Global Market Commentary: Fourth Quarter 2021

Markets Turn in Very Good Fourth Quarter

Global equity markets had a volatile fourth quarter, but when the final Wall Street-bell rang in the New Year, global markets recorded very decent numbers, as the good returns from the first and third month sandwiched a less than stellar second month.

For the fourth quarter of 2021:

- The DJIA ended 4Q with a gain of 5.9%;
- The S&P 500 ended 4Q with a gain of 9.4%;
- NASDAQ ended 4Q with a gain of 7.4%; and
- The Russell 2000 ended 4Q with a gain of 0.2%.

The themes that helped drive market performance were similar to the ones that helped drive performance the prior quarter (and most of this year). But in December these themes seemed to subside a little bit – especially inflation and supply chain issues.

The other positive themes were helpful consumer confidence, red-hot housing prices, an active Federal Reserve, and earnings that came in better than expected.

But for the fourth quarter, there was one new theme that certainly impacted market performance – namely the emergence of a new COVID-19 variant that caused investors to seek shelter in safe-haven assets and caused a mini-rotation from growth to value names in late November. But as more data became known, Wall Street shrugged off those November worries.

Further, we saw that:

- Volatility, as measured by the VIX, held pretty steady all quarter, trending slightly down to about 17, although there was a significant spike into the 30s in early December as omicron worries took center stage.
- West Texas Intermediate crude did not move much in the third quarter, starting and ending just north of $75/barrel. Further, WTI has climbed more than 50% in six months, having started 2021 at $48/barrel.

Market Performance Around the World

Investors were mostly happy with the quarterly performance around the world, as 32 of the 36 developed markets tracked by MSCI were positive for the fourth quarter of the year, with 13 posting returns more than 7%. But for the 40 developing markets tracked by MSCI, 27 of them were negative, with a few posting losses of more than 8%.

Index Returns	Q42021
MSCI EAFE	+2.40%
MSCI EURO	+3.69%
MSCI FAR EAST	-4.08%
MSCI G7 INDEX	+7.88%
MSCI NORTH AMERICA	+9.57%
MSCI PACIFIC	-2.98%
MSCI PACIFIC EX-JAPAN	-0.61%
MSCI WORLD	+7.49%
MSCI WORLD EX-USA	+2.82%

Source: MSCI. Past performance cannot guarantee future results

Again, the themes that helped drive market performance this quarter have been on Wall Street's radar all year and did not magically appear when the fourth quarter kicked off – except for the new omicron variant. But other than that, the worries of rising inflation; the Federal Reserve's schedule of remaining accommodative; declining consumer sentiment; red-hot housing prices; and supply chain issues have all been around for the whole year (inflation has gone up every month in 2021, for example).

But the fourth quarter did see a few more topics added to that long list of events that could push markets around, including:

- A hotly-debated Build Back Better bill that could carry a price tag of at least $1 trillion and up to $3.5 trillion;
- A COVID-19 variant sweeping the country and the world;
- A change in tone from the Federal Reserve indicating that inflation is no longer transitory; and
- Skyrocketing shipping fees, empty shelves and rising inflation just about everywhere.

December Lifted the Entire Quarter

In contrast to November, U.S. equity markets were overwhelmingly positive for the month of December, reversing November's overwhelmingly negative performance.

But it wasn't just U.S. equity markets that performed very well this month – developed and emerging markets outside the U.S. turned in great performance too – with many major developed markets jumping more than 6% and one developing market gaining more than 8%.

For the month of December:

- The DJIA was up 6.8%;
- The S&P 500 was up 5.6%;
- NASDAQ was up 2.6%; and
- The Russell 2000 was up 4.6%.

But investors looking outside the U.S. for the month of December saw overwhelmingly positive performance too, as all 36 developed markets tracked by MSCI were positive for December, with 12 of the 36 jumping more than 6%.

And performance for emerging markets was almost as great, as 32 of the 40 developing markets were positive in December, with EM Latin America ex Brazil leaping more than 8%.

Sector Performance Rotated in Q42021

The overall trend for sector performance for each month of 2021 and each of the four quarters was good, but the performance leaders and laggards rotated throughout, giving investors a few mini sector rotations throughout the year and the final quarter.

Here are the sector returns for the shorter time periods:

S&P 500 Sector	3Q2021	4Q2021
Information Technology	+1.03%	+16.22%
Energy	-1.55%	+4.98%
Health Care	+0.98%	+9.79%
Real Estate	-0.52%	+14.71%
Consumer Staples	-0.26%	+9.74%
Consumer Discretionary	-0.10%	11.34%
Industrials	-3.75%	+5.49%
Financials	+2.77%	+2.52%
Materials	-3.71%	+12.35%
Communication Services	+1.17%	+0.59%
Utilities	+0.77%	+10.77%

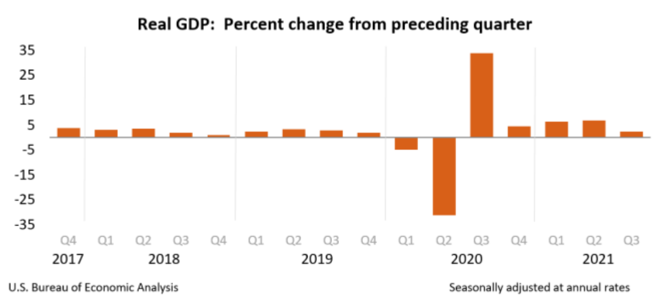
Source: FMR

Reviewing the sector returns for just the fourth quarter of 2021, we saw that:

- All 11 sectors were painted green for the fourth quarter;
- The Energy sector turned in a respectable quarter, despite the fact that the price of oil barely moved;
- Information Technology turned in a fantastic quarter, but the defensive Utilities sector did too, suggesting that maybe investors are looking towards defensive names too;
- The Financials sector turned in another solid quarter, helped by the Federal Reserve's stance of keeping rates low through at least 2023; and
- The differences between the best (+16.22%) performing and worst (+0.59%) performing sectors in the fourth quarter widened.

GDP Up 2.3%

As the quarter was coming to a close, the Bureau of Economic Analysis reported that real gross domestic product increased at an annual rate of 2.3% in the third quarter of 2021. In the second quarter, real GDP increased 6.7%.



It was the third and final estimate from the BEA. In the second estimate, the increase in real GDP was 2.1%. The update primarily reflects upward revisions to personal consumption expenditures (PCE) and private inventory investment that were partly offset by a downward revision to exports. Imports, which are a subtraction in the calculation of GDP, were revised down.

The BEA also reported that real gross domestic product increased in 37 states and the District of Columbia in the third quarter of 2021. The percent change in real GDP in the third quarter ranged from 6.0% in Hawaii to -3.3% in New Hampshire and North Dakota.

Unemployment Rates Keep Improving

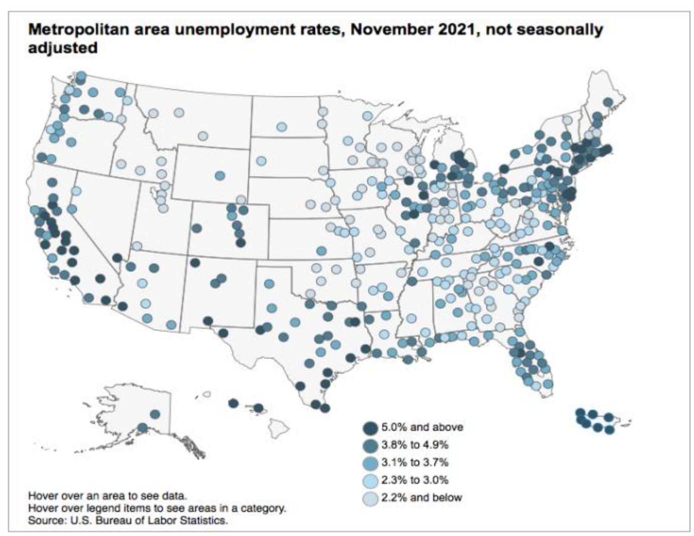
On the last day of the quarter, the Department of Labor reported that unemployment rates were lower in November than a year earlier in all 389 metropolitan areas.

From the release:

"A total of 139 areas had jobless rates of less than 3.0 percent and 2 areas had rates of at least 10.0 percent. Nonfarm payroll employment increased over the year in 100 metropolitan areas and was essentially unchanged in 289 areas. The national unemployment rate in November was 3.9 percent, not seasonally adjusted, down from 6.4 percent a year earlier.

In November, Lincoln, NE, and Logan, UT-ID, had the lowest unemployment rates, 1.1 percent each. El Centro, CA, had the highest rate, 15.5 percent. A total of 245 areas had November jobless rates below the U.S. rate of 3.9 percent, 131 areas had rates above it, and 13 areas had rates equal to that of the nation.

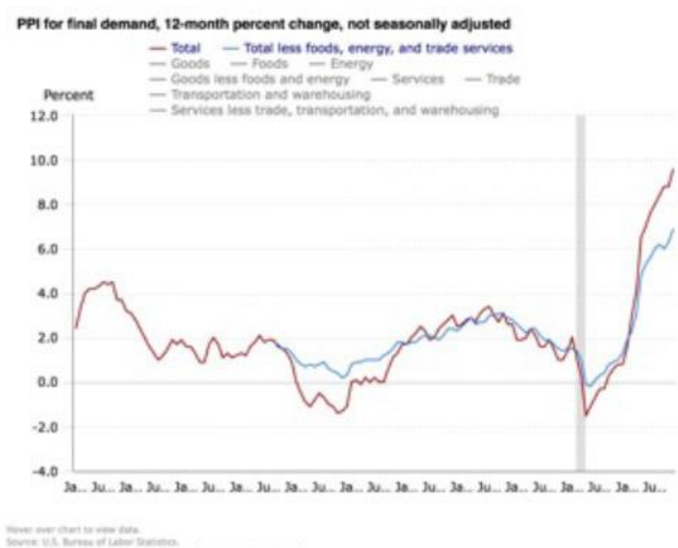
The largest over-the-year unemployment rate decrease in November occurred in Kahului-Wailuku- Lahaina, HI (-9.4 percentage points). Rates fell over the year by at least 4.0 percentage points in an additional 12 areas."

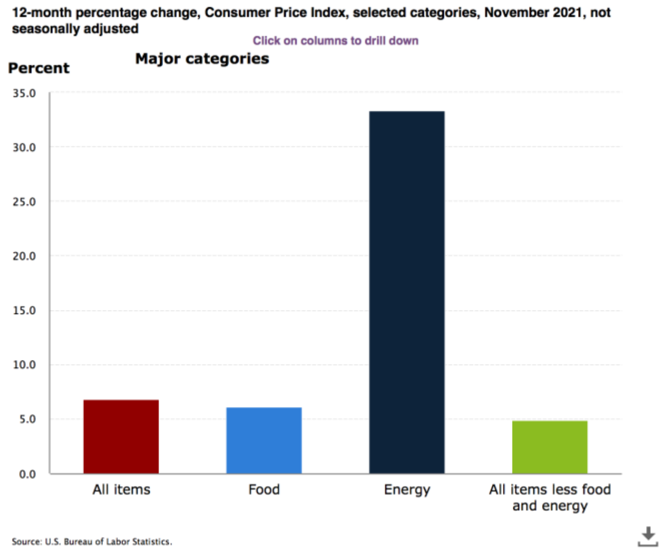


Inflation Keeps Getting Worse

Right before the Christmas holiday, the U.S. Bureau of Labor Statistics announced that the Producer Price Index for final demand increased 0.8% in November. Further:

- Final demand prices moved up 0.6% in each of the 3 prior months
- On an unadjusted basis, the final demand index rose 9.6% for the 12 months ended in November, the largest advance since 12-month data were first calculated in November 2010
- In November, the index for final demand services rose 0.7%
- Prices for final demand goods increased 1.2%
- The index for final demand less foods, energy, and trade services moved up 0.7% in November, the largest rise since climbing 0.8% in July
- For the 12 months ended in November, prices for final demand less foods, energy, and trade services increased 6.9%, the largest advance since 12-month data were first calculated in August 2014

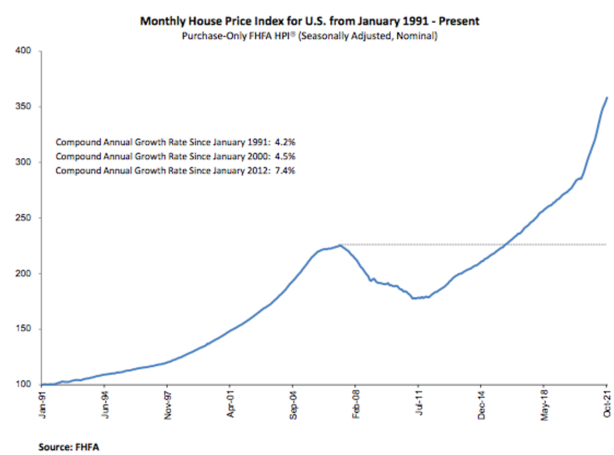




Housing Prices Skyrocket

A few days before the calendar turned, the Federal Housing Finance Agency announced that prices rose nationwide in October, up 1.1% from the previous month, according to its latest Federal Housing Finance Agency House Price Index.

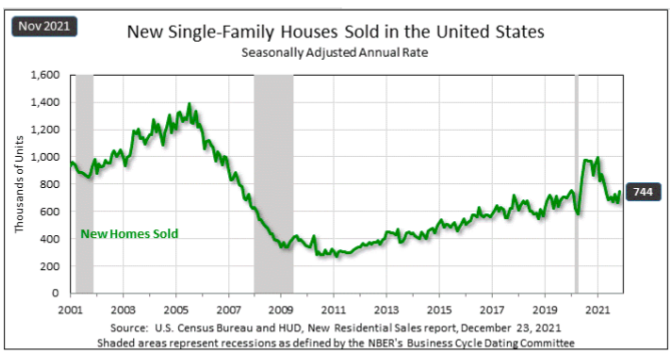
House prices rose 17.4% from October 2020 to October 2021. The previously reported 0.9% price change for September 2021 remained unchanged.



More Frothy Housing Stats

On December 23rd, the U.S. Census Bureau and the U.S. Department of Housing and Urban Development jointly announced the following new residential sales statistics for November 2021:

- Sales of new single-family houses in November 2021 were at a seasonally adjusted annual rate of 744,000
- This is 12.4% above the revised October rate and 14.0% below the November 2020 rate
- The median sales price of new houses sold in November 2021 was $416,900
- The average sales price was $481,700
- The seasonally-adjusted estimate of new houses for sale at the end of November was 402,000, which represents a supply of 6.5 months at the current sales rate.



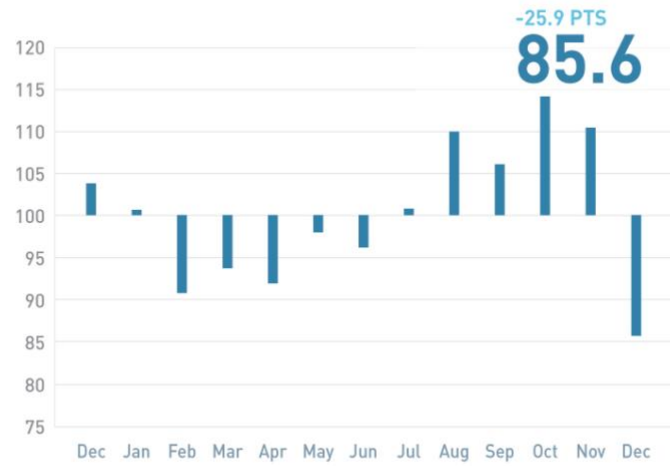
Risk in Portfolios Plunges Globally

The State Street Investor Confidence Index measures confidence by looking at actual levels of risk in investment portfolios. It is important to recognize that this is not an attitude survey per se, because it measures confidence by assessing the changes in investor holdings of equities.

According to State Street, "the more of their portfolios that professional investors are willing to devote to riskier as opposed to safer investments, the greater their risk appetite or confidence." The index is global and tracks more than 22 million transactions annually in 45 countries.

From the State Street release this week:

"The Global Investor Confidence Index decreased to 85.6, a significant drop of 25.9 points from November's revised reading of 111.5. European ICI drove the decline, plunging 27.8 points to 67.6. North American and Asian ICIs were also down double digits, with the North American ICI falling 14.0 points to 96.4, and Asian ICI falling 12.4 points to 95.2."



"Investor sentiment soured notably at the end of the year with the Global ICI registering its largest monthly decline in the history of the index. The sudden emergence of Omicron and the hawkish pivot from the Fed drove some of most volatile swings in the equity markets all year. Sentiment in Europe was the weakest, with many EU countries again implementing travel and mobility restrictions, while North America registered its 7th biggest monthly decline."

***Sources:** fhfa.gov; dol.gov; statestreet.com; bls.gov; census.gov; msci.com; fidelity.com; msci.com; nasdaq.com; wsj.com; morningstar.com*