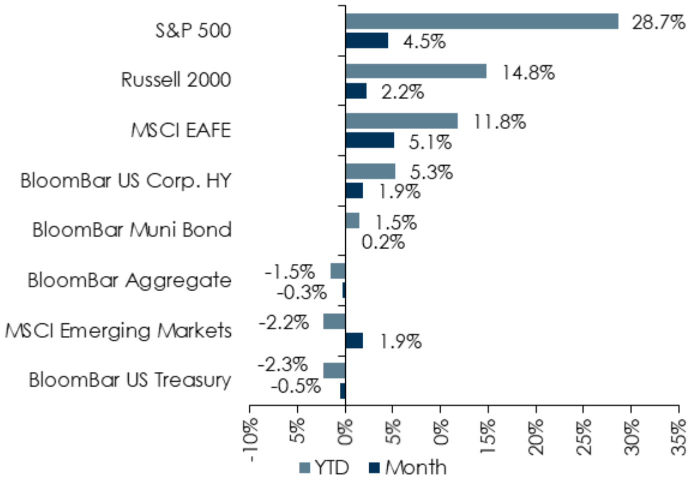
## Economic Overview

- **Equity markets rose in December as fear of the Omicron variant faded amid indications it resulted in milder symptoms**
- **The Federal Reserve announced a plan to accelerate the pace of the taper, and the Fed now projects three rate hikes in 2022**
- **Core inflation increased from 4.5% to 4.9% year-over-year, while unemployment declined from 4.6% to 4.2%**

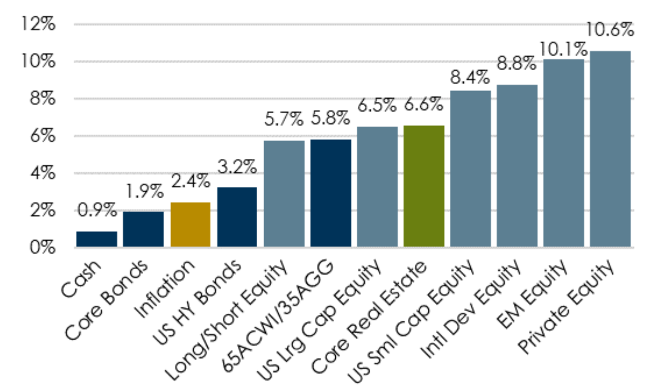
### Market Returns

- Global equities (ex. EM) outperformed bonds year-to-date
- Fixed income underperformed as rates moved higher




Source: Bloomberg, ACG Research (as of 12/31/2021)

### ACG's Capital Market Assumptions – Next 10 Years




### Asset Class Valuations

- Equities still favored over bonds
- Non-US equities favored over US equities
- Equities, H.Y. bonds, R.E. provide an inflation hedge

| | Current Fwd P/E | Historical Avg P/E | Current Avg Ratio |
|---|---|---|---|
| S&P 500 | 21.4 | 15.6 | 1.4 |
| R2000 | 25.2 | 22.7 | 1.1 |
| MSCI EAFE | 15.2 | 13.5 | 1.1 |
| MSCI EM | 11.7 | 11.5 | 1.0 |

| | Current Yield | Historical Avg Yld | Current Avg Spread |
|---|---|---|---|
| 3-month T-Bill | 0.0% | 4.2% | -4.1% |
| 10-year UST | 1.5% | 6.1% | -4.6% |
| BloomBar Agg | 1.8% | 6.3% | -4.6% |
| High Yield | 4.2% | 9.6% | -5.4% |

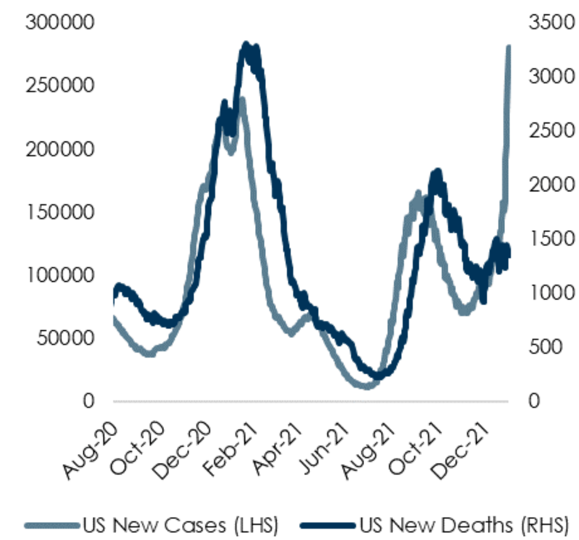
| | | | |
|---|---|---|---|
| ACWI EY / Agg Spread | 2.9% | 1.7% | 1.2% |
| Core R.E. | 4.2% | 5.9% | -1.7% |
| Core Inflation | 4.9% | 3.9% | 1.0% |

Undervalued | Fairly Valued | Overvalued

### Key Risk Factors We Are Watching

- Coronavirus Omicron Variant
- Inflation
- Consumer Behavior – Savings/Spending
- Financial Conditions; Fed Tapering
- Regulatory Policy Shifts (US and China in particular)

### Cases Rising Rapidly but Outcomes Less Severe




Source: Our World in Data

### Recent Articles (click on link below)

- Year-in-Review/Market Outlook (January)
- Private Equity Manager Selection (December)
- Will Elevated Inflation be Transitory? (November)

### Upcoming Articles / Webcasts

- Making the Case for Non-US Equity (February)


231 South Bemiston Avenue ♦ 14th Floor ♦ Saint Louis, Missouri 63105 ♦ www.acgnet.com ♦ 314.862.4848

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