



PENSION & WEALTH MANAGEMENT ADVISORS

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Q4 2021 - Market Commentary¹

- Even as a fourth wave of Covid-19 hit and the Omicron variant spread quickly across the world, most global stock markets finished 2021 with positive returns. U.S. stocks significantly outperformed all other global stock markets for both the fourth quarter and 2021.
- U.S. inflation readings remained elevated and forced the U.S. Federal Reserve to take more aggressive policy action. At its December meeting, the Fed announced plans to accelerate the tapering of its Quantitative Easing policy by reducing its bond purchases by \$30 billion per month. At that pace, the Fed will end QE by March 2022, setting the stage for interest rate increases to begin. The Fed Funds futures market indicates three 0.25% interest rate increases during 2022.
- The broad U.S. stock market had a very strong quarter led by large/mega cap stocks as the S&P 500 Index returned +11.0% for the fourth quarter and nearly 29% for the year. U.S. large caps outperformed U.S. small caps by a wide margin. The Russell 1000 Index returned +9.8% while the Russell 2000 Index returned just +2.1% during the fourth quarter.
- As cases of the Omicron variant surged, investors rotated towards more defensive and higher quality equity positioning. Non-U.S. stocks as measured by the MSCI ACWI Ex-U.S. Index returned +1.8% during the fourth quarter, continuing to be hurt by the weak performance of emerging markets. The MSCI EM Index had its second consecutive negative quarterly return and finished the year at -2.5%, nearly 30% less than the broad U.S. stock market. The biggest emerging market laggards during 2021 were Brazil at -17.6%, Turkey at -15.9%, and China at -12.0%.
- Long maturity bond yields remained tame during the fourth quarter, despite elevated inflation levels that kept real yields in negative territory. The 10-year U.S. Treasury yield ended the year at 1.51%, essentially unchanged since September 30th, but up from 0.92% at the beginning of 2021.
- Investment grade bond returns as measured by the Bloomberg Aggregate Bond Index finished the year at -1.5% while below investment grade bonds as measured by the BofA ML High Yield Index returned +5.4% in 2021.
- Oil prices traded in a tight range all quarter. The West Texas Intermediate Crude Oil Index was slightly positive during the quarter but rose nearly 56% during 2021 as global economies recovered, new production remained constrained, and OPEC remained disciplined on supply. U.S. natural gas experienced a significant decline of -35% during the fourth quarter due to a mild start to winter.
- Gold produced modestly positive returns during the fourth quarter but finished 2021 in the red and despite elevated inflation levels, which normally benefits the price of gold. A rising U.S. dollar was the main reason gold underperformed in 2021 as well as the increasing popularity of digital currencies.
- Bitcoin experienced substantial volatility during the fourth quarter but still produced a +5.3% return. 2021 was a watershed year for the digital asset class as institutional adoption accelerated. Bitcoin jumped +59% and Ethereum surged nearly +400% during 2021.
- Balanced portfolios had a solid year as strong equity returns offset negative bond returns. The Morningstar Moderate Target Allocation Index returned +3.4% during the fourth quarter and just over 10% for the year.

Performance Table¹

	<u>4Q21</u>		<u>2021</u>		<u>2020</u>		<u>2019</u>		<u>2018</u>	
S&P 500 Index (U.S. large/mega cap stocks)	11.0%	↑↑↑	28.7%	↑↑↑↑	18.4%	↑↑↑	31.5%	↑↑↑↑	-4.4%	↓
Russell 2000 Index (U.S. small cap stocks)	2.2%	↑↑	14.8%	↑↑↑	20.0%	↑↑↑	25.5%	↑↑↑↑	-11.0%	↓↓↓
MSCI EAFE Index (large cap developed markets int'l stocks)	2.7%	↑	11.3%	↑↑	7.8%	↑↑	22.0%	↑↑↑	-13.8%	↓↓↓
MSCI EM Index (emerging markets stocks)	-1.3%	↓	-2.5%	↓	18.3%	↑↑↑	18.4%	↑↑↑	-14.6%	↓↓↓
MSCI All Countries World Index (global stocks)	6.7%	↑↑	18.5%	↑↑↑	16.3%	↑↑↑	26.6%	↑↑↑	-9.4%	↓
Bloomberg Aggregate Bond Index (inv. grade bonds)	0.0%	↔	-1.5%	↓	7.5%	↑↑	8.7%	↑↑	0.0%	↔
BofA ML High Yield Index (below invt. grade bonds)	0.6%	↑	5.4%	↑↑	7.1%	↑↑	14.3%	↑↑↑	-2.1%	↓
Bloomberg Short-Term Treasury Index (cash)	0.0%	↔	0.0%	↔	1.0%	↑	2.5%	↑	1.9%	↑
Bloomberg Municipal Bond Index	0.7%	↑	1.5%	↑	5.2%	↑↑	7.5%	↑↑	1.3%	↑
Gold	4.2%	↑	-3.7%	↓	25.1%	↑↑↑↑	18.4%	↑↑↑	-2.9%	↓
Oil (West Texas Intermediate Crude)	0.6%	↑	55.8%	↑↑↑↑↑	-20.9%	↓↓↓	31.5%	↑↑↑↑	-25.0%	↓↓↓
Bitcoin	5.3%	↑↑	59.0%	↑↑↑↑↑	303.7%	↑↑↑↑↑	90.3%	↑↑↑↑↑	-7.5%	↓↓↓
Morningstar Moderate Target Allocation (60% stocks / 40% stocks)	3.4%	↑	10.2%	↑↑↑	12.8%	↑↑↑	19.0%	↑↑↑	-4.8%	↓

¹ Data sourced from Barclays, Market Watch, MSCI, Russell, Standard & Poors, Wall Street Journal and Barrons.