Herbert R. Smith and Company

Investment Advisors

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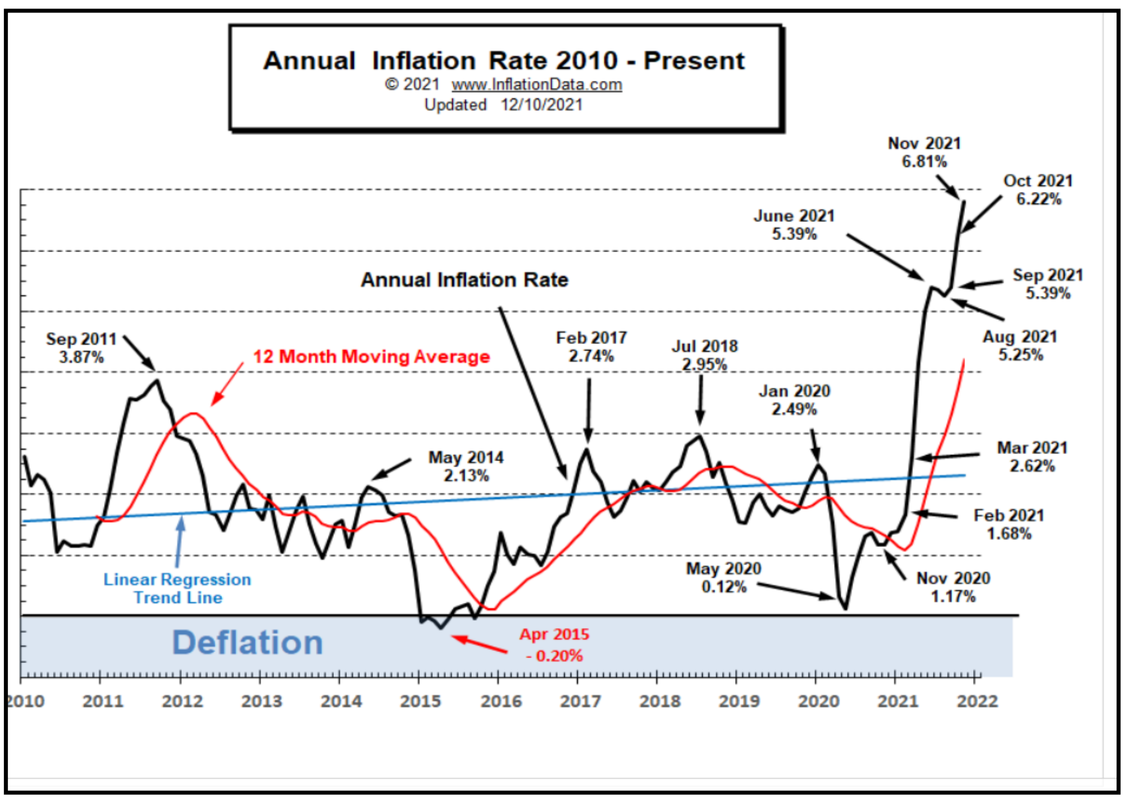
	4-Qtr.	12-Mo
DOW	7.87%	20.95%
S&P	11.02%	28.68%
NASDAQ	8.47	22.21%
10-Yr Treasury		1.725%
10-Yr Municipals		1.055%
Fed Funds		.25 %
GOLD		$1829.20
SILVER		$23.31

Inside this issue:

Inflation

In early 2020, the spread of coronavirus precipitated the steepest economic downturn on record. A year later, mass vaccinations and trillions of dollars in government stimulus led to a pickup in consumer spending while millions of Americans continued to stay home even after lockdowns were lifted. Essentially, this "free money", along with supply chain disruptions, has created the current inflationary environment. Everything from electronics, cars, lumber, toilet paper, etc. have been in short supply. During the second half of the year, inflation broadened out hitting food and rent while increasing energy prices continued to rise both at the pump and in the form of higher utility bills.

Calls for the Fed to change course became louder and Jerome Powell stopped using the word "transitory" in describing inflation saying it was "time to retire that word." Acknowledging scarcities of goods and labor were taking longer to resolve than expected, the Fed Chair said the resulting jump in prices "won't leave a permanent mark in the form of higher inflation."



If inflation proves persistent and continues well into 2022 and beyond, Fed officials have indicated they may have to speed up tapering and start raising rates sooner than later, negatively impacting both tech and growth stocks. Analysts have revised their 2022 expectations to include the end of large-scale asset purchases, four rate increases and the beginning of a smaller balance sheet. But we believe the Fed will have a difficult time politically cutting off the flow of funds and raising interest rates by much. Unforeseen variables such as future coronavirus outbreaks, supply chain disruptions and continued spiking energy costs can't be fixed by raising interest rates.

Best and Most Likely Case

This old bull has more room to run but will turn to easier grazing in pastures of value, strong fundamentals and dividends rather than continuing to climb the rocky hill of tech and growth stocks. Volatility will continue. Look for single-digit returns in 2022, slowly gaining momentum in 2023 and finally a truly robust economy in 2024 sans "funny money" from the Fed.

Herbert R. Smith & Company has been providing investment advice to institutional and wealth-management clients for almost 50 years. Our expertise in managing assets has assisted our clients in meeting their financial goals without moving beyond reasonable risk guidelines. Our mission statement is:

To provide professional investment advisory services helping clients accumulate and maintain financial wealth through conservative long-term investment strategies.

Please call us if you have any questions or concerns:

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