MarketView

Frist Quarter 2022

GS INVESTMENTS

2021 - A Brief Review

As we look back at 2021, the world looks both different from a year ago and yet, in many ways the same as it did in 2020. We are entering the third year of this horrible nightmare called Covid, and it seems like we may have to live with this for some time to come. It appears that this is our "new normal". From this perspective, the past year ended just as it did in 2020. Coronavirus cases are surging as another wave of the virus is underway. The economy is expanding at a rapid pace as it did at the end of 2020. However, Just like a year ago, there are concerns of a virus induced slow down ahead. The ongoing health threat, labor shortages, persistent supply chain problems, and spiking inflation continue to challenge the economic recovery. Investors are left wondering if markets can keep reaching new highs. Indeed, the risks are still very real, but so are the opportunities. Even as the Covid continues to wreck havoc, 2022 is likely to see a continued economic recovery from the total shut-down in the spring of 2020.

Arriving At Our New Normal

2021 brought us a long way back from the depths of 2020. Despite the Delta and Omicron virus waves, the country remained largely open and most sectors of the economy returned to something resembling how they looked pre-covid, although for many of us, with a home office twist. The labor markets continued to recover as we have gained 18.5 of the 22.4 million jobs lost during March and April of 2020. Pent-up demand and high levels of savings led to a strong rebound in consumer spending. Business profits rose, especially in industries not held back by labor shortages or supply chain issues. With a combination of strong fiscal spending and continued monetary policy support, it is not a surprise the market reached new highs throughout the year. Outside of the travel, entertainment, and restaurant industries, in many respects, it was a solid year. As we enter 2022, the question is, can this momentum continue?

While it won't be a straight line, we think the upward impetus will persist for awhile. If we can get the most serious consequences of the pandemic behind us, the remaining sectors of the economy should fully reopen. This will result in higher levels of employment and an easing of the supply chain issues that could help contain inflation as we move through 2022.

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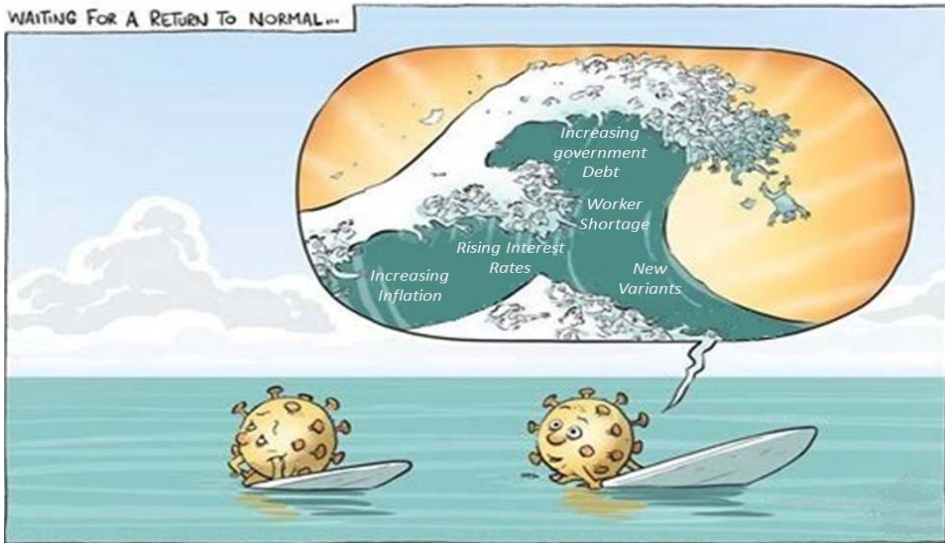
What About The Risks Ahead



Health. Health risks are the most immediate. The Omicron variant of COVID-19 is the latest threat to emerge, and it likely will not be the last. We don't know exactly what it means yet. From a health point of view, we do know that the biggest implication is that the pandemic is still with us.

From an economic perspective, the lesson from 2021 is that the economy can continue to recover in the face of an on-going pandemic. The summer Delta wave did not derail the recovery. Further, herd immunity has continued to rise due to a combination of vaccinations and direct exposure. Additionally, the early indication are that while more contagious, the Omicron variant looks to cause less severe illness and thus will have a temporary impact on the economy. Even if the spread of Omicron worsens, the population is more protected with vaccines and treatments and the economy is more resilient now than in 2020. The health risks are real but no worse than we have already seen.

Economic. Labor shortages, supply chain issues, and inflation pose the greatest challenges for 2022. The latest covid wave looks like it could exacerbate these problems in the near term, but most economists expect these issues to subside as the pandemic runs its course. Businesses have continued to hire, and rising wages will bring more workers back into the labor force. Over the year, this should ease the labor shortage. Supply chains are already starting to heal and should be much improved by the end of the year. Inflation could be the one to watch as it could lead to much higher than expected interest rates. While the Fed has been embarrassed by its talk of transitory inflation, they still believe that as people return to the workforce, supply chain issues will subside, and lead to lower levels of inflation caused by shortages. It takes time for a system to rebalance after a shock, and the pandemic was a major one. 2022 could be the year where we find that balance.

Policy and Politics. It looks like the Build Back Better bill is dead for now. A smaller bill could re-emerge, but it is expected to be a less transformational bill. This means it will be less of an economic tailwind, but also posses less of a risk of overheating the economy or derailing its recovery. In December, the "debt-ceiling can" was kicked down the road into this February. We expect much rhetorical debate that will ultimately

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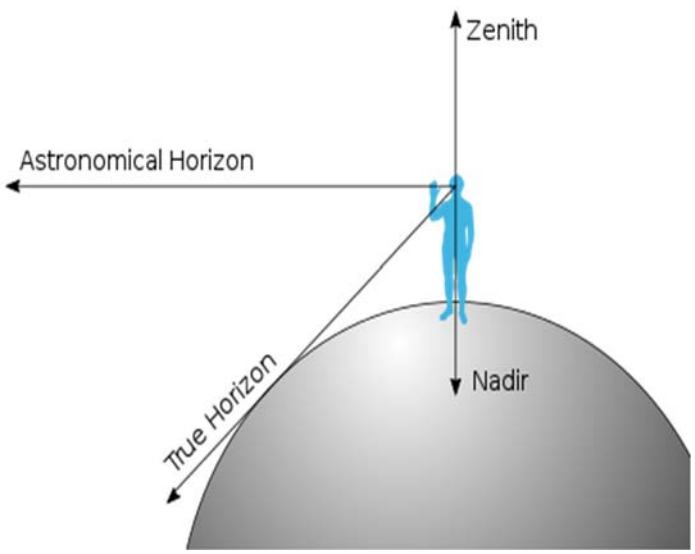
end in compromise. This will introduce risk and uncertainty until that happens, but we see this as a short-term risk. The rest of the year is expected to be mostly politics and not much legislation as the fall 2022 elections approach.

Market. Valuations, in terms of multiples of earnings, spiked during the pandemic, supported by continued low interest rates. They are likely to adjust downward as rates rise. That said, an expected rise in corporate earnings can offset a decrease in the market multiple. Many companies have found that their operating margins improved during the pandemic. They found ways to make due with open positions they could not find people to fill or by cutting costs through remote working operations. This should continue as the economy reopens. As such, higher margins should combine with increasing sales as shortages subside driving another year of strong earnings growth in 2022. As we approach this new normal, improvements will slow, but that is not expected to happen until late 2022 at the earliest.



The Arc of Recovery

As we look at the arc of the pandemic and recovery, 2020 marked the *nadir* (pictured on the left). 2021 was the first half of the recovery to normal, and 2022 will be the second (and final) half of that recovery. The new normal at the end of 2022 will mean that the economy and markets will no longer be dancing to the tune of the virus. Instead, they will once again respond to fundamental economic and financial factors. It will not be the same as the old normal, but it will be determined by the same factors. That will be something to celebrate.

In short, 2022 will be a year of growth. The economic problems are real: inflation, labor shortages, rising interest rates, political dysfunction, and more. But this scenario is normal, and those problems will be accommodat-

Notable Quotes

"These so-called bleak times are necessary to go through in order to get to a much, much better place."
David Lynch

"The COVID-19 pandemic coincided with the deployment of global 5G technology."
Steven Magee

"I think greed might be the next end of the world plague."
De philosopher DJ Kyos

"If there is anything important that a business owner could learn from this pandemic is to always be prepared for the unexpected."
Pooja Agnihotri

"Adversity is the genesis of discovery."
Dax Bamania

"Longer than an earthquake, a pandemic shakes your life and living"
P.S. Jagadeesh Kumar

"Nothing is certain and every little thing is beautiful; the pandemic taught us that"
Bhavik Sarkhedi

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ed. Even the health problems, while likely to continue, are also part of the new normal. What we saw in 2021 was that the economy could accommodate the Delta wave and still grow. The Omicron variant, and others likely to surface, can and will be controlled. In the interim, they are unlikely to derail the return to normal.

The Upside of 2022

As we say goodbye to 2021, there are real risks to contend with. That is always the case however. We now understand those risks better and have made significant progress in controlling them. The opportunities for 2022 are also real and stand a good chance at being realized. With all the focus on the downside, 2022 presents upside market potential. That, too, is something to celebrate.

GSI Tenets

GS Investments

GS Investments, Inc. is an investment management company specializing in individual and institutional asset management. Privately owned and operated, GS Investments, Inc. is run by its owners, Glenn H. Steinke, C.F.A., John G. Steinke, M.B.A. and Greg Cunningham.

Glenn Steinke, CFA brings over 50 years of investment management experience to the business. Previous capacities include Vice President and Senior Investment Officer with a major pension fund ($1.8 billion under management) and Senior Vice President with a major Minneapolis-based financial institution ($3 billion under management). Glenn is a graduate of the University of Minnesota.

John Steinke MBA offers a broad financial services background with 29 years of portfolio management experience and 7 years of banking experience including capacities as a Vice President of a $50 million bank and as a private banking office for a large, Minneapolis -based financial institution. John received his BA from Concordia College (Moorhead) and his MBA from the University of Minnesota.

Greg Cunningham Prior to joining GS Investments, Greg spent 18 years at Minneapolis-based Ameriprise Financial, a national leader in financial planning with over 2 million retail clients and $300 billion in assets. Here he worked with the Chief Investment Officer in support of the international and domestic hedge funds and with the President and General Manager of RiverSource mutual funds. Greg is a graduate of Gustavus Adolphus College in St. Peter, MN.

Sheri Ritchie brings over 30 years of financial services experience to the business. Previous capacities include client service and support positions with Dean Witter and Kemper brokerage firms and a Minneapolis-based investment management firm. Sheri is a graduate of the University of St. Thomas.

GSI Investment Philosophy

GS Investments, Inc. utilizes a balanced approach for the majority of its accounts although each account is tailored to the individual needs of each client. Taxable or tax-exempt bonds are used along with a common stock component. The division between bonds and stocks is determined by the personal objectives of each client. A need for income and a willingness to assume risk are also determinants of an account's bond/stock mix.

GS Investments, Inc. emphasizes the purchase of quality securities and employs a long-term investment style, as market timing, frequent shifts in asset allocation and interest rate forecasting are not consistent with the firm's philosophy. In-depth market analysis and many years of experience support this approach.

GSI Fixed Income Strategy

GS Investments, Inc. emphasizes a staggered maturity approach when purchasing bonds. Individual security investment grades and call protection are considered when making these investments. Quality grades of "A" or higher are favored with tax-exempt issues. Government bonds are dominant among taxable securities.

GSI Equity Strategy

GS Investments, Inc. favors stocks emphasizing quality and growth. Appropriate cyclical growth stocks and small capitalization growth stocks are used periodically as well. Additionally, GS Investments, Inc. believes that a growth oriented philosophy tends to result in less frequent trading and lower tax payments (for taxable accounts) on realized capital gains. This provides a lower cost approach for the client.

GSI Client Communication

GS Investments, Inc. emphasizes client communication. Written investment objectives as well as periodic oral and written reports are used to heighten the understanding between the client and investment manager. In addition, easy to read, detailed reporting is provided by state-of-the-art investment software in order to inform the client of portfolio progress.

GS Investments
20 Years & Growing

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