Market Commentary-Fourth Quarter 2021

Fourth quarter returns for the major equity indices were notably strong having the best December performance since 2010 following a weak third quarter. All the major U.S. Equity Indexes finished the year near-record highs. The S&P 500 Index made 70 new highs for the year (second most ever). Remarkedly, the S&P 500 had a record close on nearly 30% of the trading days in 2021. The table below shows year to date and fourth quarter returns as of 12/31/2021 (amounts are for total returns):

Time Period	Dow Jones Industrial	S&P 500 Index	Nasdaq Composite	Barclays U.S. Aggregate Bond
Year of 2021	20.9	28.7	21.4	-1.5
Fourth Quarter 2021	7.9	11.0	8.3	0.0

The equity markets are experiencing increased volatility, attributable to higher inflation, increasing interest rates, a new covid variant or all of them?

The S&P 500 index had a total return of 28.7% in 2021, marking the benchmark's third consecutive double-digit gain. Leading S&P sectors for the quarter were information technology, materials, real estate, and consumer stocks with the growth category of stocks outperforming value stocks. As noted, the S&P stocks had impressive gains this year. Despite these gains the underlying stocks experienced high volatility with 92% of the S&P 500 constituents having fell at least 10% from their highs during the year with an average decline of 18%. Value and growth stocks had similar returns for 2021, breaking a long-term trend of growth stocks outperformance going back to 2009.

Most economists have forecasted continued growth of our Gross Domestic Product in a range of 2-4% for 2022, which is slower than 2021. There are always many variables in forecasting future economic growth. The U.S. economy for 2022 has multiple headwinds caused by the continuation of the pandemic, continued high inflation, tightened monetary policy by the Federal Reserve that could result in several rate increases in 2022, low labor force participation (primarily women choosing to leave the work force due to the pandemic and early retirements), and a divided government and country that is politically stifling the current Congress and President Biden's social change agenda. Positives for the economy in 2022 include the potential for increased construction spending from the passing of the infrastructure bill, subsiding of supply chain bottlenecks and the reversal of temporary higher prices caused by the pandemic.

Corporate earnings hit an all-time high in 2021 but in 2022 corporations will experience increased wage costs and higher interest rates which will result in lower profit gains resulting in lower earnings expectations. Housing supply fell to its lowest level in 2022, while home price appreciation was up nearly 20%, and will continue to rise the first part of 2022 before tapering to more normal levels later in 2022. Mortgage rates climbed for the first week of the New Year, with higher inflation, promising economic growth and a tighter labor market, rates are expected to continue to rise. Most of the surge in inflation is driven by energy. Oil prices are expected to continue to be volatile in the next year.

Historically, the Federal Reserve has increased interest rates to combat inflation. For our fixed income clients, rising interest rates will have a negative effect on the bond prices in portfolios. As interest rates rise, bond prices fall. Therefore, we keep the fixed income maturities shorter term in order to roll over the bonds to a higher interest rate moving forward as they mature. On the equity side, in recent months, as interest rates have risen, value sectors of the market have tended to outperform growth sectors. While this correlation is not consistent over the longer term, it certainly is a trend worth keeping an eye on and we are doing so accordingly. We thank you for your ongoing confidence and trust. Please contact us if you would like to discuss your portfolio in more detail. We look forward to connecting soon with you via a live meeting, voice, or video call.