December 2021 Market Update

Special points of interest:

- **Stock market indices were generally higher in December, reversing November's course.**
- **Higher interest rates and the latest Covid variant are driving a shift in market sentiment from growth to value.**
- **The S&P 500 index has now logged 3 straight years of double-digit gains.**
- **Growing economic uncertainty and fading market support structures should temper gain expectations for this year.**

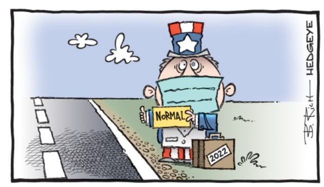
Inside this issue:

The Markets in December 2021

Stock markets reversed course in December from the month prior, rising strongly as part of an annual end-of-year trend known as a 'Santa Claus rally'. This movement, which doesn't happen every year but more often than not, tends to reward investors with the optimism of the Christmas season. This December produced gains of 5.4% for the Dow Jones Industrial Average and 4.4% for the S&P 500 index. Gains were more muted for the Nasdaq index, however, which only rose 0.7% in the month as selling pressures increased on prior tech and pandemic winners. The Fed's pre-announced rate increases for the months ahead is already shifting investor attention from growth stocks with fewer current revenues to value stocks with greater cash flows today (including energy). Previously predicted volatility has arrived!

In addition to the imminent prospect of higher interest rates, persistent inflation and the latest Covid variant are wrecking havoc on labor markets and corporate planning. In mid-December, the Labor Department reported that November's consumer price index rose 6.8% from the same month in the prior year—the fastest pace in 39 years and the sixth straight month of 5%+ inflation.

Job openings also continue to be elevated as workers respond to ongoing Covid conditions by dropping out of the workforce or seeking better pay elsewhere. The job-search site Indeed estimates that there were approximately 12 million job openings at the end of December vs. 10.6 million at the end of November. What will the new 'normal' look like?

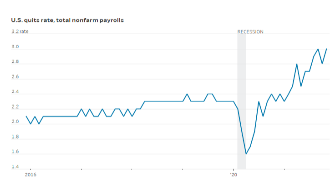


After a tumultuous fourth quarter, markets are now searching for a new normal in 2022.

The Look Ahead

The S&P 500 index rose 27% in 2021, continuing a 3-year trend of double-digit gains. How much longer can stock markets rise? This is a question that can only truly be answered in hindsight, but all investors take their best shot by their portfolio holdings.

No question that there is a growing amount of economic uncertainty right now, though. Work-



ers are quitting companies at record rates (see above), inflation is driving supply costs higher, and political tensions will rise as we approach the midterm elections. I believe that many of the structures supporting the market over the past 18 months will fade in 2022—corporate earnings growth will moderate, interest rates will rise, and there will be no more stimulus packages to bolster consumer spending. While I am not calling a stock market loss this year (though likely a correction or two), stocks will be more range-bound and bond markets will see increasing headwinds. Temper expectations accordingly this year!

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