Advisory Notes

Valicenti Advisory Services, Inc.

December 2021

Cultivating relationships for over 35 Years Since 1984

Valicenti Advisory Services, Inc.

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2021, A Year of Ups and Downs

All of us at VASI wish you a happy, healthy, prosperous and peaceful New Year in 2022.

While COVID-19 lead the headlines through the year, vaccines from Moderna, Pfizer and J&J helped ease fears as Americans and the world became vaccinated and later boosted. This allowed some of the hard hit industries (i.e. travel, restaurants and entertainment) to reopen during the spring and summer months and the feeling of "normalcy" began to return. Two different strains of COVID-19 hit our shores during the mid and latter part of the year, sparking additional fears of another shutdown. Fortunately, the vaccinations provided some immunity as the infections were not as intense as previously thought and the economy continued to stay open, albeit it with some renewed mask mandates and the CDC's ever changing quarantine rules and guidelines.

Unemployment hit a pandemic low but unfilled job openings has remained high during the year from either career changes, retirements or non-desirable openings. Tightness in the labor market has been a key speculation to inflation increases along with the supply chain imbalance in the second half of the year. This caused Consumer Price Index (CPI) data (see Page 2) to increase at 6.8% year over year at the end of November 2021. The data plots are forcing the reappointed Federal Reserve Chairman Powell to speed up the reduction of certain easing policies which, when finished in early 2022, could lead to slight interest rate increases to stave off inflation and to continue slower but more digestible economic growth.

The inflation numbers have been skewed toward gasoline, rental cars, used vehicles and hotel accommodations (see graph 1). As we see the bottlenecks with the automotive chip shortage

*See **2021** on Page 2*

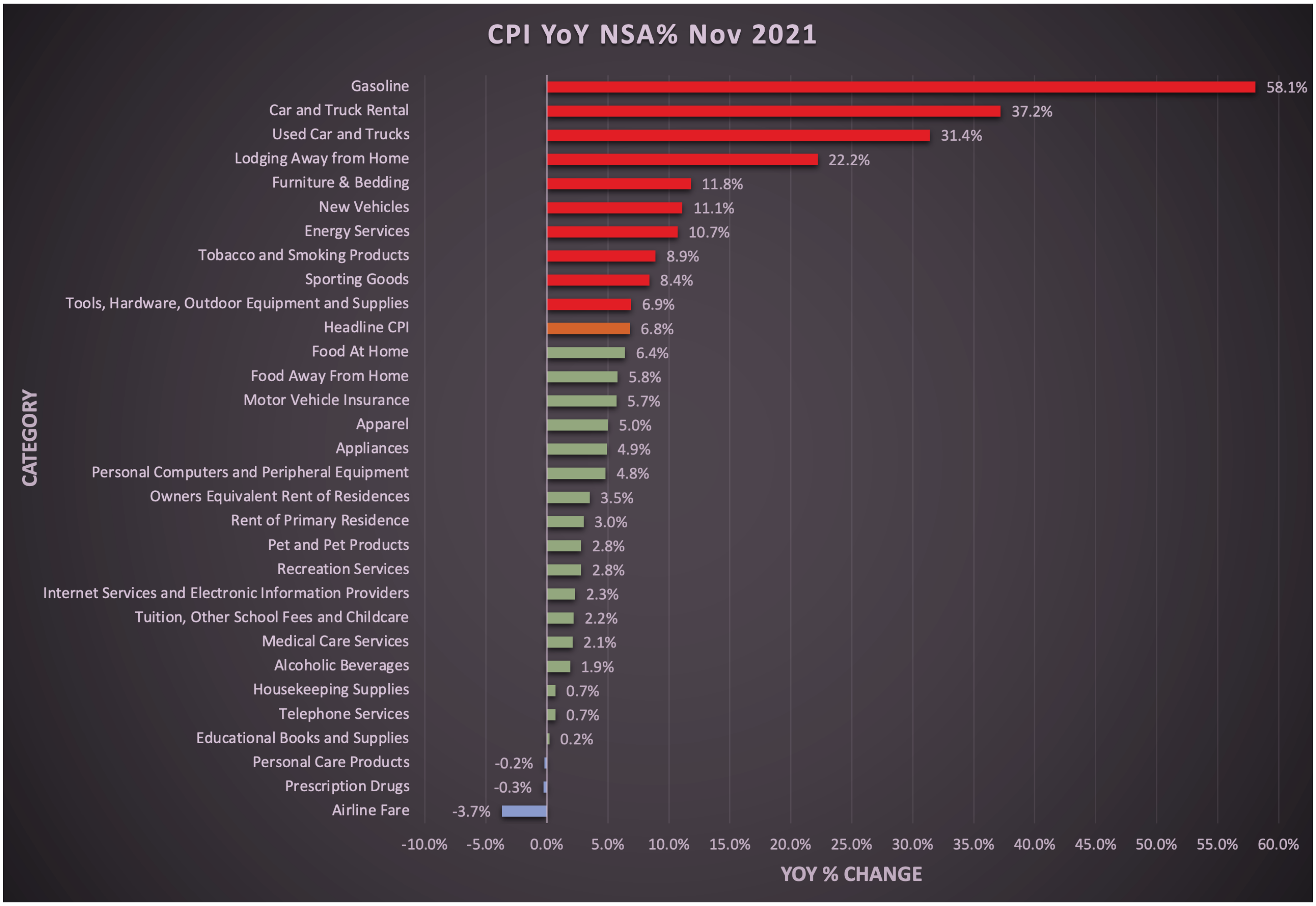
Market Table

Valicenti Advisory Services, Inc.
Comparative Index Period Returns
From 12-31-20 THROUGH 12-31-21

	DJIA	S&P 500	NASDAQ	Russell 2000 Index	BBG Barclays AGGR Bond Index	BBG Barclays Muni Bond Index	FTSE Corporate Bond Index	U.S. Treasury Bill Index (90 day)
12-31-20 to 03-31-21	8.29	6.17	2.95	12.70	-3.37	-0.38	-4.60	0.06
03-31-21 to 06-30-21	5.08	8.55	9.68	4.29	1.83	1.53	3.69	0.00
06-30-21 to 09-30-21	-1.46	0.58	-0.23	-4.36	0.05	-0.29	0.11	0.00
09-30-21 to 12-31-21	7.87	11.03	8.45	2.14	0.01	0.78	-0.05	0.00
YTD Returns 12-31-20 to 12-31-21	20.95	28.71	22.18	14.82	-1.54	1.64	-1.01	0.06

2021

(Continued from Page 1)



Graph 1 Source: Bloomberg U.S. Bureau of Labor Statistics

and in transportation ease, these numbers may trend toward the norm and the Fed's target inflation rate of 2.5 to 3%.

The fourth quarter wrapped up the year on a strong note, with the S&P 500 leading all major indices as it touched all-time highs late in December (See Market Table). The bond index remained relatively flat in the quarter, but reported a slight negative return as the fear of rate increases materialized. Cash or the T-bill index produced virtually zero since the first quarter.

We expect as the supply chain smooths out and the healthy, eager consumer continues to have confidence that 2022 will be another positive year for the economy.

Finally, a thank you to our staff for a tremendous year! Without them, our ability to provide individualistic wealth management services to you, our clients, would be a difficult task. For those who have not stopped by our 400 E. Water Street offices lately, we are working on some modernization of the building – adding more technology, office and trading analytical spaces for our team and a client signing room for privacy. We expect completion of the project during the first quarter of 2022 and we hope that you will take the opportunity to stop in later in the year to see the changes.

As always, we individually manage your investment objectives with your portfolio goals. If you wish to discuss or adjust your goals and objectives, please contact us.

Joseph M. Valicenti
President/CEO

Director's Chair

As we begin a New Year, investors find themselves in interesting times. The Federal Reserve (Fed) has begun withdrawing liquidity from the market by curtailing bond purchases it started making during the first days of the pandemic to support the economy. Billions of dollars were regularly purchased on a monthly basis injecting monetary stimulus into the economy and financial markets. With an accelerated withdrawal of bond purchases, the Fed's program could be done in early 2022. This means the economy will be standing on its own two feet for the first time since March of 2020.

Accelerated withdrawal of this monetary accommodation is due to mounting inflation fears with 2021 inflation reaching levels not seen since 1990 and with some months recording inflation levels not seen since 1982. After injecting huge sums via the Fed coupled with multiple trillion-dollar stimulus and rescue programs from Congress, we have finally seen inflation in terms not seen in a generation. Undetermined still is whether Congress will be able to pass another stimulus bill injecting another $1 trillion plus into the economy.

Where do we go from here? Economic growth normally cannot stand being coupled with rising inflation. The market, barring any unexpected shocks, could tread water during the early part of 2022, as the Fed executes its announced tapering of its bond purchase program. After that, come many unknowns – does inflation moderate or accelerate and does the Fed raise interest rates via one, two or three rate hike(s) in 2022? If the Fed is too aggressive, it could stall the economy. If the Fed is not aggressive enough, inflation could hurt the economy. In effect, the government has left itself limited wiggle room to execute a "goldilocks scenario" for 2022, not impossible, but more difficult than 2021.

It is reminiscent of the 1940 movie, *The Shop Around the Corner*, where sales at a gift shop are sparse early in the film due to tough times during the last days of the Great Depression, but register record sales at the end of the film under the newly promoted manager played by Jimmy Stewart. In this odd romantic comedy, the main two characters cannot stand each other, but eventually become a couple. The question at hand, is Fed Chairman Powell as capable as Stewart as a manager and can interest rate hikes be coupled with the current inflation to create a benign inflation with steady economic growth? This is something we will be keeping a watchful eye on by following the economic data and adjusting portfolios accordingly.

Louis F. Ruize
Director of Research/Portfolio Manager

The highest compliment our clients can give is the referral of their friends and family. Thank you for your trust!

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Analyst Corner

As we look ahead into 2022, it may be a useful exercise to consider some of the market driving events and the resulting outcomes for 2021 in order to contemplate what may come. For starters, the $1.9T American Recovery Act was signed into law in March and follows the sizable fiscal support that was given in the prior year. Further, a $1T bipartisan infrastructure bill became law in 2021 and this included $550 billion in new spending on forms of infrastructure such as roads, bridges and broadband. Negatively, the Delta variant was introduced into the United States and ultimately became the dominant SARS-CoV-2 variant into the Fall, which in turn reintroduced unwelcomed restrictions and disruptions into our lives once again.

In the wake of the sizable fiscal support which unfortunately coincided with the enduring pandemic, the end result for the economy, corporate profits, employment and the market was strong with these areas trending on established growth vectors out of the prior year's deflationary shock. By the numbers, real GDP grew in 2021 significantly above trend and in the vicinity of 5.5% with unemployment near 4.2%. As consumers are aware, prices are running above longer run inflation trends at an elevated PCE inflation north of 5%. Profit growth for S&P 500 companies will be in the vicinity of a very robust +45% which for context follows a contraction of -10% the prior year.

The S&P 500 completed what was an extraordinary return year with an exceptional final quarter performance. This key large cap growth benchmark returned 4.48% in the final month of December, 11.03% for all of Q4 and 28.71% for the entirety of 2021. For context and comparison, the ten-year period starting 12/31/2011 and ending on 12/31/2021 saw the S&P 500 grow at an annual growth rate of 16.52%. Real Estate, Information Technology and Materials names led the main index in the quarter. Communication Services was the only sector to return negatively and Financials, Energy and Industrials were laggards.

Positive Market Influences	Negative Market Influences
Constructive GDP Growth Expectations	Inflation Uncertainty & Global Economic Repair
Constructive Profit Growth Expectations	Tightening Monetary Policy
Mild Omicron Variant	Potential for Underinvestment in Key Sectors

For the past 24 months, strong positive market returns, effective corporate management, the resilience of the consumer and the stomach of the risk seeker all have in most cases had positive results to show at the end of periods. The New Year may be about a final accounting regarding the ultimate effects on our economic circumstances, societal adaptations and behavioral changes due to the fact that the extraordinary and emergency levels of support that saw us through are likely now to wane as continuation comes with costs.

Policymakers and corporate planners are facing constraints and real world limits to their respective systems. Inflation dynamics and supply and demand equilibrium are constantly absorbing the alternation between competing narratives around the key issues. What can be said for now as we head into the New Year is that the current expectation and outlook is for another year of above trend growth albeit lower than that of 2021 and with an inflationary trend that may be higher than normal but also fading in breadth and sustainability. Should that outcome pass, it will be a good environment to attempt to return to more normalcy.

Positive Market Influences

- **Constructive GDP Growth Expectations** – The current range of FOMC member economic projections for real GDP growth in 2022 is between 3.2% and 4.6%. For context, longer run trend growth is not projected higher than 2.2%.
- **Constructive Profit Growth Expectations** – Current Street expectations for S&P 500 profit growth going into next year are for a +10% year.
- **Mild Omicron Variant** – While reported cases in the U.S. are beginning to rise significantly, early indications are that the severity of sickness experienced with this variant is less than previous waves.

Negative Market Influences

- **Inflation Uncertainty & Global Economic Repair** – Whether episodic or sustained, higher price dynamics for key food items and raw materials and energy can cause significant stress in economic systems around the world. The disruptions to supply chains and the damage to underlying economies may take time and may need a period of normalcy in order to repair more fully.
- **Tightening Monetary Policy** – The Federal Reserve is expected to begin a rate hike cycle after it completes its taper of bond purchases in early 2022. The current expectation is for around 3 quarter point rate hikes next year, bringing the short-term interest rate to somewhere in the vicinity of 0.75% from a current 0.125% rate.
- **Potential for Underinvestment in Key Sectors** – The hangover impact of high levels of debt fueled fiscal spending with social and governmental mandates around the transition to a more sustainable energy future could constrain investment in key areas of the economy over the medium term.

Daniel P. Burchill
Security Analyst

Build Back Better Act (House bill)

On November 19, 2021, the U.S. House of Representatives passed the Build Back Better Act, H.R. 5376 by a vote of 220 to 213. The Senate is expected to vote on the bill in January 2022. The House bill includes many proposals which could change after the Senate votes on the proposed bill.

One proposal passed by the House is to modify the limitation on the deduction for state and local taxes (SALT). The current law, passed by the Tax Cuts and Jobs Act (TCJA), limits the SALT deduction to $10,000 ($5,000 if married filing jointly) for tax years 2018 through 2025. The new proposal would extend the TCJA through tax years 2021 to 2030 and would increase the limitation to $80,000 ($40,000 if married filing jointly, estate or trust). The limitation would revert to $10,000 ($5,000 for married filing separate, estate or trust) for tax year 2031.

Other proposals include above-the-line deductions for union dues and employee uniforms. Under the current law, all miscellaneous itemized deductions subject to the 2% of adjusted gross income were suspended for tax years 2018 through 2025. The House bill proposal would allow up to $250 if a taxpayer paid dues to a labor organization and remained a member through the end of the year. The proposal would also allow up to $250 for uniforms. The uniforms must be required to be worn as a condition of employment and not be suitable for everyday wear.

For tax year 2021 only, the American Rescue Plan Act (ARPA) made a number of temporary changes to the earned income tax credit (EITC) for childless workers. The changes include:

- Lowering the minimum age from 25 to 19 (18 for certain former foster and homeless youth and 24 for certain eligible students)
- Eliminating the maximum age at which the credit was available (age 64)
- Increasing the maximum credit and phase out percentage from 7.65% to 15.3%
- Increasing the maximum credit available from $543 to $1,502
- Increasing the income threshold for single filers from $15,980 to $21,430 and from $21,920 to $27,370 for married taxpayers filing jointly
- Increasing the earned income level at which the maximum credit amount is reached from $4,220 to $9,820
- Increasing the amount of income at which phase out begins from $5,280 to $11,610

The House proposal would extend ARPA's temporary changes to the EITC for childless workers through tax year 2022, adjusted for inflation. The proposal would also allow a taxpayer whose earned income for 2022 is less than the taxpayer's earned income for the prior year to elect to use the prior year's income for purposes of computing the Earned Income Tax Credit. The bill would include the advanced payments of the credit through 2022.

The House has proposed expanding the net investment income tax (NIIT) to trade or business income of certain individuals. Under current law, the 3.8% NIIT tax applies to net investment income such as taxable interest, dividends, capital gains, passive rents and royalties. It currently does not generally apply to flow-through income from an S corporation or from other pass-through entities if the taxpayer individual is-actively involved in the business. Under the House bill, effective January 1, 2022, taxpayers with taxable income over $400,000 (single filers), $500,000 (married taxpayers filing jointly or surviving spouses) or $250,000 (married taxpayers filing separately), would have the 3.8% NIIT apply to trade or business income that FICA tax has not already been imposed. This is regardless of whether the flow-through income is from a business in which the taxpayer individual is actively involved. The proposed change would have the effect of raising the tax rates on flow-through income from an S corporation.

It is uncertain if the House bill will pass the Senate as stated. There has been some discussion that the Senate may pass a similar bill. We will continue to communicate any new tax law developments.

Elizabeth A. Zarnoch, EA
Vice President of Tax and Business Services

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Important Dates For 2022

January 1, 2022
- 2022 Social Security Changes: 5.9% cost-of-living adjustment to monthly benefits.
- Changes to Retirement-Savings Rules: Check to see what contribution limits have changed for the New Year and make adjustments, as needed.

January 18, 2022
Deadline to pay the fourth quarter estimated tax payment for tax year 2021.

January 31, 2022
Deadline for employers to mail out W-2 Forms to their employees and for businesses to furnish 1099 Forms reporting non-employee compensation, bank interest, dividends and distributions from a retirement plan.

March 15, 2022
Deadline for Partnerships and S Corporations to file tax returns for tax year 2021 or to request an extension.

April 18, 2022
- Deadline to file individual tax returns for the tax year 2021 or to request an extension.
- Last day to make a 2021 IRA contribution.
- Deadline for first quarter estimated tax payments for the 2022 tax year.

June 15, 2022
- Individual filing date for U.S. Residents Abroad (If you are a U.S. citizen or resident alien living and working or on military duty outside the United States and Puerto Rico).
- Deadline for second quarter estimated tax payments for the 2022 tax year.

June 30, 2022
FAFSA filing deadline and last chance to apply for federal student aid for 2021–22.

Sept. 15, 2022
- Deadline for third quarter estimated tax payments for the 2022 tax year.
- Final extended deadline for Partnerships and S Corporations to file tax returns for tax year 2021, if an extension was requested.

October 15, 2022
Medicare Open Enrollment: you can join, switch or drop a plan.

October 17, 2022
Final extended deadline to file individual tax returns for the year 2021, if an extension was requested.

November 1, 2022
Affordable Care Act Open Enrollment Period: First chance to apply for 2023 healthcare coverage.

December 7, 2022
Medicare Open Enrollment Due Date: Last chance to sign up for the national health insurance program.

December 15, 2022
Affordable Care Act Open Enrollment Due Date: Last chance to apply for 2023 healthcare.

December 31, 2022
- Last day to contribute to charity for a tax deduction.
- Last day for 401(k) contributions.
- Last day to take your required minimum distribution (RMD) from retirement accounts.

Investment Strategy

The U.S. economy and the U.S. equity markets showed sustained strength throughout 2021, with indications of more growth in 2022. Aided by consumer spending, which closed the year with month over month gains, strong corporate earnings and continued fiscal and monetary support from the federal government, U.S. economic conditions improved during the year.

With all of the signals of economic strength for 2022, there remain some headwinds as we move forward. These headwinds include, but are not limited to, concerns over new COVID-19 variants, supply chain disruptions, volatility in the energy markets, fears over inflation and when the Federal Reserve will have to start raising interest rates to slow the rate of inflation that is nearing 7%.

With the likelihood of increasing market volatility, our asset mix will remain nimble as data points continue to change in 2022. As we enter the New Year, fourth quarter 2021 earnings will be a major focus. Our equities will focus on U.S. large capitalization companies with strong balance sheets and continued earnings growth with an allocation range of 45-60%. Our fixed income strategy will require a close eye on the economy and the Federal Reserve, as they look to keep inflation under control, with an allocation between 20-30%. Money market funds will be in the range of 5-10% as we look for buying opportunities.

We hope you have a very Happy New Year!

Jeffrey S. Naylor
Executive Vice President/CFO

Employee Corner

We are pleased to announce that Trevor Welch has joined the firm as the receptionist in our Tax and Business Services office.


Trevor Welch

As the receptionist, Trevor's responsibilities include answering and directing phone calls, welcoming clients and vendors, office supply ordering and distribution and handling of mail and client correspondence.

Trevor joined the firm seasonally in January 2021 and started full time in September 2021. He previously worked as the Sales Coordinator and Front Office Manager in the hospitality industry for fifteen years. His experience also includes office administration and retail management.

Please join us in welcoming our new team player.

Employee Anniversaries

We would like to thank the following staff members for their years of service and hard work throughout the years. Please join us in congratulating these employees on their milestone with the firm.

- **Joseph M. Valicenti,** *President and CEO* – 30 years
- **Theresa R. Stewart,** *Assistant Corporate Secretary/HR/Bookkeeper* – 20 years
- **Elizabeth A. Zarnoch,** *Vice President of Tax and Business Services* – 10 years
- **Kelly S. Diehr,** *Administrative Assistant* – 10 years
- **Louis F. Ruize,** *Director of Research/Portfolio Manager* – 5 years

Thank You!

Thirty-seven years! Wow! Where has the time gone? It is hard to believe that we are completing our 37th year and that the 38th is just around the corner.

To say that this has been a "different" year is an understatement, but even with COVID-19 our dedicated and wonderful staff has met the challenges and continues its teamwork approach to our business as we continue to *"Cultivate Relationships"* while always adhering to our moto *"Our Clients Come First."*

We have much for which to be thankful, not the least of which are our diverse and loyal clients who have given us the opportunity to know them, to work with them and to help them along their "financial journey."

From all of us, to all of you, we wish you a prosperous and safe New Year.

Ralph H. Roberts, Jr.
Vice President of Client Services

Student Loan Payments

On December 22, 2021, President Joe Biden announced that he was extending the pause on federal student loan payments until May 1, 2022. These payments have been paused since the beginning of the pandemic and were scheduled to resume on February 1, 2022. During this extension, the federal student loan payments are not required to be made, interest rates on the federal student loans are temporarily set to 0% and the federal student loan debt in default will not be collected.

If you have outstanding federal student loan debt, our recommendation would be to either put the amount of payment funds away in a savings account to pay the loans down once the required payments start up again or to continue the payments as normal. The 0% interest is a great loan rate and you can pay down principal quickly if you have continued to make payments throughout the pandemic.

As always, we will keep you updated to any changes with the federal student loans.

Ann S. Nolan, FPQP™
Administrative Assistant

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- Long Term Care
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- Liability
- Automobile
- Professional Coverages
- Workers Compensation
- NYS Disability

Group Benefits Plan
- Health Insurance
- Dental Insurance
- Life Insurance
- Disability Insurance
- Customized Benefit Insurance

The mission of Valicenti Insurance Services, Inc. is to provide personalized insurance products and services with unparalleled customer service to protect the assets of individuals, families and businesses that we serve.