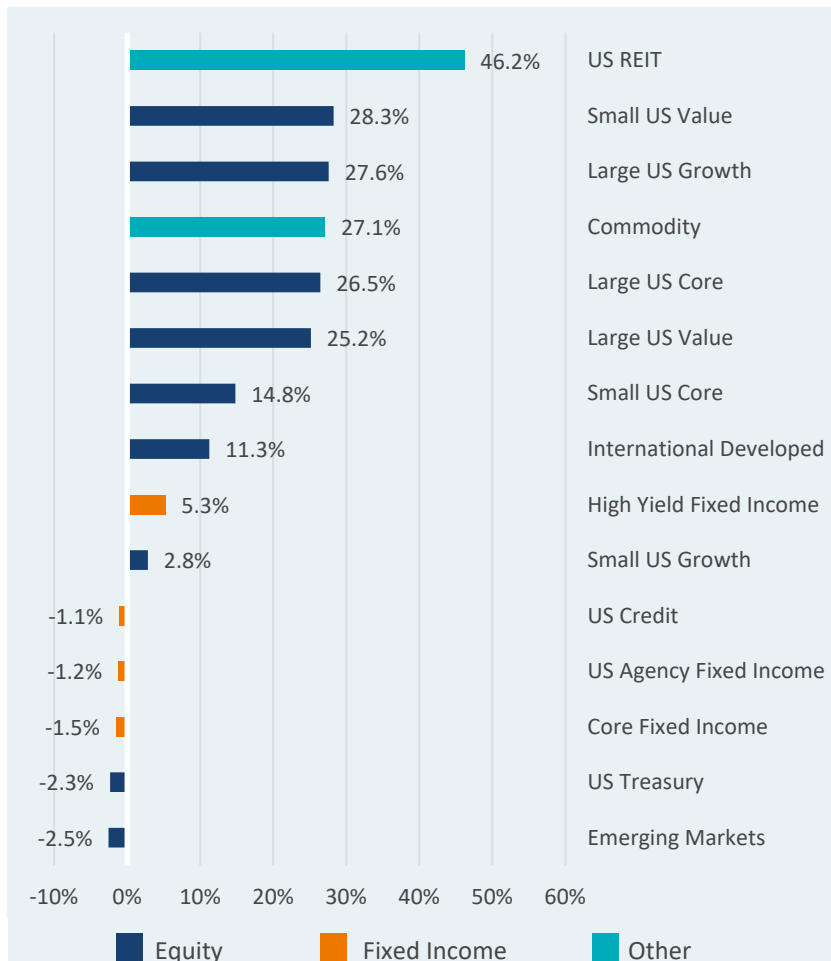


A look back at 2021

Strong earnings and fiscal/monetary stimulus supercharged equity returns

ONE YEAR ENDING DECEMBER 31, 2021



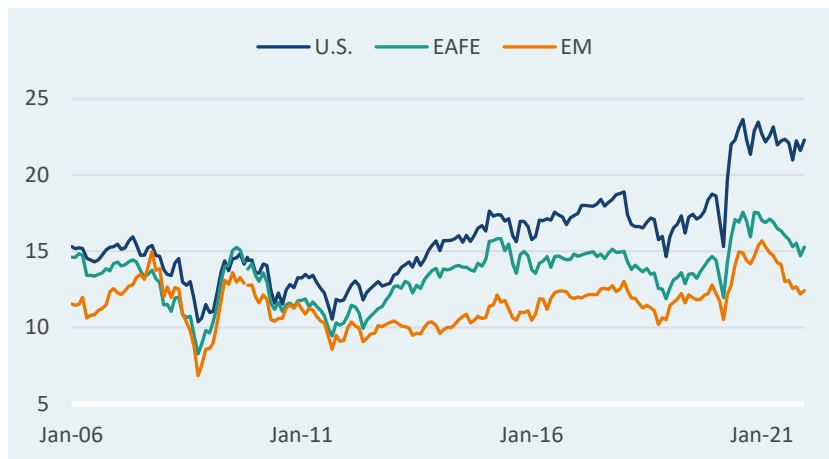
Source: Bloomberg, as of 12/31/21

- The market environment in 2021 proved an exceedingly accommodative one for financial assets. Fiscal stimulus early in the year was significant, monetary policy was loose through most of the year, vaccine-related optimism lifted sentiment, and tight majorities in Congress limited the scope of the regulatory agenda in Washington.
- The result was an incredibly buoyant market – over the course of the year the S&P 500 never closed more than 5.2% below its previous record high, and it closed at a record high on 70 different days. Only in 1995 (77 times) did the S&P 500 close at a record more frequently. Credit spreads moved to their tightest levels since prior to the Global Financial Crisis, and interest rates moved higher. Volatility, both realized and implied, remained on the low side of average levels across asset classes.
- Real interest rates fell to record lows as inflation outpaced rising rates, which was supportive for risk asset prices. The low interest rate environment also incentivized chief financial officers to issue debt and use the proceeds to buy back shares.
- Weakness in Chinese equity markets was fueled by several factors, including the People’s Bank of China shifting focus towards reducing leverage in the property development sector and tightening financial conditions, the Communist Party of China’s crackdown on specific sectors of the economy, and intermittent struggles with virus containment.
- A hawkish pivot from Fed officials suggests that one of the strongest supports for equity prices might be on more shaky ground in 2022, and it also sets up some potential future policy divergences between global central banks.

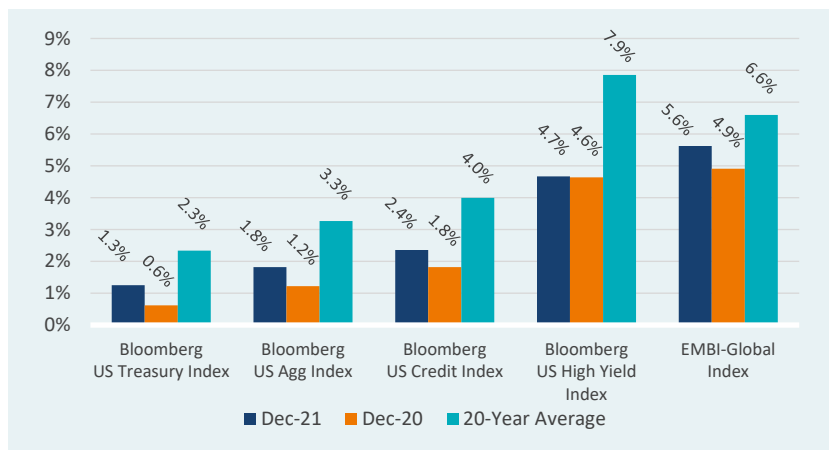
A look ahead to 2022

Mixed outlook, with fewer potential upside catalysts on the horizon

FORWARD P/E RATIOS



NOMINAL YIELDS



Source: MSCI, 12m forward P/E, as of 12/31/21 Source Nominal Yields: Morningstar, as of 12/31/21

- Market participants have expressed disparate views regarding the fixed income outlook. Much of the difference in viewpoint has been driven by beliefs around high levels of inflation and whether price rises will in fact be more transitory, or more persistent, in nature.
- Many believe that 7.0% inflation is not sustainable, and that inflation will likely begin to fall later in 2022 as the outsized impact of energy prices and automobiles fade from the year-over-year inflation calculation, supply chain issues continue to be resolved, and spending patterns generally move back towards normalcy.
- Regardless, there is no doubt that the inflationary pressures caused by pandemic-related dislocations earlier in the year have broadened considerably, are impacting food prices and labor costs, and are likely to lead to continued above-average increases in shelter costs.
- Many investors retrospectively viewed the 2021 market environment as a relatively easy one to navigate. Optimism around the vaccine distribution effort and the economic resurgence it would unlock, as well as the tremendous amount of fiscal and monetary support being provided, cultivated a benign environment which allowed some of the riskiest and most speculative financial assets (from SPACs, to meme stocks, to crypto assets) to prosper.
- As interest rates begin to rise and the sugar high from last year's stimulus fades, investors may find it more difficult to generate an acceptable total return level.
- Conditions remain relatively attractive for risk asset performance, though the current environment seems to suggest more moderate returns, as much of the good news may already be priced in.