HUDOCK CAPITAL GROUP, LLC

WEALTH PARTNERS WITH PURPOSE®

Hudock Capital Group Newsletter

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Our core purpose, our passion, is to make a positive and profound difference in the lives of our clients and in the communities we serve.
~Hudock Capital

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Important Tax Information

The amount you can gift without filing a tax return has increased to $16,000 for 2022, the first increase since 2018. The federal estate tax exclusion was raised to more than $12 million per individual.

The IRS's announcement that the annual gift exclusion will rise for calendar year 2022 means that any person who gives away $16,000 or less to any one individual (anyone other than their spouse) does not have to report the gift or gifts to the IRS. Any person who gives away more than $16,000 to any one person is technically required to file Form 709, the gift tax return.

The basic federal estate tax exclusion amount for the estates of decedents dying during calendar year 2022 is $12,060,000 for individuals and $24,120,000 for couples, up from $11.7 million and $23.4 million for calendar year 2021. The increase in the estate tax exclusion means that the lifetime tax exclusion for gifts is $12,060,000, as well as the generation-skipping transfer tax exemption.

This $12,060,000 million lifetime gift tax exclusion means that even if you are technically required to file Form 709 because you gave away more than $16,000 to any one person during the year, you will owe taxes only if you have given away more than a total of $12,060,000 million in the past. As a result, the filing of Form 709 is irrelevant for most people because the vast majority do not have $12,060,000 million to give away.

For details from the IRS on many of these and other inflation adjustments to tax benefits, go to:
https://www.irs.gov/pub/irs-drop/rp-21-45.pdf

Quarterly Tax Tip:

2019, 2020, and 2021 were very good years for the stock market. With these higher levels of returns came higher levels of gains. Please be sure to let your accountant know of any additional capital gain distributions or realized gains when submitting quarterly payments. Your team at Hudock Capital can provide these figures if needed.

Economic Commentary

Market Outlook

Five Things You Should Know About Q4

1. Inflation Hits 40-year High
Inflation accelerated in Q4 to the highest levels seen since the 1980s, climbing to nearly 7.0% by year-end versus just 1.4% at the beginning of 2021.

2. Federal Reserve Announces Tapering
The Fed removed "transitory" from its description of current inflation, and announced a reduction in its bond purchase program in November before doubling that pace in December. Markets now anticipate three to four rate hikes in 2022.

3. $1.2T Infrastructure Bill Passes
The Biden administration passed a trimmed down version of his infrastructure plan amidst bi-partisan pushback, casting doubt on additional future stimulus.

4. Omicron Variant Emerges
Omicron, a far more contagious, yet less deadly version of Covid emerged in the US in late November. To date, the economic impact of this more transmissible strain has been limited.

5. Equity Funds Take in Record In-Flows
Investors shrugged off market fears as equity funds set new records for investor in-flows, adding more cash in one year than the prior 19 years combined.

Taking Stock

With the US stock market completing another epic year of performance and trading near all-time highs, it's worthwhile pausing to reflect on the current environment. How did we get here? In particular, we'd like to examine what has been unique about this bull market and especially what are the headwinds and tailwinds in 2022 that might impact stocks.

Where Things Stand

The US stock market set a host of fresh records in 2021 worth reviewing. This is now the longest AND greatest relative outperformance of US stocks against other global equity markets in modern history. The US has now outperformed the rest of the world's stock markets for the 14th consecutive year by a cumulative 275%.

During 2021, investors added more money to public market "risk assets" than in the prior 19 years combined. The success of the last two years has clearly helped investors, particularly retail traders, get comfortable taking more risk than perhaps any other time in history.

What underlies this remarkable performance? US companies have, in aggregate, delivered extraordinary results. Due to the short-lived nature of the pandemic recession combined with massive fiscal stimulus and cost cutting, S&P 500 companies now enjoy their highest collective margins in history.

The Bull Case for US Stocks

2021 was punctuated by once-in-a-generation equity in-flows and the highest valuations since the late 90s. Nonetheless, it's worth noting that they may yet have farther to run. Here we will briefly recap some of the ongoing bull case for stocks and what could help propel them to further highs in 2022.

1)**Economic growth, especially in the US, remains strong with no sign of a recession**.
US consumer demand remains red-hot. Both companies and households have never had higher incomes, lower debt-service costs, or more cash on hand. While Covid remains a wildcard, the general trend for economies dealing with the virus has been steadily improving. If things remain on this course, there is still plenty of pent-up demand to continue to drive GDP growth. If current estimates hold, this could translate into another year of 10-15% earnings growth for the S&P 500.

2)**Fed policy remains extremely easy by historical standards.**
Yes, the Fed is now tightening, expected to end QE and then raise rates three to four times in 2022. Despite this, monetary conditions will still be looser than they were pre-Covid. This underscores just how slowly and patiently the Fed's policy stance has been, despite inflation at 40-year highs. It's worth noting that the early stages of inflationary events are typically positive for stocks. It's not until central banks are compelled to aggressively tighten to cool the economy that stocks typically falter. Given the social and political backdrop of Covid, it seems likely the Fed will continue it's accommodative policy. Historically this has been a positive policy backdrop for stocks.

The Bear Case

Of course, any good risk manager needs to consider and plan for what can go wrong with a bull case scenario. Below we cover the major potential risks:

1)**Inflation does not retreat in 2022 as widely expected.**
Current market pricing suggests the modest tightening expected from the Fed will decisively tame inflation in 2022, delivering a goldilocks combination of inflation and growth that is neither too hot, nor too cold. The biggest ongoing inflationary threat we see in 2022 comes from wages. By any measure, today is one of the tightest labor markets in US history, and it is coming at a time when demand remains extremely strong. Companies are struggling to keep up with demand and are being forced to increase wages in order to entice new hires and retain current ones. To fund this, they are passing along price increases at the fastest rate in decades. As workers are paid more, they spend more– fueling yet more demand shortages and still higher wages. This is how classic inflation spirals work, and once they get going, the self-reinforcing nature becomes ever harder to contain. If inflation fails to roll over, it could trigger a liquidity squeeze motivated by either one of our next two points.

2)**Fed may be forced to tighten faster than expected.**
In the face of spiraling inflation, the Fed would likely need to act more aggressively to slow demand via hiking rates faster and/or proactively draining the flood of liquidity that was poured into the economy over the past two years.
Unfortunately, that flood of liquidity was also a major reason stocks have experienced record inflows and risen to such frothy valuations. Throwing that liquidity process in reverse could easily do the opposite to markets.

3)**Bond yields could rise sharply.** This could be driven by rising inflation, current Fed tightening, or both. The collapse in bond yields to historic lows since Covid has been a major catalyst for high stock market valuations...and most everything else (look no further than home prices). Rising bond yields work exactly the same way, but in reverse. A sharp rise in bond yields would put downward pressure on markets. Bonds are especially vulnerable right now as the Fed (whose QE/bond-buying program essentially funded the US deficit) exits the market.

Our point here is that markets will be more sensitive and susceptible to falling liquidity. Either a more aggressive Fed tightening, a spike in bond yields or (worse) both could trigger such a liquidity squeeze. We see this as the biggest risk to all assets in the coming year. Inflation risk is precisely why the amount of monetary and fiscal policy over the last two years has never been used to fight off a recession. Removing this liquidity would likely have a delayed or muted impact on the real economy but the effect on financial markets could be profound.

Our Outlook

We expect the US economy to be stronger than expected, driven by rising wages, new capital investments (as companies rush to expanded capacity) and ongoing pent-up demand. In response, we expect the Fed to continue to incrementally tighten monetary policy and bond yields to rise (as they have already begun to). We expect this will create a market tug-of-war scenario between liquidity and growth resulting in significantly higher volatility than 2021 (where the S&P's worst correction was a measly 5 percent). We wouldn't be surprised to see a 10 percent (or greater) drop probably more than once throughout the year. Should equity market declines or rising bond yields threaten consumer confidence and the recovery, we would expect the Fed to once again pivot and try to ease. So, while stock market returns are unlikely to replicate their 2021 performance, they could certainly continue to rise. But, going forward, gains will likely be accompanied by much greater volatility that tests investors staying power.

While we certainly prefer equities to bonds and cash, given valuations and the inflationary backdrop, we think investors should think more deeply than ever about global and multi-asset diversification. While the road ahead is likely to be much bumpier than the one behind us, we would also encourage investors to remain invested, and/or dollar-cost average into the chop. The risk of ongoing and potentially higher inflation makes holding cash both an unrewarding and risky proposition.

Hudock Happenings

Carissa and her husband, Andrew, welcomed their first baby, Amelia Joan, into the world on January 2, 2022 at 11:38 pm, weighing 7 lbs 9 oz and measuring 19 inches long. The new parents are enjoying every minute with their new baby girl.

Congratulations to the Zysset family!

HUDOCK CAPITAL GROUP, LLC

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Looking Ahead...
2022 Holiday Events

The Club at Shepard Hills
Tuesday, December 6th
11:00 am — 2:00 pm

Williamsport Country Club
Friday, December 9th
11:00 am — 2:00 pm

Williamsport Country Club
Saturday, December 10th
11:00 am — 2:00 pm

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If you have any suggested topics or feedback about the Hudock Capital Newsletter, please feel free to call us and share!

After the Closing Bell

To say that equity markets have experienced volatility recently is a world-class understatement! A recent Wall Street Journal article by Jason Zweig offers some great advice for times like these. The title of the article says it all—*Why you should sit out the Mayhem… What matters isn't what the market does – but what you do in response.*

It's something, as seasoned investors, we know to be true—with a strong financial plan, we should respond to volatility with patience and discipline and be open to the opportunities it may present. It's just often challenging to apply those principles in the face of a negative news cycle.

To keep things in perspective, Mr. Zweig notes, "the more frequently you check how your portfolio is doing, the more volatile it will feel." And, he advises that intelligent investors should be "inversely emotional." That is to say, as scary as market declines may seem in the moment, they can often be an opportunity for the long run.

Mr. Zweig reminds us that "Every investor should be thankful that stocks do go down, for two reasons. First, if stocks always went up, they would be riskless—and their returns would end up being paltry. The short-term pain of loss is the price we pay for the potential for meaningful long-term gain. Second, if you have plenty of cash and courage to withstand further declines, other people's fear could be your cue to act."

Mr. Zweig makes some great points in his article. I encourage you to read it. He reinforces the basic concepts of investing that we are called to use time and again. They are simple concepts to describe, but not always easy ones to follow. It's why having a financial plan—and sticking to it—are so important. With a plan in place, we know what to do.

We can take it easy. Read a good book. Go for a walk. Above all, as Mr. Zweig says, sit out the mayhem!

Warmest,

Barbara