

## At-A-Glance

The S&P 500 ended a banner year just 0.5% below its December 29, record high. Remarkably, each of its 11 sector groups registered double-digit gains for the year.

The Dow Jones Industrial Average gained 5.53% in December and the Nasdaq Composite rose just 0.74%.

For the quarter, the Dow Industrials advanced 7.87% and the Nasdaq Composite climbed 8.45%.

Since plunging to a pandemic bear-market low on March 23, 2020, all three U.S. equity indices have more than doubled. The Nasdaq Composite, S&P 500, and Dow Industrials have surged respectively by 131%, 119% and 102%.

Ending at \$75.21/barrel, U.S. crude oil futures posted its largest annual gain since 2009 (+55%). Oil futures have rallied for seven straight quarters, its longest run since their 1983 debut. Meanwhile, gold futures fell 3.5% in 2021, its first annual loss in 3 years.

The Bloomberg Commodities Index surged the most in over a decade this past year, up 27% for its best year since 2009.

# QUARTERLY RECAP

Fourth Quarter 2021 Recap

Market Indices <sup>1</sup>	December	4Q 2021	Year-to-Date
S&P 500	4.48%	11.03%	28.71%
Russell 3000	3.94%	9.28%	25.66%
Russell 2000	2.23%	2.14%	14.82%
MSCI EAFE	5.12%	2.69%	11.26%
MSCI Emerging Markets	1.88%	-1.31%	-2.54%
Bloomberg US Aggregate Bond	-0.26%	0.01%	-1.54%
Bloomberg US Municipal Bond	0.16%	0.72%	1.52%
Bloomberg US Corporate High Yield	1.87%	0.71%	5.28%

<sup>1</sup>Morningstar Direct (all performance figures are total return based, which include reinvested dividends)

U.S. stocks registered a third straight year of solid gains as the rollout of vaccinations and accommodative monetary policy accelerated the reopening of global businesses, unleashing pent-up consumption. The full-year estimate for S&P 500 corporate earnings growth is 45.1%, according to FactSet. That would mark 2021 with the strongest annual earnings growth rate since FactSet began tracking it in 2008. Essentially, the economic and corporate earnings revival that began in 2020 carried over more aggressively into 2021, lifting equity markets to numerous record highs.

The S&P 500 posted 70 new all-time highs during 2021, the second-highest number of annual record highs (behind the 77 closing highs recorded in 1995). Moreover, all three major U.S. equity indices ended the year with their best three-year performances since 1999. Despite fast-paced inflation and supply-chain disruptions, the stellar year for equities came even as the global COVID-19 pandemic remains. Favorably, while the omicron variant is more contagious, scientific data shows it to be far less severe than preceding variants.

Referencing the performance table above, the small cap-focused Russell 2000 Index widely trailed the benchmark S&P 500 with about half the returns in December and for the year. Similarly, foreign stocks also widely trailed American large caps in the fourth quarter and year-to-date (YTD) periods. Investment-grade fixed-income markets were again more than unappealing, amplified after Fed policymakers began tapering their monthly bond purchases at a faster pace and signaled multiple interest rate hikes beginning this coming spring.

As shown below, value defensively outperformed growth-oriented companies across all market cap levels in December – whereas large cap growth singularly outperformed value in the 4Q and YTD. Even so, mid and small cap value bested large cap growth for the full year.

	December			Fourth Quarter			Full Year 2021		
	Value	Core	Growth	Value	Core	Growth	Value	Core	Growth
Large	6.31%	4.05%	2.11%	7.77%	9.78%	11.64%	25.16%	26.45%	27.60%
Mid	6.28%	4.08%	0.35%	8.54%	6.44%	2.85%	28.34%	22.58%	12.73%
Small	4.08%	2.23%	0.44%	4.36%	2.14%	0.01%	28.27%	14.82%	2.83%

Morningstar Direct Style Box Index returns above are represented by: Large Value (Russell 1000 Value), Large Core (Russell 1000), Large Growth (Russell 1000 Growth), Mid Value (Russell Mid Cap Value), Mid Core (Russell Mid Cap), Mid Growth (Russell Mid Cap Growth), Small Value (Russell 2000 Value), Small Core (Russell 2000), Small Growth (Russell 2000 Growth). Source: Morningstar Direct, total return based, including reinvested dividends

In the sector performance tables below, 10 of the 11 major sector groups ended positive in December and for the quarter with Consumer Discretionary (-0.25% in Dec) and Communication Services (-0.01% in 4Q) the only sectors posting respective fractional losses. Consumer stocks saw divergent performance in December with defensive-oriented Consumer Staples taking top honors, while Consumer Discretionary ended negative. In a notable historical first, all S&P 500 sectors surged double-digit percentages for the year. The Energy sector was sizzling hot in 2021, gaining over 54% after being the worst performer in 2020 with a loss of over 33%. Although not shown in the table below, Technology was the fourth best performing sector in 2021, up 34.53%.

<b>Top Sector Performers – December <sup>1</sup></b>	<b>Bottom Sector Performers – December <sup>1</sup></b>
Consumer Staples (+10.29%)	Energy (+3.08%)
Real Estate (+10.23%)	Communication Services (+2.53%)
Utilities (+9.64%)	Consumer Discretionary (-0.25%)
<b>Top Performers – Fourth Quarter <sup>1</sup></b>	<b>Bottom Performers – Fourth Quarter <sup>1</sup></b>
Real Estate (+17.54%)	Energy (+7.97%)
Technology (+16.69%)	Financials (+4.57%)
Materials (+15.20%)	Communication Services (-0.01%)
<b>Top Performers – Full Year 2021 <sup>1</sup></b>	<b>Bottom Performers – Full Year 2021 <sup>1</sup></b>
Energy (+54.64%)	Industrials (+21.12%)
Real Estate (+46.19%)	Consumer Staples (+18.63%)
Financials (+35.04%)	Utilities (+17.67%)

<sup>1</sup>Morningstar Direct (all performance figures are total return based, which include reinvested dividends)

Overseas equity performance widely underperformed the U.S. S&P 500 Index in the 4Q and YTD. However, the MSCI EAFE developed markets index outpaced the U.S. benchmark return by a 0.64% differential in December. Emerging markets underperformed in all three periods, turning negative YTD. Showcasing American equity leadership, the MSCI All-Country World Index advanced 6.68% last quarter and 18.54% for the year, while world stocks excluding U.S. performance gained just 1.82% in the 4Q and 7.82% for the year.

U.S. Treasuries, as measured by the Bloomberg U.S. Government Bond Index, returned -2.28% for the year, its first full-year loss since 2013. The Treasuries index declined 0.51% in December, trimming its 4Q gain to 0.15%. The yield on benchmark 10-year Treasury notes peaked in March at 1.74%, then retreated to end the year at 1.51% as economic optimism unleashed by the vaccine rollout subsided with the emergence of the delta and

omicron variants. At the long end of the yield curve, the Bloomberg U.S. Government Long-term Bond Index fared even worse, slumping 4.57% for the full year.

In other fixed-income assets, investment-grade bonds of all types (as measured by the Bloomberg U.S. Aggregate Bond Index) also ended the year negative, falling 0.26% last month and down 1.54% for the year. Municipal bonds stayed positive on the month, extending gains for the quarter and YTD. Non-investment-grade high-yield debt as measured by the Bloomberg Barclays U.S. Corporate High Yield Index performed best relative to its traditional peers last year, gaining 5.28% while Treasury Inflation Protected Securities (TIPS) took overall fixed-income top honors, up 5.96% for the full year.

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### **Glossary**

**The Bloomberg U.S. Aggregate Bond Index** is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate debt securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS and CMBS (agency and non-agency) debt securities that are rated at least Baa3 by Moody's and BBB- by S&P. Taxable municipals, including Build America bonds and a small amount of foreign bonds traded in U.S. markets are also included.

**The Bloomberg U.S. Municipal Bond Index** covers the USD-denominated long-term tax-exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and pre-refunded bonds. Eligible securities must be rated investment grade (Baa3/BBB- or higher) by Moody's and S&P and have at least one year until final maturity, but in practice the index holding have a fluctuating average life of around 12.8 years.

**The Bloomberg U.S. Corporate High Yield Index** measures the USD-denominated, non-investment grade, fixed-rate, taxable corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below, excluding emerging market debt. Payment-in-kind and bonds with predetermined step-up coupon provisions are also included. Eligible securities must have at least one year until final maturity, but in practice the index holdings has a fluctuating average life of around 6.3 years.

The Bloomberg **U.S. Government Bond Index** is comprised of the U.S. Treasury and U.S. Agency Indices. The index includes U.S. dollar-denominated, fixed-rate, nominal US Treasuries and US agency debentures (securities issued by US government owned or government sponsored entities, and debt explicitly guaranteed by the US government).

The **Bloomberg Commodity Index** is a broadly diversified index that allows investors to track commodity futures through a single, simple measure. It is composed of futures contracts on physical commodities and is designed to minimize concentration in any one commodity or sector. It currently includes 19 commodity futures in five groups. No one commodity can comprise less than 2% or more than 15% of the index, and no group can represent more than 33% of the index (as of the annual re-weightings of the components).

The **Cboe Volatility Index**<sup>®</sup> (VIX<sup>®</sup>) is a key measure of market expectations of near-term volatility conveyed by S&P 500 stock index option prices.

The **MSCI EAFE** is designed to measure the equity market performance of developed markets (Europe, Australasia, Far East) excluding the U.S. and Canada. The Index is market-capitalization weighted.

The **MSCI Emerging Markets** is designed to measure equity market performance in global emerging markets. It is a float-adjusted market capitalization index.

The **MSCI All-Country World Index (ACWI)** is a market cap weighted index designed to represent performance of the full opportunity set of large- and mid-cap stocks across 23 developed and 26 emerging markets, covering more than 2,700 companies across 11 sectors and approximately 85% of the free float-

adjusted market capitalization in each market.

The **Russell 1000 Growth Index** measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000 Index companies with higher price-to-book ratios and higher forecasted growth values.

The **Russell 1000 Value Index** measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 Index companies with lower price-to-book ratios and lower forecasted growth values.

The **Russell 2000 Index** measures the performance of the small-cap segment of the U.S. equity universe and is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership.

The **Russell 3000 Index** measures the performance of the largest 3,000 U.S. companies representing approximately 98% of the investable U.S. equity market.

The **Russell Midcap Index** measures the performance of the mid-cap segment of the U.S. equity universe and is a subset of the Russell 1000 Index. It includes approximately 800 of the smallest securities based on a combination of their market cap and current index membership. The Russell Midcap represents approximately 31% of the total market capitalization of the Russell 1000 companies.

The **S&P BSE SENSEX Index** is a free-float market-weighted index of 30 well-established and financially sound stocks on the Bombay Stock Exchange, representative of various industrial sectors of the Indian economy.

The **S&P 500** is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The **Dow Jones Industrial Average** is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the NASDAQ.

The **Nasdaq Composite Index** includes all domestic and international based common type stocks listed on The NASDAQ Stock Market. The NASDAQ Composite Index is a broad-based capitalization-weighted index.

The **Shanghai Composite Index** is a stock market index of all stocks (A shares and B shares) that are traded at the Shanghai Stock Exchange.

The **U.S. Dollar Index** is a weighted geometric mean that provides a value measure of the United States dollar relative to a basket of major foreign currencies. The index, often carrying a USDX or DXY moniker, started in March 1973, beginning with a value of the U.S. Dollar Index at 100.000. It has since reached a February 1985 high of 164.720, and has been as low as 70.698 in March 2008.

**West Texas Intermediate (WTI)** is a crude oil stream produced in Texas and southern Oklahoma which serves as a reference or "marker" for pricing a number of other crude streams. WTI is the underlying commodity of the New York Mercantile Exchange's oil futures contracts.