

Our October 2021 Market Update concluded with the following inference:

**“Based on the belief that the US economy is still on a reasonable growth trajectory and the technical correction we are experiencing, we would be inclined to start investing gradually in areas of Finance, Energy and select Technology.”**

Since October 2021 Market Update...

- Since the October 2021 update, the markets gained **+10% to +11%** during the last quarter of 2021 and then lost approximately **-9% to -10%** during the first month of 2022 (See table below).
- It can also be observed that the Volatility Index (VIX) lost **-33%** of its value during the Q4, 2021 accent of the markets and then gained **126%** in January 2022, as the broader markets declined.

Index	10/1/2021	1/4/2022	Gain/Loss (%)	1/24/2022	Gain/Loss (%)
S&P 500	4,350	4,820	<b>10.80%</b>	4,290	<b>-9.40%</b>
Volatility Index (VIX)	24.89	16.60	<b>-33.31%</b>	37.50	<b>126.65%</b>

The VIX index...

**Volatility Index:** The volatility index (VIX), for a lack of better definition, is the FEAR gauge of the average investor sentiment. It can be observed that there is a negative correlation between the VIX and the S&P 500 in the adjacent chart.

Empirical evidence shows that it has been buying opportunities when the VIX has been in the region of 20-25. **THE VIX IS TRADED AT 37 as of 1/24/2022.**

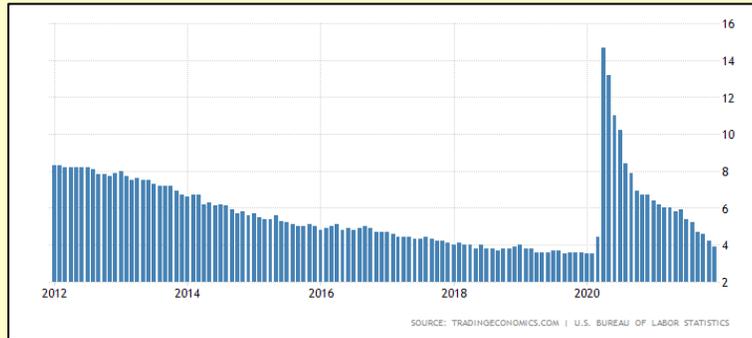


US Economic Fundamentals...

In addition to technical variables like the VIX, it is important to review economic fundamentals and how they resonate with the prevailing investor psychology.

**US Unemployment Rate...**

Unemployment is at a low of 3.9%<sup>1</sup>.



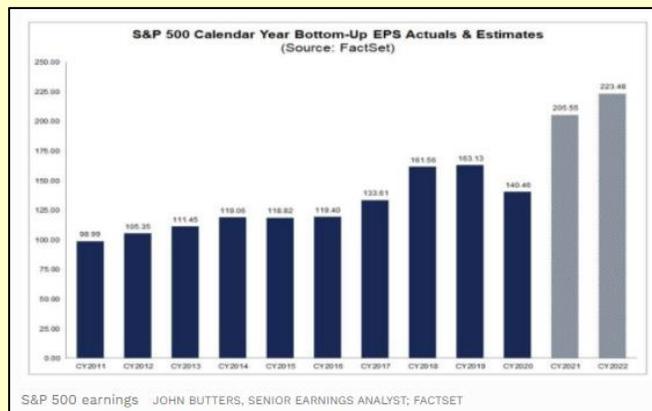
**US GDP Growth Rate...**

US GDP is expected to grow at a rate of approximately 5.0% in 2022<sup>2</sup>.



**US Corporate earnings growth...**

- S&P 500 companies are expected to earn approx. \$220 per share in 2022.
- This translates to approximately 19-20 forward looking P/E ratio for the index.
- The average S&P 500 P/E ratio for the last 50 years is 14-15.
- This shows that the markets are overvalued but not in bubble territory.

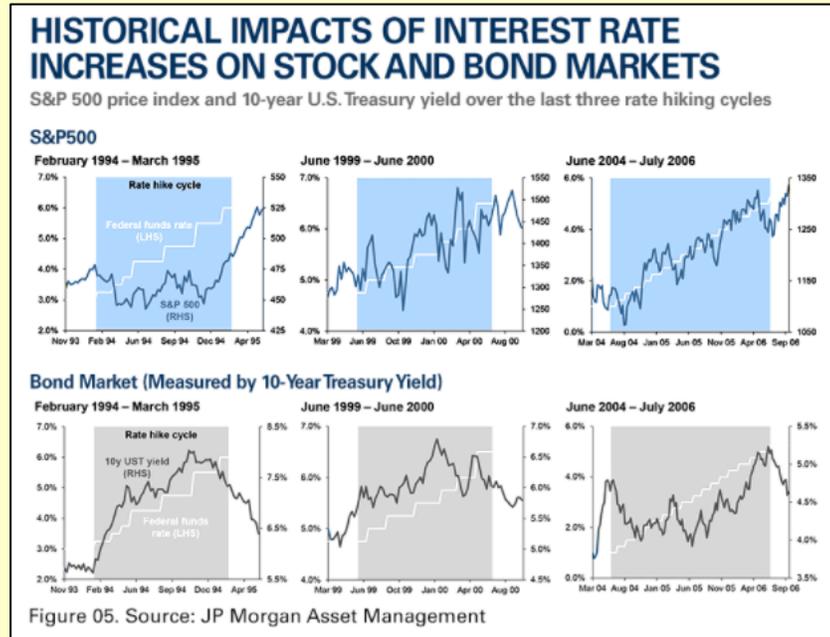


<sup>1</sup> Source: <https://tradingeconomics.com/united-states/unemployment-rate>

<sup>2</sup> Source: <https://www.imf.org/world-economic-outlook>

**Major change since the last Market update...**

- Markets expect the Federal Reserve to raise interest rates 2 to 3 times over the next 12-18 months.
- It can be observed below that the S&P 500 index performed well during the last 3 rate hiking cycles.



- US broad Based market indexes have gained approximately 35% since the beginning of the COVID Pandemic.
- The 10 year treasury has fluctuated over this period but has started to increase recently after the Federal Reserve broadcasted their intentions to raise interest rates.
- Interest rates are being raised with an endeavor to control the rising rate of inflation.
- The crucial factor that will determine the developments in inflation is the development in COVID pandemic.

**S&P 500 index vs. the 10 Year Treasury since the beginning of the COVID pandemic.**



**Conclusion...** We believe that US markets have been shaken by the persistent concern regarding inflation. Markets believe that the Federal Reserve will raise rates, which would delecerate the economy. We believe that the US economy is still growing and inflation will recede as the COVID pandemic dissipates. The current correction is an attractive buying opportunity, especially in the area of Finance and Technology.

PLEASE REMEMBER: Each investor is unique and should invest to complement their respective financial conditions and objectives.

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