

Market Commentary

2021 Year End Review



2021 brought its own unique set of opportunities and challenges. While we navigated another year of the virus, optimism was rewarded when it came to investing.

- **Market-watchers added ATH (all-time-high) to their financial acronym repertoire** as the S&P 500 index hit 70 record highs this year.¹
- **A powerful wave of retail investors came to the market in January**, and with them we learned new terms such as meme stocks, HODL (hold on for dear life) and r/WallStreetBets.
- **Supply chain constraints and inflation** impacted our daily lives, and inflation closed out 2021 near 40-year highs.²

2021 Market Returns³

Index Total Returns	December	Q4	2021	3-year	5-year	10-year
S&P 500	4.5	11.0	28.7	26.1	18.5	16.6
DJ Industrial Average	5.5	7.9	20.9	18.5	15.5	14.2
NASDAQ Composite	0.7	8.4	22.2	34.3	25.0	21.0
Russell 2000	2.2	2.1	14.8	20.0	12.0	13.2
MSCI EM	1.9	-1.2	-2.2	11.3	10.3	5.9
MSCI EAFE	5.1	2.7	11.8	14.1	10.1	8.5
Bloomberg US Agg Bond	-0.3	0.0	-1.5	4.8	3.6	2.9

Markets

Markets in 2021 were defined by a resilience in U.S. equities, a democratization of investing to retail traders, Elon Musk's market-moving Twitter account, and cryptocurrency entering mainstream markets.

U.S. stock returns dominated against other markets, helped by strong company earnings throughout the year. And while it certainly didn't feel like a straight line up, when we zoom out on the year, it was pretty darn close (see chart below). Over the calendar year, the S&P 500, Dow Jones Industrial Average, and Nasdaq Composite indices rose 28.7%, 20.9% and 22.2%³, respectively. The S&P 500 made 70 new ATHs—the most in a single calendar year since 1995¹. In fact, it has been an incredibly strong three years for U.S. equity markets; the

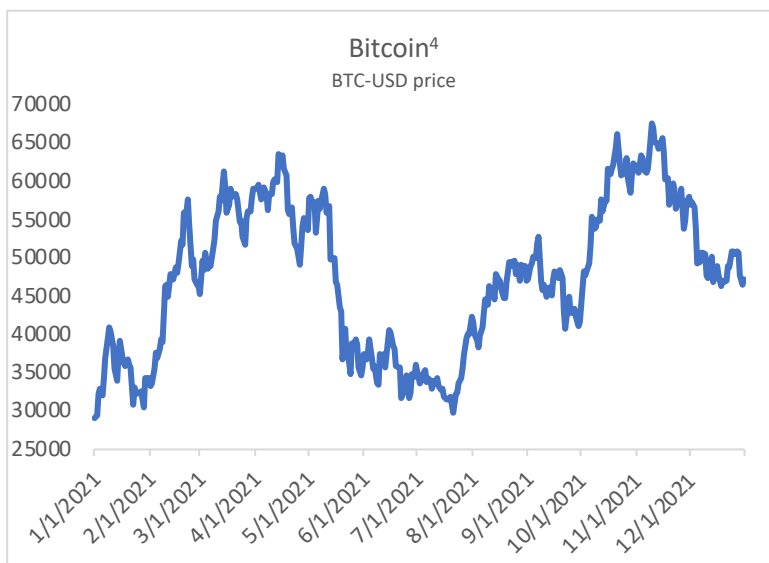
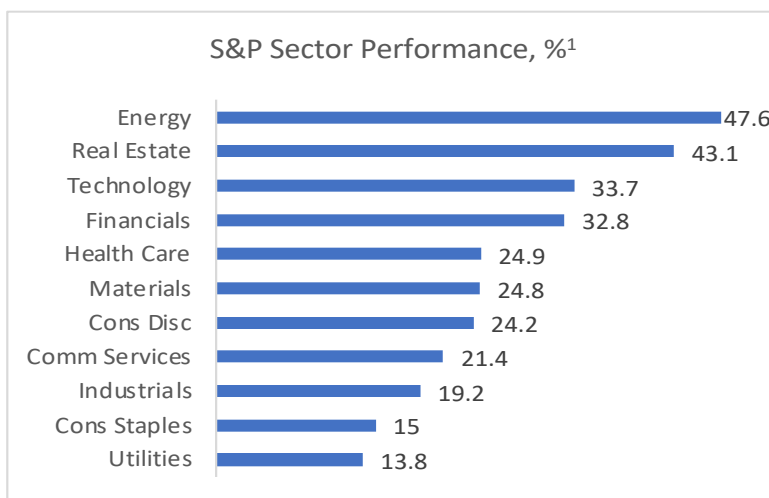
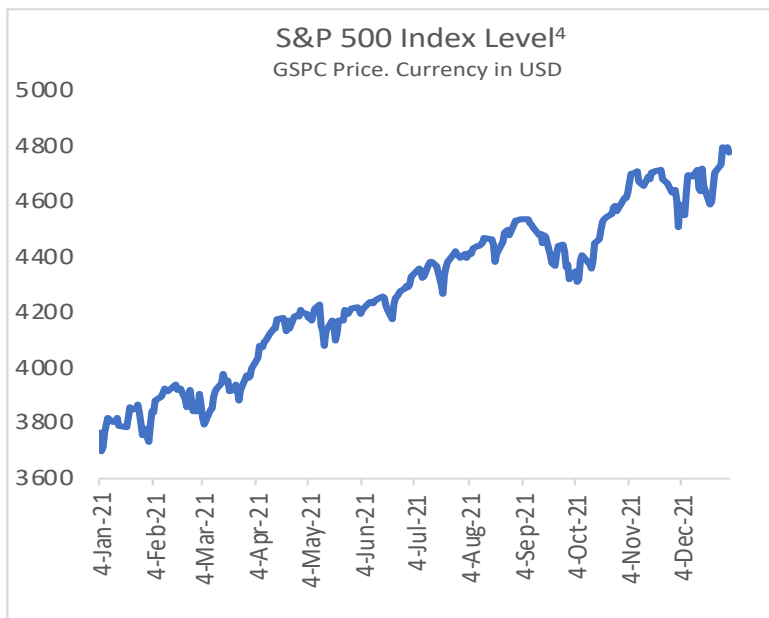
strongest 3-year period we've seen since we were contemplating what would happen at midnight on Y2K.¹

While there was significant performance dispersion throughout the year on a sector level, it was the first time since data going back to 2001 that all 11 S&P 500 sectors finished with double-digit gains.¹

While there was strong performance across sectors, there was dispersion at the company level. Some of the bigger names such as Alphabet, Microsoft, Apple, and of course Tesla stand out, rising 65%, 51%, 34%, and 56%, respectively⁵. There was also significant volatility across companies. One big source of volatility was from retail investors, who came with a force to the markets in January and never looked back. Also known as meme madness, social media platforms featured a few heavily shorted stocks to rally behind, e.g., GME and AMC.

But when it comes to volatility, it's hard to beat cryptocurrency, which took center stage in the headlines this year for good reason. Bitcoin hit an ATH above \$69,000, but ended the year with lackluster performance, settling at about \$46,000.⁴ The first bitcoin futures ETFs launched providing more access to the asset, and the ProShares Bitcoin Strategy ETF (BITO) became the fastest ETF ever to hit \$1 billion—garnering as much in just two days.⁶

And then there were bonds, an asset class that simply could not keep up in 2021. As the economy showed more signs of strength and hotter inflation, investors focused on when the Fed would start normalizing its policy stance (more on this below). The U.S. 10-year Treasury rate ended at 1.52%, up from 0.93% at the beginning of the year⁵, and in turn the Bloomberg U.S. Aggregate Bond Index fell -1.5% on the year.

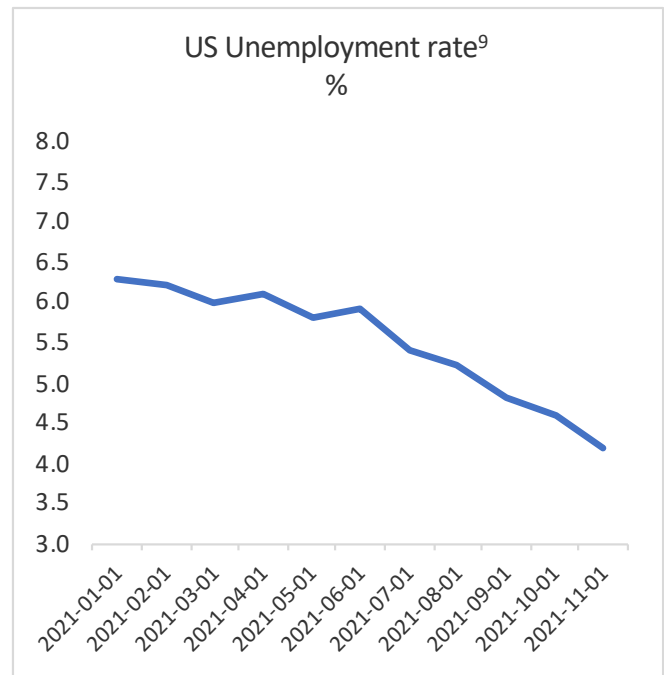
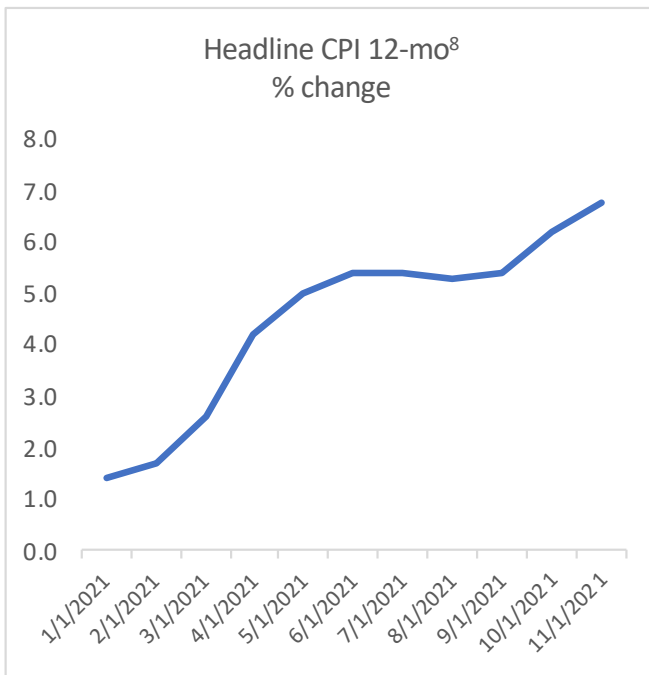


THE FED AND THE ECONOMY

While 2021 didn't come without challenges (cue: large container ship gets stuck in the Suez Canal), the year was marked by rebounding economic growth as we saw one of the fastest recessions followed by one of the fastest recoveries in the U.S. By the end of Q2, real GDP had surpassed its pre-COVID peak.⁷

Along with the rebound in the economy, inflation hit its strongest pace in nearly 40 years and the labor market tightened (very quickly).

High inflation and falling unemployment led to the Fed's decision to accelerate its pace of tapering at its December meeting. The current pace suggests a tapering conclusion in March 2022 and should pave the way for rate hikes next year.



YOUR NEXT MOVE

We believe 2022 will likely be a year of transition toward a normal state for the economy. As markets adjust in anticipation of tapering and eventual rate hikes, the road that lies ahead may be challenging for core fixed income, so it's wise to be thoughtful about the duration and risk in this part of your portfolio.

Don't forget that with challenges and volatility also comes opportunity. Growth in your portfolio next year may come from thematic global trends, innovation in the U.S., or it may be driven by a recovery across international markets. Investing in a diversified portfolio can help you participate in growth areas while buffering some of the volatility.

If you have questions on your portfolio positioning for 2022, or have any changes to your goals, risk tolerance or time horizon, please reach out to schedule a conversation.



Returns shown are total returns of indices. Returns over one year are annualized.

[1] Source: Bloomberg.com. <https://www.bloomberg.com/news/articles/2021-12-31/three-monster-years-in-s-p-500-set-a-towering-bar-for-january> and <https://www.bloomberg.com/news/articles/2021-12-26/meme-madness-68-new-highs-superlatives-abound-in-26-s-p-rally> and <https://www.bloomberg.com/news/articles/2021-12-31/for-first-time-all-11-s-p-500-sectors-in-double-digits-chart>

[2] Source: Bloomberg.com. <https://www.bloomberg.com/news/articles/2021-12-10/consumer-prices-in-u-s-climb-at-fastest-annual-rate-since-1982>

[3] Source: Morningstar as of 12/31/2021.

[4] Source: Yahoo finance as of 12/31/2021.

[5] Source: Bloomberg as of 12/31/2021.

[6] Source: Nasdaq.com <https://www.nasdaq.com/articles/bitcoin-etf-becomes-fastest-etf-ever-to-hit-%241-billion-aum-2021-10-20>

[7] JPMorgan Market Insights team. <https://www.chase.com/personal/investments/learning-and-insights/article/a-look-back-on-the-markets-in-2021>

[8] Headline CPI 12-month % change, all items. Source: US Bureau of Labor Statistics: <https://fred.stlouisfed.org/series/UNRATE>

[9] Unemployment rate, monthly, seasonally adjusted through November 2021. Source: Federal Reserve Economic Data. <https://fred.stlouisfed.org>

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