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Fourth Quarter 2021 Update and Commentary

Generating safe returns for our clients is the primary goal at Eliot Finkel Investment Counsel. Successful investing requires patience and a long investment horizon. Our focus on company fundamentals and economics backed by 48 years of experience and in-house research continues to produce superior results. This, plus the personal service we provide, explains why our clients have been with us, on average, over 17 years.

Since the dot com bubble burst in 2000, we have generated 8% annual returns for our clients, significantly outperforming the S&P 500 Index (6%). An investment with us in March 2000 would now be worth 60% more than an equal investment in the S&P 500.

The year 2021 was one of contradictions: an insurrection at the U.S. Capitol, two new Covid variants, massive supply chain issues, inflation, several amazing Covid vaccines and an unexpectedly strong economy.

The Omicron variant appears more contagious and less deadly than its predecessors. This is not unusual and, along with vaccines and the newly approved drugs for treating Covid, could speed herd immunity and reduce the virus to a treatable endemic.

Transportation bottlenecks including harbor capacity, a shortage of truck drivers and labor issues continue to plague supply chains. Supply chains depend on developing countries, many with low vaccination rates, where Covid interrupts the manufacture and/or assembly of needed goods. Lean inventories, a feature of pre-pandemic business, are no longer adequate. It may take a year or two to catch up.

Inflation is now a major concern due to frictional supply chain issues and the sudden surge in demand. The Federal Reserve is reducing its bond buying stimulus and is expected to implement at least three, quarter-point interest rate increases this year. This is a serious shift in the Fed's attitude. However, it does not imply a return to 1970s style inflation. It most likely means an increase in long-term inflation to the 2-3% range the central bank has been seeking. This is higher than the abnormally low inflation we have experienced over the past decade but should lead to a healthier economy in the long run.

Domestic economic growth for 2021 was probably 6%, the strongest in decades, and better than much of the world. It looks set to continue. Demand is being driven by government stimulus and pent-up consumer spending due to the savings accumulated during the pandemic and related lockdowns. The economy is also being helped by the government infrastructure bill and capital expenditures needed to adjust to a post-pandemic world as well as climate change. Government stimulus along with consumer demand has also led to record corporate earnings.

The stock market remains near all time highs supported by low interest rates, strong consumer demand and record earnings. The companies in our portfolios are fundamentally strong, financially secure and, given current economic prospects, reasonably priced.

For more information please call 310-271-2521 or visit our website at efinvest.com. Thank you for your interest.

* Past performance is no guarantee of future results and does not preclude the possibility of loss.