

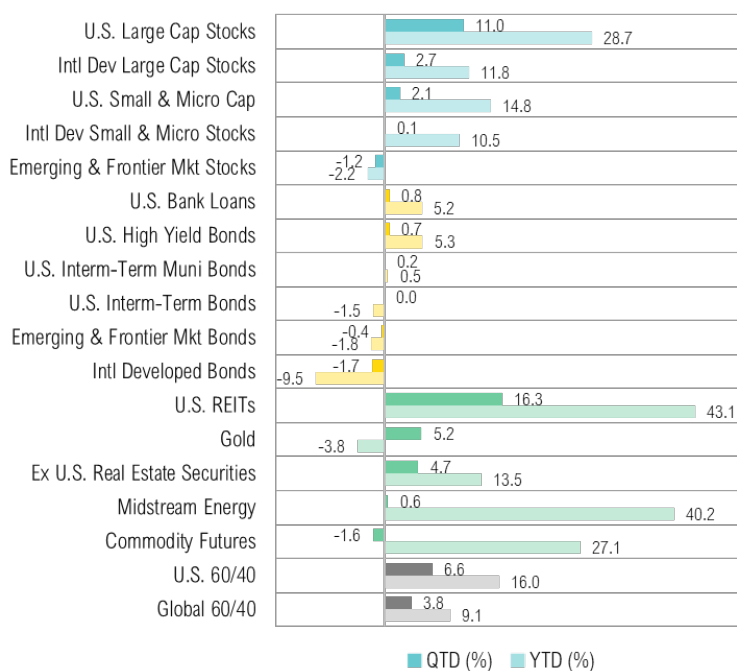
Investment Commentary

Markets Update

January 19, 2022

The last quarter of 2021 yielded mostly positive returns for equities and flat returns for fixed income securities. Markets were helped by delightful amounts of fiscal spending that contributed to an almost \$1.2 trillion expansion in the U.S. public debt in the fourth quarter alone.¹ This deficit spending was partially funded by the \$309 billion expansion in the Federal Reserve’s balance sheet for the quarter and multiples of that for the year.²

4Q, 2021 Key Market Total Returns



Source: Bloomberg

The last quarter of 2021 yielded mostly flat returns for fixed income securities. The Bloomberg U.S. Aggregate Bond Index’s flat return for the quarter kept year-to-date losses to 1.5%. This was the third-worst year since the index’s inception in 1975, with the worst year being 1994 when the index returned -2.9%. That year, the 10-year Treasury yield rose from 5.8% to 7.8%. In 2021, the 10-year Treasury yield rose from a paltry 0.93% to a slightly less paltry 1.52%.

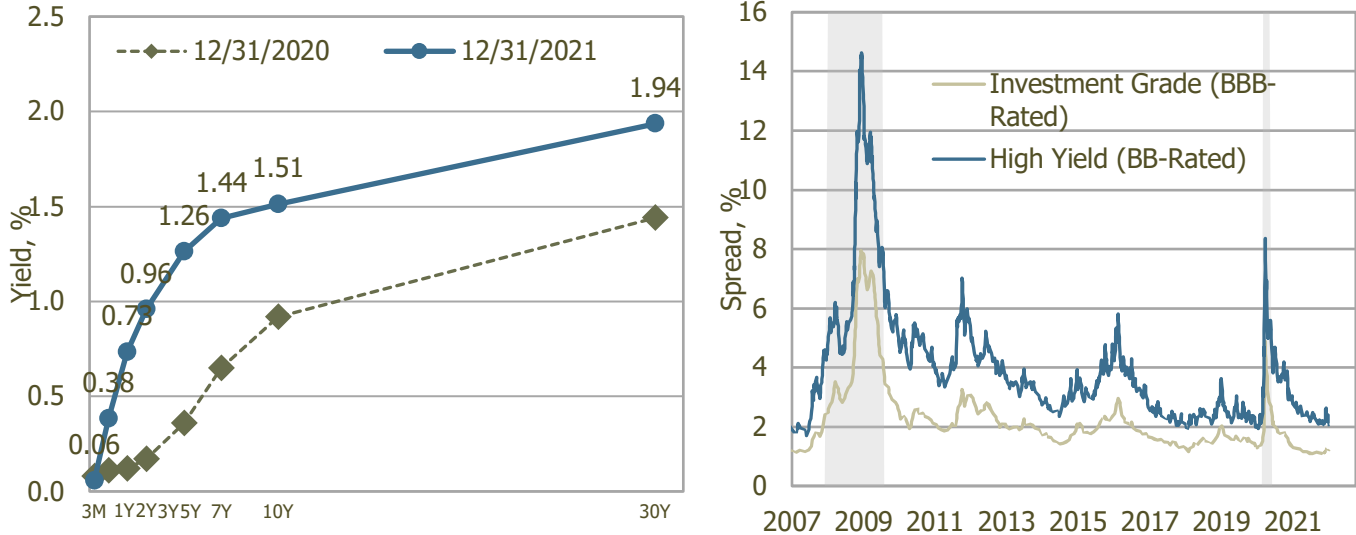
¹ CNN: <https://www.cnn.com/2021/07/28/politics/infrastructure-bill-explained/index.html>

² FRED: <https://fred.stlouisfed.org/series/WALCL#0>



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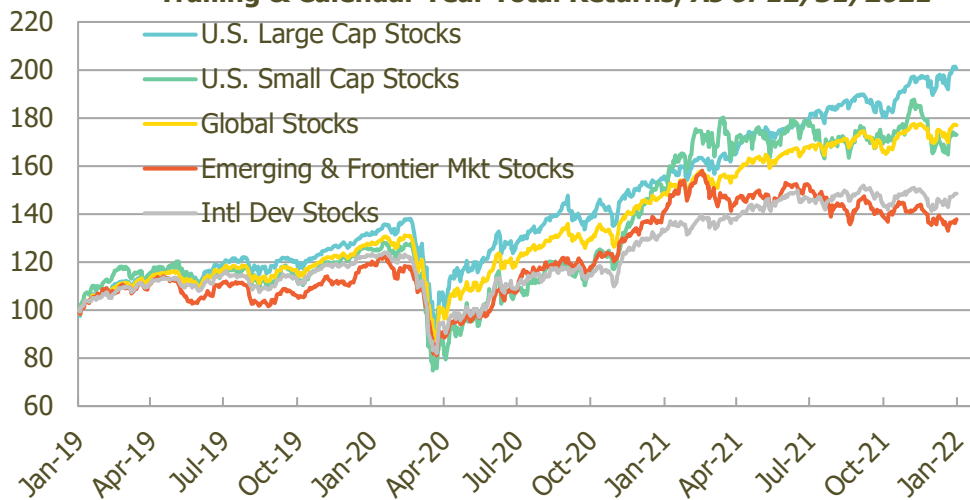
U.S. Treasury Yield Curve Has Steepened Significantly This Year While Credit Spreads Have Remained At or Near Historically Tight Levels; Data as of 12/31/2021



Source: Bloomberg

Large cap companies in the U.S. dramatically outperformed other equity asset classes during the quarter, extending their already substantial lead coming into the final quarter of the year. The S&P 500 was higher by 11% in the quarter, pushing its return for 2021 to 29%. From an equity style perspective, large cap growth stocks gained 12% during the quarter while value stocks gained 8%. For the year, the Russell 1000 Growth Index finished higher by 28% while the Russell 1000 Value Index was higher by nearly as much, at 25%. From a smaller company perspective, the Russell 2000 Index gained 2% during the quarter, pushing the calendar-year return to 15%. Value stocks, as measured by the Russell 2000 Value Index, significantly outperformed the Russell 2000 Growth Index for the quarter and year. For the quarter, small value stocks were higher by 4%, leaving them up 28% for the year. Growth stocks were flat for the quarter and up marginally for the year, up 3%.

U.S. Large Cap Stocks Outperformance & High Valuations; Trailing & Calendar Year Total Returns, As of 12/31/2021



Data Source: Bloomberg



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From a sector perspective during the quarter, gains were broad based. Several sectors produced double-digit gains, including, technology, real estate, utilities, materials, health care, consumer staples, and discretionary. Only communication services failed to post positive gains, posting 0% for the quarter overall. For the year, energy led the way with a 55% return, followed by real estate with a 46% return. Both sectors are among the smallest in the index and make up less than 6% of the S&P 500. Technology and financials were both up 35%. For context, these two sectors make up nearly 40% of the S&P 500.

Stocks outside of the U.S. trailed their U.S. counterparts during the quarter and in 2021. Developed market equity returns, as measured by the MSCI EAFE Index, gained 3% in U.S. dollar terms during the quarter. This moved the index higher by 11% for the year. The 18% return differential between EAFE and the S&P 500 was the third widest since 1997. The MSCI EAFE Index trailed the S&P 500 by 19% in 2014 and trailed by 32% in 1997 during the Asian currency crisis. In local currency terms, developed market equities outside the U.S. were up 4% in the quarter and up 19% for the year. The MSCI Emerging Markets Index was down 1% during the quarter, leaving it down 2% for the year. In local currency terms, emerging market stocks were down 1% in the quarter and flat for 2021.

All market pricing and performance data from Bloomberg, unless otherwise cited. Asset class and sector performance are gross of fees unless otherwise indicated.

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