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Q4 2021 Market Commentary

The 4th quarter of 2021 was a continuation of the themes we experienced throughout the year: new COVID variants, political polarization, inflation, and supply chain disruption due to higher demand caused by economic recovery. Stocks rose in the first half of the quarter, spurred on by increased clarity in Washington and stronger thanexpected earnings. Volatility spiked in the end of November with the emergence of the Omicron COVID variant, however the markets shrugged off these concerns as data showed the strain to be less severe despite being more contagious. Bonds continued to struggle to find stable ground to make meaningful gains.

- The U.S. economy is estimated to have grown 5.5% year over year in for the quarter, up from 2.3% in Q3.
- The unemployment rate continued edging lower, ending the year at 3.9% compared to 4.2% at the end of November.
- Inflation concerns persisted throughout the quarter with CPI clocking in at 6.8% as of November year over year.
- The Fed began tapering its asset purchases in November and continued its Hawkish tone by announcing they will be accelerating the tapering program and are anticipating three rate hikes in 2022.
- The S&P 500 added another 14 record highs in the quarter, rounding out 68 total for the year, the most in 26 years.

- U.S. equities ended the quarter up 11.03%, as measured by the S&P 500 Index.
  - The Real Estate, Technology, and Materials lead the way, up 17.54%, 16.64%, and 15.20% respectively.
  - The worst performing sectors were Communication Services, Financials, and Energy down -0.01%, and up 4.57%, and 7.97% respectively.
  - Brent crude oil prices saw some volatility for the quarter, peaking at of $85/barrel in October followed by a plunge to under $66/barrel in late November on Omicron fears before rallying back to just under $78/barrel to end the year.
  - Growth outperformed Value for the third straight quarter, with the Russell 1000 Growth posting a return of 11.64%, versus the Russell 1000 Value's return of 7.77%.
  - Mid cap and small cap stocks trailed large cap during the quarter, with the Russell Mid Cap up 6.44%, the Russell 2000 up 2.14%, and the Russell 1000 up 9.78%.

- The yield curve flattened during the quarter, with the 1-year and 2-year US Treasury increasing to 0.39% and 0.73% while the 10-year remained at 1.52% and the 30-year decreasing to 1.90%.

- The Bloomberg US Aggregate Bond Index ended the quarter relatively flat, up 0.01% with treasuries gaining 0.08% and mortgage-backed securities off -0.37%. High yield corporates outperformed investment grade, with the Bloomberg U.S. Corporate High Yield Index up 0.71% versus the U.S. Corporate Index for the quarter up 0.23%.

- Economic data shows the global economy is still battling inflation fears and supply bottlenecks constrain expansion.
  - China's continued harsh lockdown restrictions to stop the spread of COVID before hosting the Winter Olympic Games as it deals with fallout from defaults in its real estate market.
  - Eurozone inflation continued its upward trajectory in the quarter with prices 4.9% and 5% higher in November and December, respectively, than a year prior.
  - The U.S. dollar rose modestly over the quarter.
  - Initial jobless claims stayed on a downward trend for the year, with claims at 364,000 going into the quarter and ending at 207,000.
  - The Labor Force Participation Rate made more gains in Q4, up to 61.9% from 61.5% at the end of Q3, though still below pre-pandemic levels.
  - ISM manufacturing index fell to 58.7 in December, off from 61.1 in November but still signaling manufacturing growth amid supply chain constraints and a tight labor market.

International equity markets were mixed, with Developed posting positive returns and Emerging Markets down.

- Developed markets lagged the U.S.
  - MSCI EAFE USD 2.69% with the United Kingdom up 5.62%, Australia up 2.10%, and Japan off -3.96%.
  - MSCI Europe USD 5.66%, with Switzerland returning 12.83%, France 7.11%, and Sweden 6.14%.
- Emerging market equities trailed developed markets, with the MSCI EM USD down -1.31% for the quarter.
  - EM Leaders included Egypt, Czech Republic, and Peru up 18.34%, 12.27% and 10.43% respectively.
  - EM Laggards included Turkey, Chile, and Hungary returning -11.24%, -10.50%, and -9.68% respectively.
- In non-U.S. equity markets, growth outperformed value over the quarter.
  - MSCI ACWI ex USA Growth USD up 2.37% versus the MSCI ACWI ex USA Value USD up 1.24% for the quarter.

Major risks remain focused on COVID-19's new variants, political uncertainty, and actions from Central Banks.

- Inflation spikes and supply constraints continue to threaten the global recovery.
- Questions remain around the Build Back Better Bill in the US, with tax increases less likely but not out of the question.
- Impact from Federal Reserve's ending of quantitative easing and subsequent rate hike expectations.
- Trade and political questions over Hong Kong & Taiwan continue between the US and China.
- Ongoing Russian troop buildup on the Ukrainian boarder strains Western relationships in the region.