

January 18, 2022

Dear Partners in Ministry,

Enclosed is the 2021 annual statement for your account(s) at the United Methodist Foundation (statements from 7/1/17 are accessible online). Net of fees, the returns of the fund models are:

As of 12/31/2021	4 th Qtr 2021	Year to Date	Last 1 Year [†]	Last 3 Years [†]	Last 5 Years [†]	Last 10 Years [†]
Aggressive Fund	6.50%	17.47%	17.47%	20.00%	14.05%	10.46%
Agg. Climate benchmark*	7.64% 5.88%	16.69% 16.82%	16.69% 16.82%	n/a 19.18%	n/a 13.82%	n/a 11.05%
Moderate Fund	4.25%	11.48%	11.48%	14.91%	10.66%	7.99%
Mod. Climate benchmark*	5.04% 4.03%	10.95% 11.29%	10.95% 11.29%	13.02% 14.58%	n/a 10.77%	n/a 8.68%
Conservative Fund	2.00%	5.24%	5.24%	9.25%	6.91%	5.61%
Con. Climate benchmark*	2.64% 1.98%	5.29% 5.41%	5.29% 5.41%	n/a 9.52%	n/a 7.37%	n/a 6.09%

*"Benchmark" is a blend of benchmarks for the fund's underlying portfolios of stocks and fixed income, relative to the portfolio allocations within the fund's model. †Rates of return (1+ years) are annualized. See the monthly performance reports online: <https://umfnic.org/investment-performance-reports/>

Market Commentary from Investnet | PMC

Brandon Thomas, Chief Investment Officer of Investnet | PMC, concluded their "Economic and Market Overview: Fourth Quarter 2021" report with the following observations and commentary:

"The global economy continues to improve, with most regions now better off than six months ago. The Omicron variant of the virus introduces some uncertainty into the near-term outlook, but most analysts believe that it will not derail the overall momentum of the recovery. Supply-chain problems continue to put stress on the system, making it difficult for producers to find inputs, and pushing inflation higher. While most of the world is in recovery mode, economists expect there will be greater divergence among regions and countries in 2022 as virus mitigation and central bank support policies differ. An expected common thread for the next year is that there will be monetary policy normalization, as central banks step back from the aggressive monetary policies that have defined the period since the onset of the virus. The FOMC is taking the lead in this area, as it is aggressively tapering the asset purchases it has been making, such that the program is anticipated to end in March 2022. In addition, economists expect the FOMC will move to raise the federal funds rate by September 2022 at the latest. Analysts anticipate that the US and China will lead the way in terms of growth in 2022, with GDP forecasts of 4.4% and 4.7%, respectively, in 2022. China is dealing with some headwinds, including a cooling off in its real estate market and other financial sector risks. The euro zone's recovery has been somewhat better than anticipated, and economic growth in the region



is expected to be 4% in 2022. In terms of equity markets, analysts caution that 2022 is likely to be more volatile than 2021, as monetary policy becomes less aggressive, and earnings moderate.”¹

“pushing inflation higher”

CPI was up 7% for December, “the largest 12-month increase since the period ending June 1982.”² The Federal Reserve is accelerating its tapering of monthly asset purchases, the Federal Open Market Committee (FOMC) removed the word “transitory” from its remarks on inflation, and the FOMC forecast future rate increases in the near-term. The FOMC’s “dot plot” indicates possibly three 25 basis point rate hikes in 2022 and three more in 2023. The Fed is taking action.

The media is abuzz about inflation. The references to 40 years ago are everywhere. The media chooses the economic experience of 40 years ago because it’s in the living memory of many Americans. According to a July 6, 2021, blog post, however, by the White House Council of Economic Advisors: “The inflationary period after World War II is likely a better comparison for the current economic situation than the 1970s and suggests that inflation could quickly decline once supply chains are fully online and pent-up demand levels off.”³

Consider December 2021 inflation for these major categories: gasoline 49.6%, used cars and trucks 37.3%, energy 29.3%, and new vehicles 11.8%.⁴ Those are headline numbers. December inflation, less food and energy, was 5.5%, higher than the approximately 2% we have experienced for nearly 20 years. The monthly rate of inflationary increase shows signs of decelerating.

“US and China ... GDP forecasts of 4.4% and 4.7%, respectively, in 2022”

The consensus estimate for US GDP growth for 2021 is 5.6%. Real US GDP declined 3.5% in 2020 because of the pandemic shock in the first half of the year. With growth of 5.6% in 2021 and ~4% growth in 2022, the US should be back on the ~2% growth trajectory it was before the pandemic.

China is a different story. The concerns with China are several, namely: massive oversupply in real estate, authoritarian and capricious governmental regulation, and growing intimidation of its neighborhood. The PE ratio of the China Shanghai Stock Exchange is currently about 17. The PE ratio of the S&P 500 is about 27. The market appears to be discounting Chinese companies because of uncertainty related to the issues above and others. The years of double-digit GDP growth for China are likely behind us (China’s National Bureau of Statistics recently reported 8.1% growth for 2021), but moderating long-term growth projections look intact as every year millions of 1.4 billion Chinese people rise out of poverty.

“2022 is likely to be more volatile than 2021”

Mr. Thomas’s words here, “analysts caution that 2022 is likely to be more volatile than 2021, as monetary policy becomes less aggressive, and earnings moderate,” should come as no surprise. January has already experienced some volatility and declines from all-time highs in the major indexes. This is a good time to remind ourselves about our individual bias to “loss aversion,” which “in behavioral economics refers to a phenomenon where a real or potential loss is perceived by individuals as psychologically or emotionally more severe than an equivalent gain.”⁵

Market volatility and downward price action can feed on itself through the collective action of individuals reacting out of loss aversion, accelerating and amplifying declining stock prices. This is why it is so critical to stay the course with investment plans of broad diversification and asset allocation and to not lock in losses through untimely decisions.

PandaDoc and Online Document Automation

For several months we have tested PandaDoc online document automation software with clients. Starting this year, we are implementing PandaDoc eSign capabilities with Foundation forms, which will give clients the ability to initiate account activity through email, and then we can start the process that requires signatures through PandaDoc.

Please note: you do not need to create an account with PandaDoc (although accounts are free).

We strongly encourage all clients to require at least two authorized signers to sign forms for account activity. Through PandaDoc, the process will be more streamlined for multiple people to sign the forms, more secure, and more easily stored and accessed by the Foundation and by clients through the email they receive from PandaDoc.

Scanning and emailing forms to the Foundation will still be acceptable, though we ask that clients email a **new email address to consolidate all email correspondence regarding account activity:**

accounts@umfnc.org

Clients can still email me and/or Carolyn, but we will lovingly ask you to email accounts@umfnc.org in the future. 😊

We ask for your patience and understanding as we roll out the services through PandaDoc. It will take time as we go on to perfection, as we say in the Methodist tradition. The result will be more convenience and security for clients to conduct their account activity with the Foundation.

Stay tuned for more information.

If you have any questions, please feel free to contact me.

Be safe and be blessed,



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¹ https://www.investpmc.com/sites/default/files/documents/PMC_QuarterlyMarketEnvironment.pdf

² <https://www.bls.gov/news.release/cpi.nr0.htm>

³ <https://www.whitehouse.gov/cea/written-materials/2021/07/06/historical-parallels-to-todays-inflationary-episode/>

⁴ <https://www.bls.gov/opub/ted/2022/consumer-price-index-2021-in-review.htm>

⁵ <https://www.investopedia.com/terms/l/loss-psychology.asp>

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