Faster
Manufacturing Sector	**Growing**	**Faster**
Industries Expanding	16	
Industries Contracting	1	

Supplier deliveries to manufacturers worsened faster as the sub-index rose 1.5 points to 66.1. Fifteen of eighteen manufacturing industries reported slowing deliveries with only one industry reporting faster supplier deliveries.

The Prices Paid sub-index fell 0.5 points to 75.6, indicating raw material prices have increased for the thirteenth consecutive month and at a slightly slower pace. Seventeen industries reported increased prices for raw materials. No industry reported paying decreased raw material prices.

The manufacturing sector continued to expand in February and at a slightly faster pace. Demand is strong as evident in the new orders sub-index. New orders for durable goods increased 1.6% in January, confirming strong demand. Manufactures continue to ramp up production to meet strong demand. Both manufacturers and service companies are held back by a shortage of materials and workers. Businesses continue to invest in machinery, software, and intellectual property. With the ongoing worker shortage, greater efficiency is key to meeting customer demand. Business investment should be a source of economic strength this quarter.

While Corporate America has made some progress in rebuilding inventories, it is unlikely that they will be able to match the torrid pace of last year's fourth quarter. After three quarters of falling inventory, businesses increased inventories by $171.2 billion, adding 4.9% to GDP growth. For the first quarter, inventory adjustments may subtract 2.5% from GDP growth.

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SPRING 2022 MARKET OUTLOOK

The Ukrainian crisis was a shock to the global economy. The impact will be felt more in Europe than in the U.S. or Asia. The surveys help gauge the strength of the worldwide economy before recent events. Global PMI surveys indicate global economic activity recovered strongly in February, as Omicron's economic impact proved shallow and short-lived. Manufacturing and the service sector continue to increase economic activity at a quicker pace.

J.P. Morgan global PMI summary

		Oct	Nov	Dec	Jan	**Feb**
Output	Total	54.5	54.8	54.3	51.1	**53.4**
	Manufacturing	51.5	52.5	53.3	51.3	**51.9**
	Services	55.6	55.6	54.7	51.0	**53.9**
New orders	Total	54.3	54.1	54.0	52.7	**54.0**
	Manufacturing	53.7	53.2	53.4	52.2	**53.5**
	Services	54.6	54.5	54.2	52.8	**54.1**
Future output	Total	65.2	67.2	67.3	66.9	**68.7**
	Manufacturing	63.3	64.3	63.7	65.3	**66.2**
	Services	65.9	68.3	68.6	67.4	**69.7**
Employment	Total	52.7	52.6	51.6	51.5	**52.5**
	Manufacturing	51.8	51.4	51.7	51.0	**51.4**
	Services	53.0	53.1	51.6	51.7	**52.9**
Output prices	Total	60.3	59.5	59.0	59.6	**60.0**
	Manufacturing	63.7	61.3	59.8	60.9	**61.2**
	Services	59.0	58.8	58.7	59.2	**59.6**

Source: J.P. Morgan, Markit

Quickening economic growth and inflation support the global move to increase interest rates. The emergency measures put in place two years ago are no longer needed. Interest rates are set to rise worldwide, especially in the U.S. The impact of the Ukrainian crisis may slow the pace of normalization, and it may also delay lift-off in Europe a bit. It will not prevent interest rates from rising.

Prepared by Damian Howard and John Gibb March 9, 2022

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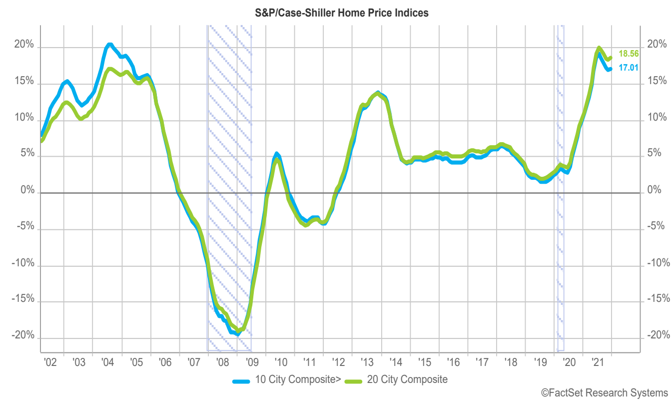
SECURITY NATIONAL BANK
PRIVATE CLIENT SERVICES

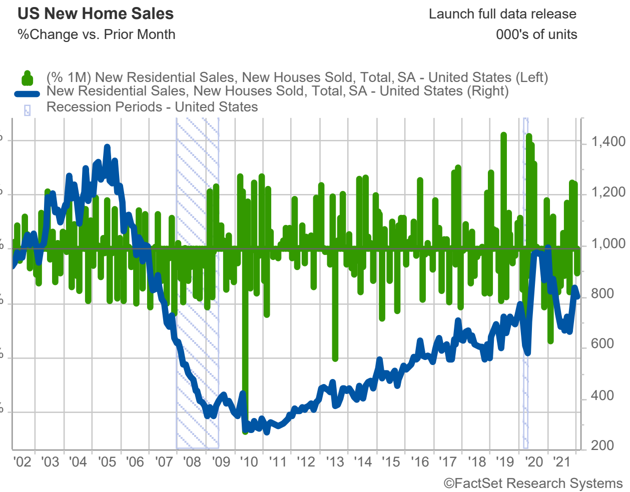
Spring 2022 Market Outlook

The Housing Sector

Following back-to-back double-digit percentage gains at the end of 2021, new home sales took a breather to start the new year. New single-family home sales slowed in January to an 801,000 annual rate, down from the upwardly revised 839,000 rate in December. Sales are down 19.3% from the peak experienced a year ago due to a lack of supply of completed homes plus rapid price appreciation. Sales in January fell in the Northeast, South, and Midwest but rose in the West.



Builders are ramping up activity, furiously trying to secure lots, hire workers, and strengthen supply chains. The time required to build a home remains much longer than usual due to ongoing supply chain and labor constraints. The total number of homes under construction is currently at the highest level since 2006. Homebuilders started construction on 117,600 single-family homes last month (not SAAR).



While overall inventories have been rising, supply remains critically low. Focusing only on completed homes for sale, the months' supply of inventory remains about 0.6; near the lowest levels since 1999. If builders had more labor and supplies, they could complete and sell more new homes. The additional new supply would also slow the pace of new home price appreciation.

The Case-Shiller 20-City Home Price Index rose 1.3% in December a large gain by normal standards, but a slowdown from earlier in 2021. The index rose 18.8% for the full year 2021, led by price gains in Phoenix and Tampa.

The median price of a new home was $423,300 in January, a y/y increase of 13.4%, a large increase from the prior month as the mix of home sales has changed significantly amid a shortage of entry-level homes. Sales of homes under $300k decreased 40% m/m and accounted for 9.4% of sales in January versus 16.9% in December and 29.9% a year ago.)

Turning to existing homes, 6.5 million houses traded hands in January with a median sales price of $350,300. That median price is up 15.4% y/y. It isn't the highest median price on record, which was $362,800 last June, but it is the highest for January, which tends to be a sleepier time for home sales. Sales

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decelerated by 4.5% m/m and 2.3% y/y. The supply of existing homes for sale declined to 1.6 months from 1.8 months in January.

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