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Investment Review and Outlook Fourth Quarter 2021

U.S. inflation rose dramatically in 2021, as the 12-month rate hit 6% - reported as of November 30. This level was significantly higher than the Federal Reserve Board's long-term target of 2%. As a result, the Fed announced that it would reduce its monthly purchases of Treasury and mortgage-backed securities, which helped to calm fears of runaway inflation.

Investors reacted positively to the Fed's move to combat inflation and perceived that COVID-19 variants could result in milder reactions and shorter quarantines. The pandemic is likely to be with us for a long time, but we expect its impact on the economy and markets to gradually diminish. Overall, the positives clearly outweighed the negatives as U.S. stocks performed exceptionally well in the quarter.

For the quarter, the S&P 500 index of U.S. large-company stocks returned a remarkable gain of 11.0%. U.S. small company stocks lagged considerably with a return of 2.1% (Russell 2000 small-cap index). International stocks returned a similar 2.4% (EAFE index). Bonds were flat (Barclays Aggregate Bond index). For the full year, U.S. large company stocks produced an outstanding 28.7% return. U.S. small company stocks returned a very respectable 14.8%. International stocks lagged with an 8.8% return, while bond holdings slipped 1.5%.

Looking ahead, we could see some volatility as investors worry about supply-chain issues, potential interest rate increases, and slowing growth in corporate earnings. Yet, some of these worries may already be reflected in market prices. Clearly, few analysts expected the exceptional results we enjoyed in 2021 and the view for 2022 is murky – as usual. The wildcards for 2022 are Fed decisions, corporate earnings, midterm elections and further virus uncertainty. Whether political or economic, uncertainty generates a lot of noise. Smart investors will look past the short-term highs and lows and stay the course.

Importantly, we would like to underscore the significance of viewing investment performance from the perspective of long-term wealth planning. This broader lens is critical in keeping you on track to meet your overall financial and life goals and in not overestimating the impact short-term results. We believe our portfolios are well positioned to generate solid returns over a five-year horizon, but we think it is prudent to be prepared for potentially increased market volatility and downside risk over the shorter-term. Patience, perspective, and discipline are necessary for long-term investment and financial success.

As always, please call us anytime if you have any questions or if we can assist you in any way.

Best Regards,

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