

# Market commentary

### **U.S. ECONOMICS**

- U.S. non-farm payrolls increased by 199,000 in December, significantly short of economist expectations for 450,000 new jobs. Payrolls grew by 6.4 million in 2021, the most added in a single year, though payrolls remain 3.6 million beneath pre-pandemic levels.
- The headline unemployment rate fell to 3.9% from 4.2% in November.
   Wages climbed 4.7% from a year prior and continued to substantiate views of a tight US labor market.
- The ISM Services PMI fell to 62.0, marking the 19<sup>th</sup> consecutive month of expansion, though the pace of expansion moderated from the record level set in November. Decreased supplier delivery times, which fell 11.8 points to 63.9, indicated that some supply chain disruptions may have eased.

### **U.S. EQUITIES**

- The S&P 500 posted four record closes in the final month of 2021 and produced a 4.5% gain to close at 4766 points. The S&P 500 recorded 70 record closes during the year, the most since 1995.
- Whether companies can continue to preserve profit margins in Q4 remains in question. Producer prices rose in the most recent month by the largest annual amount since 2010. Producer prices are a leading indicator to what consumers might pay if companies preserve margins by passing on increasing costs to consumers.
- The \$1.75 trillion Build Back Better Act stalled in the Senate as it was unable to gain the support of Senator Manchin, a key swing vote. The bill – which would extend child tax credits and incentivize investment in clean energy among other spending measures – will be a priority as the 2022 mid-term elections approach.

### U.S. FIXED INCOME

- The Federal Reserve persisted in its commitment to a hawkish stance to further combat surging prices. The Fed increased the pace of its taper to \$30 billion, a doubling from the month before. Looking ahead, the Fed will be considering how soon after the conclusion of the taper process they will be able to start decreasing the size of their balance sheet.
- The range for federal funds was left unchanged at near-zero levels, but the Fed is expected to begin hiking interest rates in March. Most Fed officials expect three quarter-percentage-point interestrate increases in 2022, a change from September when half of officials thought there would be no hikes in 2022.
- Shorter-dated US Treasury yields rose by more than longer-dated Treasuries as the yield curve flattened. U.S. Treasury yields rose across maturities (2yr +21bps, 30yr +12bps), resulting in negative performance for fixed income investors.

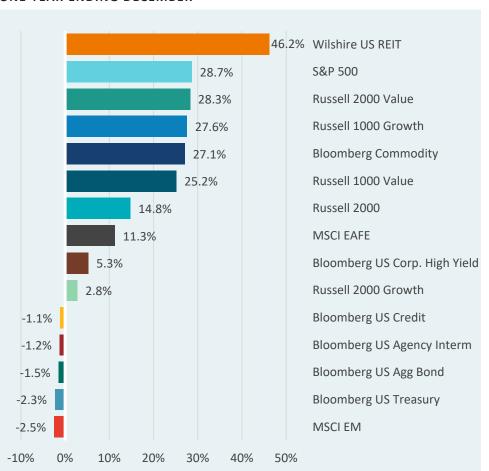
### INTERNATIONAL MARKETS

- The Japanese Yen depreciated -1.4% against the U.S. Dollar in December. The currency is down -10.3% in 2021 as the currency remains near a 5-year low.
- Monetary policy in China remains supportive: the one-year loan prime rate was cut for the first time since April 2020, which came alongside a cut in the reserve requirement ratio. Chinese growth is expected to cool in 2022.
- The Turkish Lira (+1.3%) stabilized against the U.S. Dollar following President Erdogan's announcement that the government would protect Lira holders from exchange rate fluctuations.

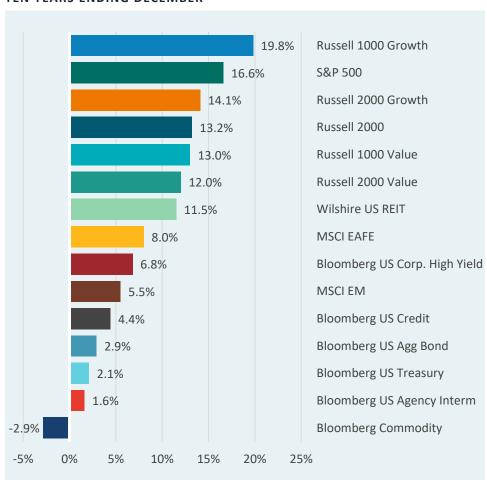


# Major asset class returns

### ONE YEAR ENDING DECEMBER



### TEN YEARS ENDING DECEMBER



\*Only publicly traded asset performance is shown here. Performance of private assets is typically released with a 3- to 6-month delay.

Source: Morningstar, as of 12/31/21

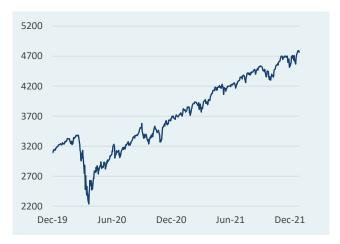
Source: Morningstar, as of 12/31/21



# U.S. large cap equities

- The S&P 500 Index closed the month 4.5% higher despite concern from investors surrounding the increasing case count of the new Omicron variant of Covid-19. The S&P 500 rose 28.7% in 2021, marking the third year of consecutive positive returns.
- Of the 11 S&P 500 GICS sectors 10 posted positive returns and the Consumer Discretionary sector was the only sector to post a negative return (-0.3%). The Consumer Staples (+10.3%), Real Estate (+10.2%) and Utilities (+9.6%) sectors were the top performing sectors in the index.
- The Cboe VIX Index of implied volatility fell from 31.1 to 17.2 in December. Concerns surrounding the Omicron variant seemed to have little impact on the index and trading volumes slowed as the year approached its end.
- With 66 initial public offerings in December, full year IPOs totaled 1,058 in 2021 – the most recorded in a single year. Low rates and high levels of fiscal stimulus over the year helped make going public attractive. The wave of IPOs has been a benefit to revenues for the firms that underwrite and finance the offerings. The Financials sector climbed 35.0% in 2021.

### **S&P 500 PRICE INDEX**

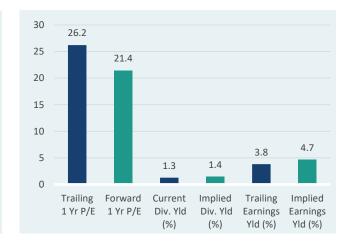


### IMPLIED VOLATILITY (VIX INDEX)



### Source: Choe, as of 12/31/21

### **S&P 500 VALUATION SNAPSHOT**



Source: Bloomberg, as of 12/31/21

# Domestic equity size and style

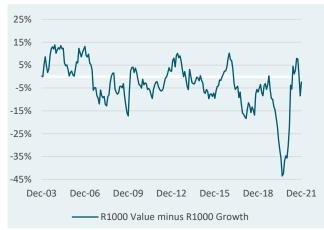
- Value factor stocks (Russell 3000 Value +6.2%) strongly outperformed growth factor stocks (Russell 3000 Growth +2.0%) and brought the spread between the two styles to within roughly 50 basis points over the year ended 2021. Companies in the Telecommunication Services and Utilities sectors helped the value factor outperform over the month.
- Defensive stocks outpaced cyclical stocks by 5.1% in December. More defensive sectors such as Health Care and Utilities led gains in equity markets. Stocks within sectors that are more cyclical lagged, such as the Financials, Information Technology, and Energy sectors.
- Large-cap equities (Russell 1000 +4.1%) outpaced small cap-equities (Russell 2000 +2.2%) for the 3<sup>rd</sup> consecutive month. Small-cap equities are generally more sensitive to economic conditions and have been restrained in part by the Omicron variant's potential to lead to new social restrictions that can hamper growth.
- Positive returns within the S&P 500 Index had a high degree of breadth over the month. Of the index's constituents, 76% advanced and the equal-weighted index outperformed the market-cap weighted index (S&P 500 Equal Weighted +6.2% vs. S&P 500 +4.5%).

### **VALUE VS. GROWTH RELATIVE VALUATIONS**



Source: FTSE, Bloomberg, as of 12/31/21

VALUE VS. GROWTH 1-YR ROLLING RELATIVE PERFORMANCE



Source: FTSE, Bloomberg, as of 12/31/21

SMALL VS. LARGE 1-YR ROLLING RELATIVE PERFORMANCE

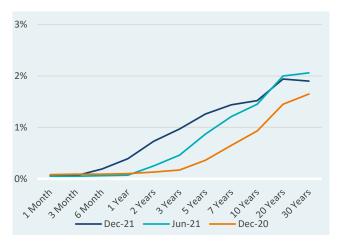




# Fixed income

- Increases in breakeven inflation rates can show that markets believe that prices may increase at a faster rate over the intermediate term. The five-year breakeven inflation rate rose by 10 basis points over the month but ended the year 30 basis points below its peak of 3.2% in November as the market priced in earlier rate action by the Fed.
- Corporate high-yield bonds (Bloomberg US Corp. HY +1.9%) provided insulation to fixed income investors amid a month of rate rises (Bloomberg US Agg -0.3%).
   High yield bonds tend to have lower interest-rate sensitivity relative to investment-grade bonds.
- In what has been a benign credit environment spreads have compressed to near decade lows. The spread of high-yield bonds (-57 basis points), emerging market debt (-42 basis points) and investment grade debt (-5 basis points) all compressed further over the month.
- The Bank of England approved a 15-basis point increase in its key policy rate, becoming the first G7 country to lift rates since the onset of Covid. Gilt yields surged across maturities following the surprise announcement. The Omicron variant may hinder economic growth in line with the reimplementation of lockdowns and prolonged supply chain disruptions.

### U.S. TREASURY YIELD CURVE



### **NOMINAL YIELDS**



### BREAKEVEN INFLATION RATES



Source: Morningstar, as of 12/31/21

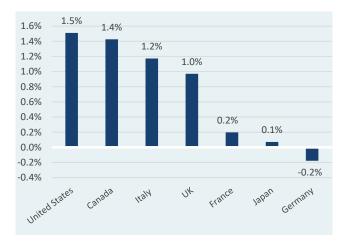
Source: Bloomberg, as of 12/31/21



# Global markets

- Global equities (MSCI ACWI +4.0%) were led by both developed market equities (MSCI EAFE +5.1%) and U.S. equities (S&P 500 +4.5%). Emerging market equities (MSCI EM +1.9%) underperformed other world indices but still posted modest returns.
- Developed markets (MSCI EAFE +5.1%) were led higher by strong returns in the United Kingdom (MSCI UK +7.3%) and Europe (MSCI Euro +6.3%). Investors that held local currencies in both the United Kingdom and Europe benefited from a weakening dollar. The Pound and the Euro appreciated 2.4% and 1.0%, respectively, against the U.S. Dollar.
- Emerging market equities (MSCI EM +1.9%) faced headwinds in Asia (MSCI EM Asia +1.5%) as decreased growth prospects in China weighed on the region. Latin American markets (MSCI EM Latin America +5.9%) contributed positively to the emerging market basket.
- The new Omicron variant of Covid-19 has been spreading quickly across the globe. The variant has caused countries to limit travel and sparked new social distancing measures. Beijing banned travel from the U.S. and Europe and is implementing strict policies to fight Omicron. Port quarantine policies and other measures may pose new issues for supply chains.

### **GLOBAL SOVEREIGN 10-YEAR YIELDS**



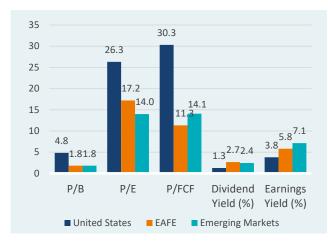
Source: Bloomberg, as of 12/31/21

### U.S. DOLLAR MAJOR CURRENCY INDEX



Source: Federal Reserve, as of 12/31/21

### MSCI VALUATION METRICS (3-MONTH AVG)





# Commodities

- The Bloomberg Commodity Index rose +3.5% in the last month of the year, led higher by the Petroleum (+13.4%), and Industrial Metals (+6.4%) Sub-Indexes. Overall performance was dragged down by lackluster returns in the Livestock (+1.5%) and Softs (+0.3%) Sub-Indexes.
- The Bloomberg Petroleum Sub-Index (+13.4%) rebounded in December, bringing its year-to-date return to +62.9%, as WTI crude oil futures contracts rallied +13.9%. Ecuador, Libya and Nigeria – which accounted for 3.6% of global petroleum production in the first nine months of 2021 – faced major production issues that decreased supply over the month.

### COMMODITY PERFORMANCE

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Bloomberg Commodity	3.5	(1.6)	27.1	27.1	9.9	3.7	(2.9)
Bloomberg Agriculture	3.6	6.3	26.7	26.7	14.5	3.6	(1.8)
Bloomberg Energy	2.8	(13.0)	52.1	52.1	(0.9)	(4.0)	(10.4)
Bloomberg Grains	3.8	6.8	21.0	21.0	12.6	3.6	(2.1)
Bloomberg Industrial Metals	6.4	8.6	30.3	30.3	17.5	11.1	1.8
Bloomberg Livestock	1.5	1.9	8.6	8.6	(7.9)	(3.9)	(4.2)
Bloomberg Petroleum	13.4	2.3	62.9	62.9	9.2	2.9	(6.9)
Bloomberg Precious Metals	2.8	4.3	(6.1)	(6.1)	11.3	7.9	(0.3)
Bloomberg Softs	0.3	5.7	44.0	44.0	15.6	0.5	(4.9)

Source: Morningstar, as of 12/31/21

INDEX AND SECTOR PERFORMANCE

- The Bloomberg Energy Sub-Index (+2.8%) was weighed down by natural gas which accounts for as much of a weight in the index as WTI Crude Oil (~27% target weight). Prices for natural gas fell following government weather forecasts that were projected warmer-than-expected and provided relief to heating prices.
- The Bloomberg Industrial Metals Sub-Index climbed +6.4% and posted the highest calendar year return since 2009 (+30.3%). All the industrial metals saw gains over the month, notably aluminum (+6.5%) led gains for the year and was up +42.5%. High energy costs pressured aluminum smelters to limit operations.



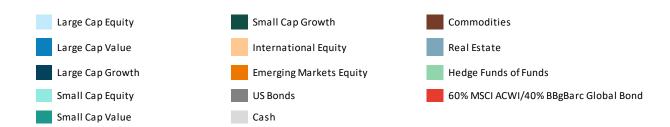


# Appendix



# Periodic table of returns

		1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	5-Year	10-Year
Small Cap Va	lue	66.4	31.8	14.0	25.9	56.3	26.0	34.5	32.6	39.8	5.2	79.0	29.1	14.3	18.6	43.3	13.5	13.3	31.7	37.3	6.7	36.4	38.5	28.3	25.3	19.8
Large Cap Gro	owth	43.1	22.8	8.4	10.3	48.5	22.2	21.4	26.9	16.2	1.4	37.2	26.9	7.8	18.1	38.8	13.2	5.7	21.3	30.2	1.9	31.4	34.6	27.6	18.4	16.5
Commoditie	es	33.2	12.2	7.3	6.7	47.3	20.7	20.1	23.5	15.8	-6.5	34.5	24.5	2.6	17.9	34.5	13.0	0.9	17.3	25.0	0.0	28.5	21.0	27.1	14.5	14.1
Large Cap Eq	uity	27.3	11.6	3.3	1.6	46.0	18.3	14.0	22.2	11.8	-21.4	32.5	19.2	1.5	17.5	33.5	11.8	0.6	12.1	22.2	-1.5	26.5	20.0	26.5	12.0	13.2
Large Cap Va	alue	26.5	7.0	2.8	1.0	39.2	16.5	7.5	18.4	11.6	-25.9	28.4	16.8	0.4	16.4	33.1	6.0	0.0	11.8	21.7	-3.5	25.5	18.3	25.2	11.2	13.0
Small Cap Eq	uity	21.3	4.1	-2.4	-6.0	29.9	14.3	6.3	15.5	10.3	-33.8	23.3	16.1	-2.1	15.3	23.3	4.9	-0.8	11.2	14.6	-6.0	22.4	14.0	14.8	10.1	12.0
International E	quity	24.3	6.0	2.5	-5.9	30.0	14.5	7.1	16.6	10.9	-28.9	27.2	16.7	0.1	16.3	32.5	5.6	-0.4	11.3	17.1	-4.8	22.0	10.3	11.3	9.9	9.0
Real Estate	е	20.9	-3.0	-5.6	-11.4	29.7	12.9	5.3	15.1	7.0	-35.6	20.6	15.5	-2.9	14.6	12.1	4.2	-1.4	8.0	13.7	-8.3	18.6	7.8	10.9	9.5	8.0
60/40 Global Po	ortfolio	13.2	-7.3	-9.1	-15.5	25.2	11.4	4.7	13.3	7.0	-36.8	19.7	13.1	-4.2	11.5	11.0	3.4	-2.5	7.1	7.8	-9.3	18.4	7.5	8.9	9.1	7.9
Hedge Funds of	Funds	11.4	-7.8	-9.2	-15.7	23.9	9.1	4.6	10.4	5.8	-37.6	18.9	10.2	-5.5	10.5	9.0	2.8	-3.8	5.7	7.7	-11.0	8.7	4.6	6.5	6.8	5.5
Small Cap Gro	owth	7.3	-14.0	-12.4	-20.5	11.6	6.9	4.6	9.1	4.4	-38.4	11.5	8.2	-5.7	4.8	0.1	0.0	-4.4	2.6	7.0	-11.2	7.8	2.8	2.8	5.8	4.6
Cash		4.8	-22.4	-19.5	-21.7	9.0	6.3	4.2	4.8	-0.2	-38.5	5.9	6.5	-11.7	4.2	-2.0	-1.8	-7.5	1.0	3.5	-12.9	7.7	0.5	0.0	3.6	2.9
US Bonds	;	-0.8	-22.4	-20.4	-27.9	4.1	4.3	3.2	4.3	-1.6	-43.1	0.2	5.7	-13.3	0.1	-2.3	-4.5	-14.9	0.5	1.7	-13.8	6.4	0.5	-1.5	3.7	0.6
Emerging Markets	s Equity	-1.5	-30.6	-21.2	-30.3	1.0	1.4	2.4	2.1	-9.8	-53.2	-16.9	0.1	-18.2	-1.1	-9.5	-17.0	-24.7	0.3	0.9	-14.6	2.1	-3.1	-2.5	1.1	-2.9

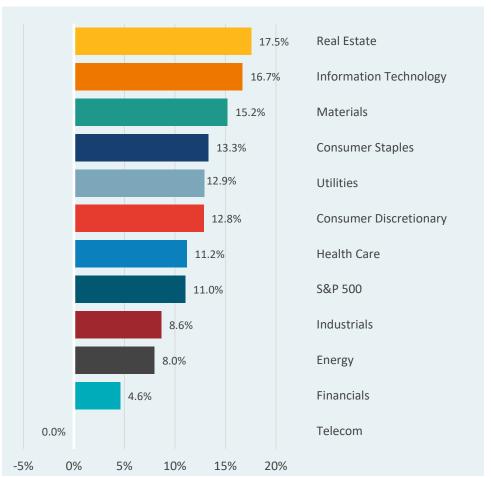


Source Data: Morningstar, Inc., Hedge Fund Research, Inc. (HFR), National Council of Real Estate Investment Fiduciaries (NCREIF). Indices used: Russell 1000, Russell 1000 Value, Russell 1000 Value, Russell 2000 Growth, MSCI EAFE, MSCI EM, Bloomberg US Aggregate, T-Bill 90 Day, Bloomberg Commodity, NCREIF Property, HFRI FOF, MSCI ACWI, Bloomberg Global Bond. NCREIF Property Index performance data as of 9/30/21.

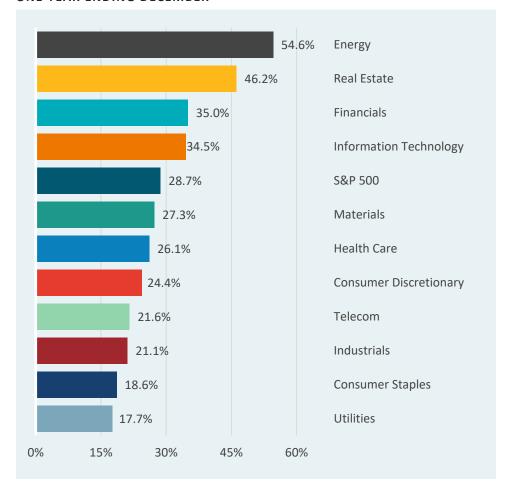


# S&P 500 sector returns

### Q4 2021



### ONE YEAR ENDING DECEMBER



Source: Morningstar, as of 12/31/21

Source: Morningstar, as of 12/31/21



# Detailed index returns

DOMESTIC EQUITY								FIXED INCOME							
	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year		Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Core Index								Broad Index							
S&P 500	4.5	11.0	28.7	28.7	26.1	18.5	16.6	Bloomberg US TIPS	0.3	2.4	6.0	6.0	8.4	5.3	3.1
S&P 500 Equal Weighted	6.2	9.0	29.6	29.6	23.6	15.7	15.6	Bloomberg US Treasury Bills	0.0	0.0	0.0	0.0	1.0	1.2	0.7
DJ Industrial Average	5.5	7.9	20.9	20.9	18.5	15.5	14.2	Bloomberg US Agg Bond	(0.3)	0.0	(1.5)	(1.5)	4.8	3.6	2.9
Russell Top 200	4.0	11.0	27.9	27.9	27.3	19.7	17.2	Bloomberg US Universal	(0.1)	(0.0)	(1.1)	(1.1)	5.2	3.8	3.3
Russell 1000	4.1	9.8	26.5	26.5	26.2	18.4	16.5	Duration							
Russell 2000	2.2	2.1	14.8	14.8	20.0	12.0	13.2	Bloomberg US Treasury 1-3 Yr	(0.2)	(0.6)	(0.6)	(0.6)	2.0	1.6	1.1
Russell 3000	3.9	9.3	25.7	25.7	25.8	18.0	16.3	Bloomberg US Treasury Long	(1.4)	3.1	(4.6)	(4.6)	8.8	6.5	4.5
Russell Mid Cap	4.1	6.4	22.6	22.6	23.3	15.1	14.9	Bloomberg US Treasury	(0.5)	0.2	(2.3)	(2.3)	4.1	3.1	2.1
Style Index								Issuer							
Russell 1000 Growth	2.1	11.6	27.6	27.6	34.1	25.3	19.8	Bloomberg US MBS	(0.1)	(0.4)	(1.0)	(1.0)	3.0	2.5	2.3
Russell 1000 Value	6.3	7.8	25.2	25.2	17.6	11.2	13.0	Bloomberg US Corp. High Yield	1.9	0.7	5.3	5.3	8.8	6.3	6.8
Russell 2000 Growth	0.4	0.0	2.8	2.8	21.2	14.5	14.1	Bloomberg US Agency Interm	(0.2)	(0.7)	(1.2)	(1.2)	2.4	2.0	1.6
Russell 2000 Value	4.1	4.4	28.3	28.3	18.0	9.1	12.0	Bloomberg US Credit	(0.1)	0.2	(1.1)	(1.1)	7.2	5.1	4.4
INTERNATIONAL EQUITY								OTHER							
Broad Index								Index							
MSCI ACWI	4.0	6.7	18.5	18.5	20.4	14.4	11.9	Bloomberg Commodity	3.5	(1.6)	27.1	27.1	9.9	3.7	(2.9)
MSCI ACWI ex US	4.1	1.8	7.8	7.8	13.2	9.6	7.3	Wilshire US REIT	8.8	17.1	46.2	46.2	19.2	10.9	11.5
MSCI EAFE	5.1	2.7	11.3	11.3	13.5	9.5	8.0	CS Leveraged Loans	0.6	0.7	5.4	5.4	5.4	4.3	4.8
MSCI EM	1.9	(1.3)	(2.5)	(2.5)	10.9	9.9	5.5	S&P Global Infrastructure	6.6	4.6	11.9	11.9	10.2	7.8	7.7
MSCI EAFE Small Cap	4.4	0.1	10.1	10.1	15.6	11.0	10.8	Alerian MLP	3.7	0.9	40.9	40.9	1.0	(3.7)	(0.3)
Style Index								Regional Index							
MSCI EAFE Growth	4.3	4.1	11.3	11.3	19.0	13.6	10.1	JPM EMBI Global Div	1.4	(0.4)	(1.8)	(1.8)	5.9	4.7	5.3
MSCI EAFE Value	6.0	1.2	10.9	10.9	7.8	5.3	5.8	JPM GBI-EM Global Div	1.6	(2.5)	(8.7)	(8.7)	2.1	2.8	0.7
Regional Index								Hedge Funds							
MSCI UK	7.3	5.6	18.5	18.5	8.7	6.2	5.1	HFRI Composite	1.3	0.6	10.3	10.3	10.9	7.1	5.8
MSCI Japan	1.9	(4.0)	1.7	1.7	11.7	8.5	8.3	HFRI FOF Composite	0.8	0.7	6.5	6.5	8.6	5.8	4.6
MSCI Euro	6.3	3.9	14.9	14.9	14.6	9.7	8.4	Currency (Spot)							
MSCI EM Asia	1.5	(1.0)	(5.1)	(5.1)	13.3	11.9	8.1	Euro	1.0	(1.9)	(7.1)	(7.1)	(0.2)	1.5	(1.3)
MSCI EM Latin American	5.9	(2.7)	(8.1)	(8.1)	(2.4)	1.5	(2.2)	Pound Sterling	2.4	0.5	(0.9)	(0.9)	2.1	1.9	(1.4)
								Yen	(1.4)	(3.1)	(10.3)	(10.3)	(1.6)	0.3	(4.0)

Source: Morningstar, HFRI, as of 12/31/21



# Detailed private market returns

## Comparison to public market index returns

Private Equity Pooled IRRs	1 Year	3 Year	5 Year	10 Year
Global Private Equity FoFs & Secondary Funds	61.1	22.6	18.7	13.1
Global Private Equity Direct Funds *	61.3	25.9	22.3	15.6
U.S. Private Equity Direct Funds *	66.0	28.0	23.3	17.2
Europe Private Equity Direct Funds *	61.5	24.9	23.3	12.9
Asia Private Equity Direct Funds *	45.4	20.8	19.0	14.9
Public Index Time-weighted Returns				
MSCI World	39.0	15.0	14.8	10.7
S&P 500	40.8	18.7	17.6	14.8
MSCI Europe	35.1	8.7	10.3	5.6
MSCI AC Asia Pacific	34.3	10.3	12.6	7.0

Private Real Estate Pooled IRRs	1 Year	3 Year	5 Year	10 Year
U.S. All Private Real Estate	19.5	8.4	9.4	11.9
Public Index Time-weighted Returns				
FTSE NAREIT Equity REIT	38.0	10.1	6.3	9.4

Private Credit Pooled IRRs	1 Year	3 Year	5 Year	10 Year
U.S. All Private Debt **	34.1	12.1	12.6	11.1
Public Index Time-weighted Returns				
S&P / LSTA U.S. Leveraged Loan 100 Index	9.4	4.3	4.7	4.1

Private Real Assets Pooled IRRs	1 Year	3 Year	5 Year	10 Year
Global Nature Resources ***	26.6	(3.0)	2.5	1.4
Global Infrastructure	16.8	10.3	11.2	9.8
Public Index Time-weighted Returns				
S&P Global Natural Resources	49.3	6.1	11.4	2.3
S&P Global Infrastructure	23.2	5.6	6.2	6.2

Source: Pooled IRRs are from Thompson Reuters C|A and Time-weighted Returns are from Investment Metrics, as of June 30th, 2021. All returns in U.S. dollars.

<sup>\*\*\*</sup> Includes Private Equity Energy, Timber and Upstream Energy & Royalties.



<sup>\*</sup> Includes Buyout, Growth Equity and Venture Capital.

<sup>\*\*</sup> Includes Control-Oriented Distressed, Credit Opportunities, Senior Debt and Subordinated Capital.

# Notices & disclosures

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