Quarterly Financial Market Update

January 7th, 2021

The fourth quarter of 2021 was a mirror image of the full year in that U.S. Large Cap Growth equities led equity markets higher. Developed non-U.S. equities were modestly positive for the quarter while Emerging Markets equities drifted lower. Investment grade bonds were relatively flat. Overall, diversified portfolios will have added modestly to the already strong returns in 2021. The US dollar played a meaningful role in return dispersion across geographies for 2021, strengthening nearly 7% versus a global basket of currencies.

From an economic perspective we experienced several fits and starts with the ongoing response to covid infections and suffered through supply-chain issues that resulted. The strong rebound in demand for goods and services in 2021 could not be easily met by suppliers, driving inflation to levels not seen in decades. Wage pressures expanded as companies were desperate to lure people back to the workforce. Employment continued to improve as the year progressed, but there are still more than eleven million job openings looking to be filled in the U.S. The political stalemate in Washington pushed diminished hopes for further fiscal stimulus into 2022. Meanwhile central banks around the world began to reel in their monetary stimulus and started to hint at raising interest rates. Governments will end the year having piled on more debt to their balance sheet while corporations and households are enjoying all-time high profits and net worth levels.

Looking ahead to 2022, we remain optimistic that the global economy will continue on its path of recovery from the pandemic, but are always mindful of the many risks and thoughtful about what investments offer the most attractive risk and reward profile. As noted above, households and corporations are in a strong financial position going into 2022, but we will watch for developments in inflation, the pandemic and geopolitics that could derail sentiment and impact spending. Corporations have some cushion in their profit margins to absorb higher wage, supply and transport costs and many companies still have not fully recovered from the pandemic recession. We must be attentive to the impact rising interest rates can have on core fixed income allocations and even on valuations of equities. We feel confident that the adjustments we have made to portfolios over the last year have us well prepared for the year ahead, but will remain vigilant in mitigating risks and exploring opportunities as they develop.

If you have any questions or would like to discuss, please contact us.

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