Quantitative Asset Management, LLC
Investment & Advisory Services

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Quarter Ending December 31, 2021

Quarterly Performance	Q4 Index	For 2021	Close
Dow Jones Industrial Average	7.37%	18.73	36,231.66
NASDAQ Composite Price	8.28%	21.4	15,644.97
Standard & Poor's Averages	10.65%	26.61	4,582.24

2021 will go down as a very memorable year for investors. Headlines of new Covid-19 variants, inflation, labor shortages, and supply chain disruptions posed significant threats to the markets, but equity investors brushed those risks off and continued to pump money into the equity markets. The S&P 500, Dow Jones Industrial Average, and the NASDAQ all finished the year very close to their all-time highs.

Overall, 2021 was rather drama-free for equity investors. The S&P 500 notched 70 all-time highs in 2021, a record that's second only to 1995. In addition, according to Bloomberg, broad-based equity markets went the entire year without a pullback larger than 5%. Looking at the largest intra-year stock market drawdowns, only 1995, 2017, and 1993 had smaller pullbacks.

As great of a year as it was for equity investors, the same cannot be said for bond investors. The Barclay's Bond Index lost 1.7% for the year. This is only the fourth time since the mid-70s that the bond index produced a negative rate of return.

As pointed out above, stock and bond investors had very different experiences in 2021. That said, these outcomes are being heavily influenced by one source, the Federal Reserve. As we also pointed out in previous quarterly letters, the Federal Reserve's policies have had a significant impact on the investment markets. The Fed continued to keep interest rates near zero and continued pumping billions of dollars into the markets each month. These measures encouraged investors to seek out higher-returning assets, like stocks.

Conversely, these same policies have slowly put stress on bond investors - whether they realize it or not. As we've mentioned in previous letters, bond yields and bond prices move in opposite directions. Since the late 1970s, interest rates have declined, and bond investors have watched their income streams drop significantly. Some of that income loss has been offset by rising bond prices, in turn, masking some of the underlying risk of owning bonds. We are now at a point where interest rates have bottomed and are probably heading up. As rates rise, we expect to see bonds come under continued pressure.

As we move into 2022, we expect the Federal Reserve and its policies to heavily impact the equity and bond markets. In short, more volatility. The Fed has announced plans to end its monthly bond buying program by March 2022. In addition, the policymakers have indicated plans to increase the fed funds rate at least three times in the new year to temper inflation.

Even though the Fed is expected to ease up its support of the economy, there may be a silver lining. Investors will once again have to focus on valuations and earnings. In 2022, we expect to see a shift out of the mega-cap tech companies that dominate index performance into more value-oriented names. At QAM, we believe long-term investment success always comes back to the fundamentals.

Wishing you all a very Happy New Year!

All the best,

Jeffrey L. Farni, Sr.

John C. Farni