

December 2021 recap

U.S. stocks climbed during an unusually volatile December as investors weighed the Federal Reserve's (Fed's) *hawkish* policy pivot and mixed pandemic-related headlines. Positive seasonality trends aided risk assets, with a year-end *Santa Claus* rally boosting both the S&P 500 and Dow Jones Industrial Average (Dow) to fresh peaks. Notably, the broader S&P 500 reached its 70th all-time high of 2021, the second-most annual record closes in history behind 1995 when it captured 77 peaks. The S&P 500 posted its best December performance since 2010 (+4.4%), capping a 26.9% annual gain to extend its strongest three-year run since 1999 (+72%). The Dow jumped 5.4% to notch an 18.7% rise in 2021. The Nasdaq Composite added just 0.7% during the month as growth stocks lagged on a relative basis, but the tech-heavy index still logged a 21.4% annual increase. The traditionally defensive groups led the rally in December, with Consumer Staples posting its best monthly performance since October 2000 with a nearly 10% advance.

After reports of the new Omicron coronavirus variant inspired the S&P 500's first losing November since 2011, the benchmark staged a tumultuous bounce back to record territory as investors appeared to *buy-the-dip* in equities. COVID-19 headlines continued to drive risk appetite. Despite daily U.S. coronavirus cases hitting a record high, the latest strain appears milder than its predecessors, with a reduced risk of hospitalization. Additionally, data indicated a third dose of **Pfizer Inc.'s** (PFE \$59.05) and **Moderna Inc.'s** (MRNA \$253.98) respective vaccines neutralized the latest coronavirus strain, while a laboratory study showed the efficacy of **GlaxoSmithKline PLC's** (GSK \$44.10) antibody treatment (which blunts more severe disease of COVID-19) against the Omicron variant. Concerns of the economic impact from the new strain further waned when the Centers for Disease Control (CDC) shortened their isolation guidelines to five days from 10 days for asymptomatic Americans who test positive for the coronavirus, which should help ease worker shortages.

Policy pivots from global central banks also contributed to an unusual bout of December volatility. As widely expected, the Fed announced plans to double the pace of tapering its bond-buying program in an effort to fight ongoing price pressures—deemed the biggest risk to the U.S. economy by Fed Chair Jerome Powell. The pandemic-era asset purchases would likely end in March, paving the way for subsequent rate hikes. The Federal Open Market Committee (FOMC) *dot plot* showed a majority of policymakers penciling in three or more 25-basis point (0.25%) rate increases in 2022, a marked shift from the previous projections in September that had indicated committee members were evenly split for rate lift-off in either 2022 or 2023. Across the pond, central banks in Europe took their own steps to withdraw ultra-loose monetary policy. The Bank of England (BOE) opted to raise its benchmark lending rate, while the European Central Bank (ECB) voted to temporarily increase its asset purchases in order to smooth the winding down of its emergency debt-buying program.

The shift in monetary policy seemed to be warranted given the U.S. central bank's dual mandates of price stability and maximum sustainable employment. Rising inflation was highlighted by an update showing the Consumer Price Index (CPI) climbed at the fastest annual pace since 1982 (+6.8% year-over-year) in November. The core PCE deflator (the Fed's preferred proxy for inflation) surged a more-than-anticipated 4.7% year-over-year during the same period, accelerating from October's upwardly revised 4.2% annual pace. Meanwhile, the labor market continued to improve. Although the monthly job report showed non-farm payrolls rose by the smallest margin of the year in November (+210,000), the U.S. unemployment rate dropped to a pandemic low of 4.2%, while the labor force participation rate improved more than projected. Additionally, the Job Openings and Labor Turnover Survey (JOLTS) revealed 11.03 million available positions in October, just below July's record 11.09 million. Notably, the gap between the number of job openings and the number of unemployed Americans widened to the most on record, with openings outpacing the number of workers. Separately, weekly initial jobless claims fell to a fresh 52-

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year low on a seasonally-adjusted basis, while continuing claims retreated back to a level last seen in February 2020.

Other economic data underscored a robust economy. The Institute for Supply Management (ISM) revealed the U.S. services sector expanded at a record clip in November, while manufacturing sector activity also accelerated. A third and final reading of U.S. third-quarter gross domestic product (GDP) was upwardly revised to reflect annualized growth of 2.3% from the previous 2.1% print. Another release revealed that the Conference Board's gauge of consumer confidence jumped more than anticipated in December. Treasuries weakened, with the yield on the benchmark 10-year note ticking up seven basis points (0.07%) to 1.51%. The yield curve flattened with the more Fed-sensitive two-year note rate spiking 16 basis points (0.16%) to 0.73%, the highest level since March 2020. Meanwhile, in Washington, lawmakers continued to work through their differences on the Biden administration's \$1.75 trillion social spending package (*Build Back Better*).

Ten of 11 S&P 500 sectors finished in positive territory, with the traditionally defensive groups (Consumer Staples, Utilities, and Health Care) pacing the gains. The Consumer Discretionary space was the lone laggard, with **Tesla Inc.'s** (TSLA \$1,056.78) more than 7% drop weighing on the group. The cyclical-oriented stocks benefited from encouraging pandemic-related headlines. Stocks tied to economic reopening outperformed, with shares of cruise line operators and casinos among the standouts. Meanwhile, the prospect of tighter monetary policy was cited as a headwind to growth shares, as the valuations of these companies are derived from future cash flows, which would need to be discounted at a higher interest rate. In corporate news, **Cerner Corp.** (CERN \$92.87) was the top-performing S&P 500 constituent in December, rallying more than 30% after **Oracle Corp.** (ORCL \$87.21) confirmed it would acquire the healthcare information technology company in a deal worth \$28.3 billion. **Boeing Company** (BA \$201.32) rose after China's aviation regulator approved the company's 737-MAX aircraft to return to flying following a nearly three-year grounding. In earnings, shares of **Micron Technology, Inc.** (MU \$93.15) surged 10% as strong demand for its memory chips drove bullish forecasts. **Nike, Inc.** (NKE \$166.67) dipped 1.5% in December as ongoing supply chain issues seemed to dampen its robust profit and sales figures.

Price and Total Returns

U.S. markets

Index	Close	December Price Return (%)	December Total Return (%)	Fourth Quarter Total Return (%)	2021 Total Return (%)*
S&P 500	4766.18	4.36	4.47	11.02	28.68
Dow Jones Industrial Average	36338.30	5.38	5.53	7.87	20.95
Nasdaq Composite	15644.97	0.69	0.75	8.47	22.21
S&P 400 Mid Cap	2842.00	4.92	5.07	7.97	24.73
S&P 600 Small Cap	1401.71	4.36	4.51	5.59	26.74

U.S. sector performance

Sector	Close	December Price Return (%)	December Total Return (%)	Fourth Quarter Total Return (%)	2021 Total Return (%)*
Communications Services	267.48	2.52	2.53	-0.01	21.57
Consumer Discretionary	1610.76	-0.31	-0.25	12.84	24.43
Consumer Staples	804.60	9.95	10.29	13.31	18.63
Energy	422.74	2.93	3.08	7.89	54.39
Financials	650.04	3.12	3.28	4.52	34.87
Health Care	1643.92	8.84	8.98	11.17	26.13
Industrials	894.96	5.22	5.32	8.62	21.10
Information Technology	3055.45	3.33	3.38	16.69	34.52
Materials	569.63	7.34	7.57	15.20	27.28
Real Estate	324.75	9.74	10.23	17.50	46.14
Utilities	363.71	9.36	9.64	12.93	17.67

International markets

Index	Close	December Price Return (%)	December Total Return (%)	Fourth Quarter Total Return (%)	2021 Total Return (%)*
U.K. FTSE 100	7384.54	4.61	4.75	4.75	18.40
Germany DAX	15884.86	5.20	5.20	4.09	15.79
France CAC 40	7153.03	6.43	6.47	9.86	31.88
Spain IBEX 35	8713.80	4.92	5.21	-0.28	10.52
Italy FTSE MIB	27346.83	5.94	5.95	7.31	26.81
Greece ATHEX	893.34	2.95	3.01	3.66	12.44
MSCI Emerging Market	1232.01	1.62	1.81	-1.36	-2.47
Shanghai Composite	3639.78	2.13	2.13	2.06	7.05
Japan Nikkei 225	28791.71	3.49	3.60	-2.14	6.62
Hong Kong Hang Seng	23397.67	-0.33	-0.31	-4.69	-11.84
Brazil Bovespa	104822.40	2.85	2.85	-5.55	-11.93
Russia Micex	3787.26	-2.66	-1.67	-6.38	21.88
India Sensex	58253.82	2.08	2.11	-1.32	23.23

Treasuries

Maturity	December Ask Yields	November Historical Yields	October Historical Yields	September Historical Yields	August Historical Yields
2-Year	0.73	0.57	0.50	0.28	0.21
5-Year	1.26	1.16	1.18	0.96	0.78
10-Year	1.51	1.44	1.55	1.49	1.31
30-Year	1.90	1.79	1.93	2.04	1.93

Municipal bonds

Maturity	Close	December Price Return (%)	November Price Return (%)	Fourth Quarter Price Return (%)	2021 Price Return (%)*
S&P Municipal Bond Index	279.94	0.14	0.74	0.78	1.77
S&P Muni Bond Long Intermediate	291.54	0.14	0.70	0.66	1.26
S&P Muni Bond Intermediate	275.87	0.12	0.59	0.54	1.09
S&P Muni Bond Short	180.72	0.01	0.04	0.03	0.41
S&P Muni Bond Intermediate	275.09	0.13	0.69	0.74	1.39
S&P Muni Bond Investment Grade	359.94	0.33	1.29	1.29	6.82
S&P Muni Bond High Yield	267.80	0.12	0.70	0.73	1.03
S&P Muni Bond General Obligation	279.94	0.14	0.74	0.78	1.77

Commodities

Front Month Futures	Close	December Price Return (%)	November Price Return (%)	Fourth Quarter Price Return (%)	2021 Price Return (%)*
CRB Index	232.37	6.02	-7.79	1.51	38.48
Oil/bbl	75.21	13.64	-20.81	0.24	55.01
Natural Gas	3.73	-18.33	-15.83	-36.42	46.91
Gold	1828.60	3.10	-0.58	4.18	-3.51
Silver	23.35	2.58	-4.94	5.92	-11.59
Copper	446.35	4.34	-2.06	9.16	26.84
Nickel	20873.50	4.33	2.46	16.32	26.00

Foreign exchange

Currency	Close	December Price Return (%)	November Price Return (%)	Fourth Quarter Price Return (%)	2021 Price Return (%)*
Dollar Index	95.67	-0.34	1.99	1.53	6.37
Euro/USD	1.14	0.28	-1.90	-1.81	-6.93
USD/Yen	115.08	1.69	-0.68	3.41	11.46
GBPound/USD	1.35	1.75	-2.80	0.43	-1.01
USD/CAD	1.26	-1.11	3.16	-0.34	-0.69
USD/Krona	9.05	0.34	5.02	3.33	10.05
USD/Swiss Franc	0.91	-0.65	0.31	-2.02	3.13

Source: Bloomberg. *All prices as of the close December 31, 2021. An index is unmanaged and not available for direct investment. Yields represent past performance and fluctuate with market conditions. Current yields may be higher or lower than those quoted above. **Past performance is no guarantee of future results.**

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