

QUARTERLY MARKET COMMENT Fourth Quarter 2021



Despite the never-ending pandemic, rising inflation, and looming rate hikes, the capital markets capped off a stellar year. The U.S. equity markets were driven by a year-over-year earnings growth rate of 45%, the highest since 2008. Mega-caps outperformed, with the S&P 500 top 50 up 31%. This is a reversal from the first half of the year where small caps were outperforming large caps. Growth out-paced value by a wide margin (31% to 22%), and international stocks lagged the U.S. market once again. Energy was the best performing sector, up 54.64%, a stunning reversal from 2020 when it was down 35%. Crude oil saw its strongest performance since 2009, closing near \$75.50 per barrel. Commodities posted gains, driven by the energy sector, while gold lost its luster from earlier in the year and ended down 4.28%. U.S. fixed income performance was mixed due to the rise in interest rates in the second half of last year. As a result, higher quality and longer maturities experienced negative returns, while lower quality and short-term maturities reflected flat to positive returns.

A new year has begun and we wipe the slate clean. This is the time when economists and investment managers provide their “Outlook” for the new year. So let’s dig in. The consensus believe we are in the mid-cycle of this recovery and typically equities experience single digit positive returns, not as good as the last two years. Global growth is expected to remain strong. Everyone is echoing a much more volatile and challenging year ahead. This is due to several factors. One relates to central banks progressively unwinding monetary accommodations and raising short-term interest rates. This is in reaction to some key fundamental factors such as rising inflation, the impact of the omicron variant of the coronavirus, labor issues, and lingering supply chain bottlenecks. As the year progresses these factors will shift and change. The Federal Reserve has already changed its stance on the bond-buying program, now ending in March vs. June and increasing rates sooner than later.

Two things to keep in mind. The markets are a leading indicator, typically looking out six months or more. It is already pricing in what is known. Second, like humans, it does not like uncertainty and this can

trigger more intense bouts of price swings. So there you have it. As we ride into this new year we are being mindful of what is ahead of us. It is hard to say if the “Outlooks” will play out as stated, but we use this as our guide to overlay our portfolios and adjust them as needed.

We continue to remain broadly diversified: balancing domestic vs. international exposure; growth vs. value; as well as large, medium, and small companies. Interest rates and bond yields have moved off of their rock bottom levels. To protect principle, we are maintaining short-term duration positions with exposure to securities that are more insulated to the rise in interest rates.

In the meantime, we suggest to tune out the noise, focus on your long-term goals, and continue to practice what our health professionals are asking of us. Please know that we are here for you as your thinking partner, your resource, and your guide. We truly value you as our client and we are grateful for the trust you’ve placed in us and in helping guide you through your financial life.

Although the information has been obtained from sources believed to be reliable, the information should be relied upon only when coordinated with individual professional advice. Past performance is not a guarantee of future results. Material discussed is meant for general illustration and/or informational purposes only, and it is not to be construed as tax, legal or specific investment advice.

Asset Index Category	4Q 2021 %	YTD 2021 %	5-Year Average %	10-Year Average %
S&P 500 Index-Large Companies	10.65	26.89	16.31	14.25
S&P 400 Index-Mid-size Companies	7.63	23.21	11.35	12.45
Russell 2000 Index-Sm Companies	1.86	13.70	10.59	11.73
Natural Resource Funds	8.76	29.56	10.57	6.12
Gold	3.96	-4.28	8.42	0.68
US Real Estate Funds	14.24	38.73	10.74	10.91
Global Real Estate Funds	8.55	22.90	8.94	8.79
MSCI EAFE-Developed International	2.40	8.78	6.76	5.16
MSCI EM Index-Emerging Markets	-1.68	-4.59	7.40	3.00
Barclays US Aggregate Bond Index	0.01	-1.54	3.57	2.90
Long US Government Bond Index	2.46	-6.80	3.60	1.33
Emerging Market Bond Index	-1.73	-4.89	3.19	2.68

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