Fourth Street Performance Partners
Independent Investment Consultants

December 2021: Market Review

Global equity returns rose in December despite the rapid spread of the Covid-19 Omicron variant and elevated inflation. The Omicron variant caused cases to rise across the world, but investors weren't discouraged because hospitalizations and fatalities have remained low. This gave investors hope that herd immunity may be achieved quicker and Omicron's impact on global economies will not be as detrimental as initially feared. However, many countries have imposed travel restrictions and several businesses have temporarily shut down to curb the spread of the virus, which, in turn, has caused some economists to revise their economic growth expectations lower for the first half of 2022. In the U.S., initial jobless claims sank to a 50 year low and the unemployment rate fell to 4.2%, showing signs that job gains are continuing in spite of the recent rise in coronavirus cases. The S&P 500 Index rose +4.5% in December to end 2021 up +28.7%. The Dow Jones Industrial Average was up +5.5% during the month with the index appreciating +21.0% in 2021. The NASDAQ Composite posted a modest gain of +0.7% during the month, bringing the total return for the year to +22.2%.

Within domestic equities, value stocks outperformed growth across all capitalization sizes in December. For the year, mid and small cap value stocks posted the strongest gains while mega cap technology stocks drove growth to outperform value in large cap issues. The Russell 1000 Value Index added +6.3% in December and +25.2% for the year while the Russell 1000 Growth Index gained +2.1% during the month and +27.6% in 2021. The Russell Midcap Value Index returned +6.3% for the month and had the largest gain of the year among domestic equities, appreciating +28.3% during the year while the Russell Midcap Growth Index increased +0.4% in December and +12.7% for the year. During the month, the Russell 2000 Value Index was up +4.1% (up +28.3% in 2021) versus a gain of +0.4% from the Russell 2000 Growth Index (+2.8% for the calendar year). Within commodities, WTI crude oil rose to $75 per barrel versus $66 at the beginning of the month, ending the year with a substantial gain of +53%. Meanwhile, gold closed the month at $1,828 per ounce, adding +3.0% from the previous month but down -3.4% for the year.

Major international equity indices posted positive returns in December as the MSCI ACWI ex-U.S. Index added +4.1% during the month and +7.8% for the year. The MSCI EAFE Index gained +5.1% in December and +11.3% in 2021. Emerging markets underperformed for the month as the MSCI Emerging Markets Index modestly added +1.9%. Russia (-3.2%) was the main detractor as political tensions between the U.S. and Russia heated up over Russia's military buildup near the Ukraine border. For the year, emerging markets declined -2.5%, significantly trailing developed market equities due to the underperformance in China (-22.8%) as regulatory crackdowns, supply chain deficiencies, and weakness in the real estate market, which makes up a third of China's GDP, were headwinds for Chinese equities.

U.S. fixed income markets declined throughout the month as the Fed announced plans to accelerate their tapering of bond purchases. The monthly asset purchases are now expected to end after March as opposed to the Fed's initial timeline of completing tapering in the middle of 2022. With this announcement, the Fed officially signaled a shift to focus on lowering inflation (+6.8% November year-over-year) since the overall economy and job market remains strong. As such, the yield on the 10-year Treasury ended the month at 1.52%, higher than last month's close of 1.43% and considerably greater than the 0.93% yield at the beginning of the year. The Bloomberg U.S. Aggregate Bond Index fell -0.3% in December and was down -1.5% for the year while the Bloomberg Treasury 20+ Year Index declined -1.7% over the month and was down -4.4% in 2021. Alternatively, the Bloomberg Corporate High Yield Bond Index appreciated +1.9% for the month and was up +5.3% for the calendar year.

Equity markets ended the year on a high note as investors maintain a positive outlook even with the recent wave of the coronavirus infections and persistent high inflation readings across the world. Central banks have begun to shift to more hawkish policies to curb inflation over the next year. Fiscal support is highly likely to be lower next year as the U.S. federal government has faced obstacles in passing a new spending bill. Investors and economists alike are expecting a return to normalcy (less monetary and fiscal support) over the next year as the impact of the coronavirus is expected to fade throughout the year and central banks have plans in place to bring inflation down to more accustomed levels.

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Disclosures

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