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Despite an ongoing pandemic and the return of inflation, the market posted nearly a 30 percent return in 2021 and continues to demonstrate resilience time and time again. While forecasters don't see the same level of growth for 2022, other factors could potentially give investors confidence to withstand increased market volatility.

Soaring corporate profits combined with a continued accommodative monetary policy propelled the equity markets higher in 2021. The market, as defined by the S&P 500® index, posted its third consecutive year of double-digit gains, and achieved a remarkable 70 new all-time highs–a record close more than once every four trading days. Few, if any, could have predicted this feat at the start of the year.

Despite the one-way market, 2021 offered investors much to ponder, including the so-called meme stocks, the return of inflation, and the continuation of the pandemic. Like every new year, storm clouds loom. Given the lofty levels of the equity markets, perhaps a correction or a bear market is in store. However, our current market has demonstrated its resilience time and time again. The year 2022 will likely be measured by how effectively the market traverses rising inflation, a less accommodative Federal Reserve, and the lingering impacts of COVID-19.

When examining the past year, it is remarkable that the market posted nearly a 30 percent return. Inflation, which subdues the willingness of investors to pay high multiples for stocks, reached a four-decade high. The supply chain remains snarled due to COVID-related disruptions. The Federal Reserve signaled that it is prepared to raise rates next year and quickly pare back its stimulative bond-buying program. Offsetting these negative influences were robust corporate profits. According to FactSet, profits for the S&P 500® increased a staggering 48 percent in 2021. This remarkable increase steeled investors' resolve to remain committed to equities.

As always, both a bull and a bear case may be constructed for the new year. However, as we sit today, it is much easier to imagine a more challenging backdrop for equities in 2022. COVID remains the most significant unknown to the economy and the markets. The impact of the Omicron variant is still being assessed. It is also possible new variants could emerge later in the year, following the 2021 pattern. The hope is that vaccines and newly approved therapeutics will thwart the virus' impact.

Another looming risk is the Federal Reserve tightening its monetary policy at a pace faster than the market is expecting. Inflation, however, is probably the most daunting obstacle. Few are still claiming that this inflationary uptick is transitory. The hope is that inflationary pressures will abate as supply chain issues are resolved, but should inflation pressures persist at their current levels, valuations on equities will likely decline making it more difficult for the market to advance.

Perhaps the most encouraging aspect when constructing a bull case for the markets involves low investor expectations. Market forecasters, in aggregate, are calling for below average returns for the equity markets. Most market participants expect higher interest rates, continued inflationary pressures, and the pandemic to persist. To the extent any of these elements are not as pronounced as feared, the markets will be catalyzed. Fundamentally, corporate profits will continue to be robust. While they will not approach the same level of growth as 2021, corporate profits are forecasted to increase approximately 10 percent in 2022. Both the domestic economy and consumer spending should remain solid, potentially giving investors confidence to withstand increased market volatility.

Regardless of the year, there is one constant that will not change. Riverbridge will continue to seek world-class management teams and companies possessing a competitive advantage that will prove enduring over many years. Our portfolio companies are very well positioned to thrive in our new post-COVID economic normal.