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Q4

Quarterly Market Review

Fourth Quarter 2021

Quarterly Market Summary

Index Returns



















	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate		US Bond Market	Global Bond Market ex US
4Q 2021	STOCKS					BONDS	
	9.28%	3.14%	-1.31%	12.35%		0.01%	0.07%
							

Since Jan. 2001							
Average Quarterly Return	2.5%	1.7%	2.9%	2.7%		1.1%	1.1%
Best Quarter	22.0% 2020 Q2	25.9% 2009 Q2	34.7% 2009 Q2	32.3% 2009 Q3		4.6% 2001 Q3	4.6% 2008 Q4
Worst Quarter	-22.8% 2008 Q4	-23.3% 2020 Q1	-27.6% 2008 Q4	-36.1% 2008 Q4		-3.4% 2021 Q1	-2.7% 2015 Q2

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Long-Term Market Summary

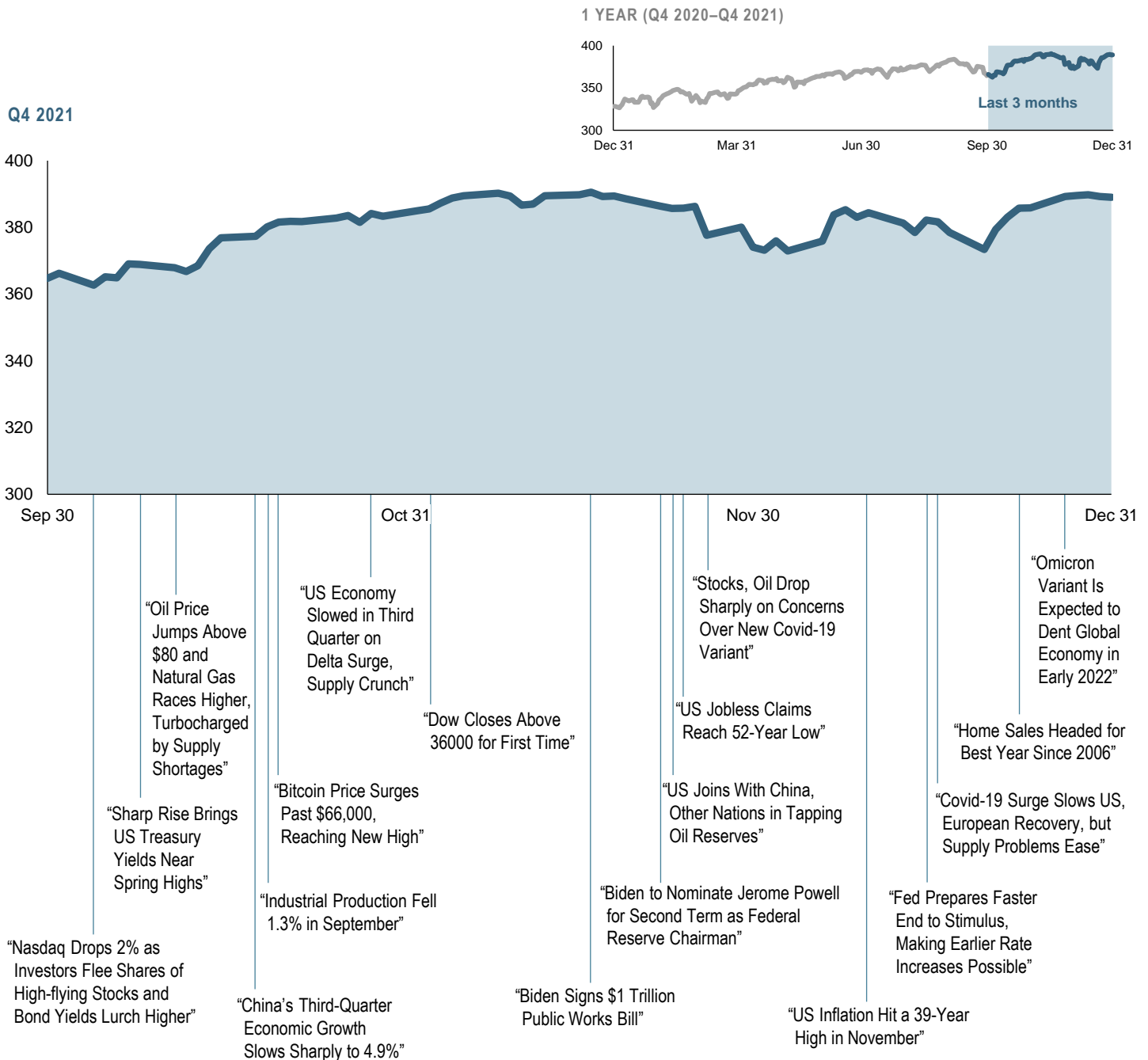
Index Returns as of December 31, 2021

	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
1 Year	STOCKS				BONDS	
	25.66%	12.62%	-2.54%	31.38%	-1.54%	-1.40%
						
5 Years						
	17.97%	9.63%	9.87%	8.25%	3.57%	3.11%
						
10 Years						
	16.30%	7.84%	5.49%	9.01%	2.90%	3.80%
						

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World Stock Market Performance

MSCI All Country World Index with selected headlines from Q4 2021

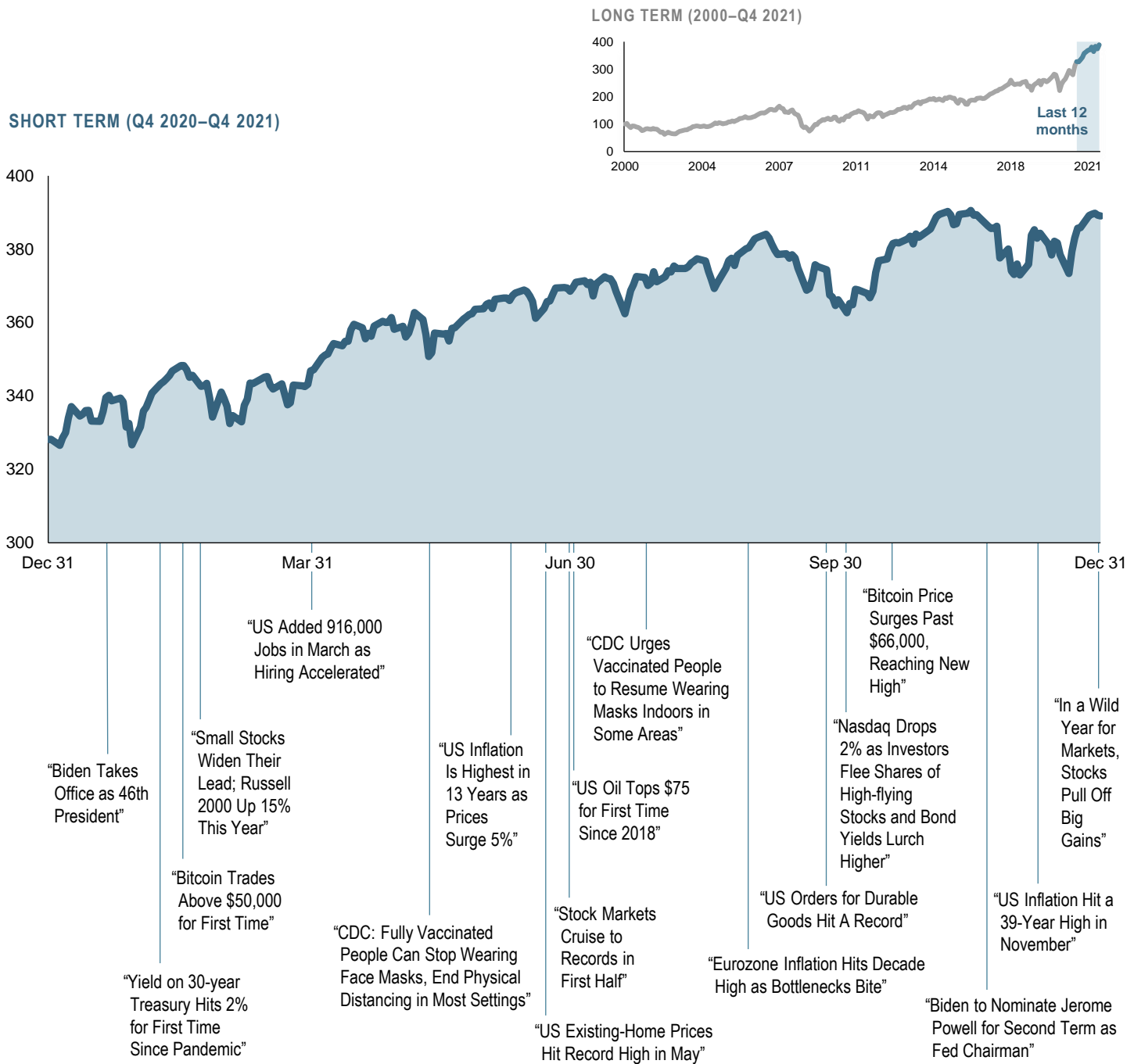


These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.

Graph Source: MSCI ACWI Index (net div.). MSCI data © MSCI 2022, all rights reserved.
 It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio.
Past performance is not a guarantee of future results.

World Stock Market Performance

MSCI All Country World Index with selected headlines from past 12 months



These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.

Graph Source: MSCI ACWI Index (net div.). MSCI data © MSCI 2022, all rights reserved.

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Past performance is not a guarantee of future results.

US Stocks

Fourth Quarter 2021 Index Returns

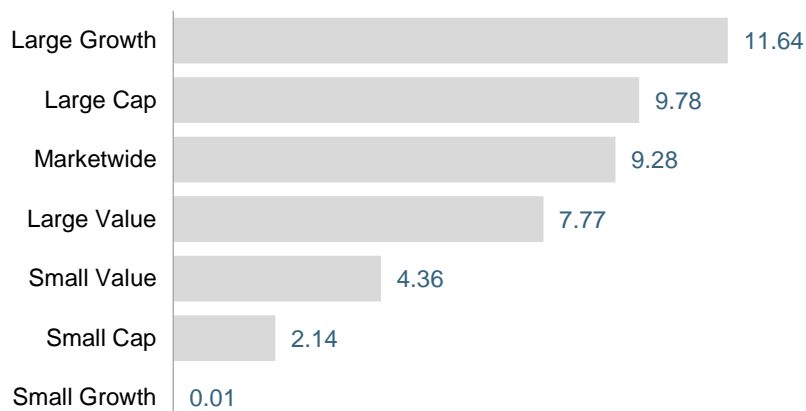
The US equity market posted positive returns for the quarter and outperformed both non-US developed markets and emerging markets.

Value underperformed growth in large cap stocks but outperformed growth in small cap stocks.

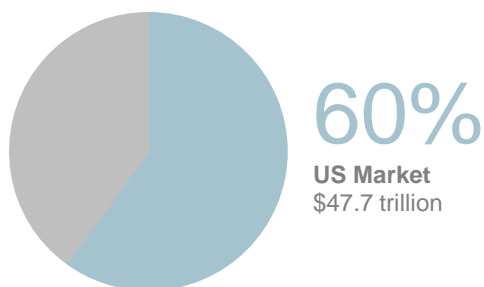
Small caps underperformed large caps.

REIT indices outperformed equity market indices.

Ranked Returns (%)



World Market Capitalization—US



Period Returns (%)

Asset Class	* Annualized				
	QTR	1 Year	3 Years*	5 Years*	10 Years*
Large Growth	11.64	27.60	34.08	25.32	19.79
Large Cap	9.78	26.45	26.21	18.43	16.54
Marketwide	9.28	25.66	25.79	17.97	16.30
Large Value	7.77	25.16	17.64	11.16	12.97
Small Value	4.36	28.27	17.99	9.07	12.03
Small Cap	2.14	14.82	20.02	12.02	13.23
Small Growth	0.01	2.83	21.17	14.53	14.14

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International Developed Stocks

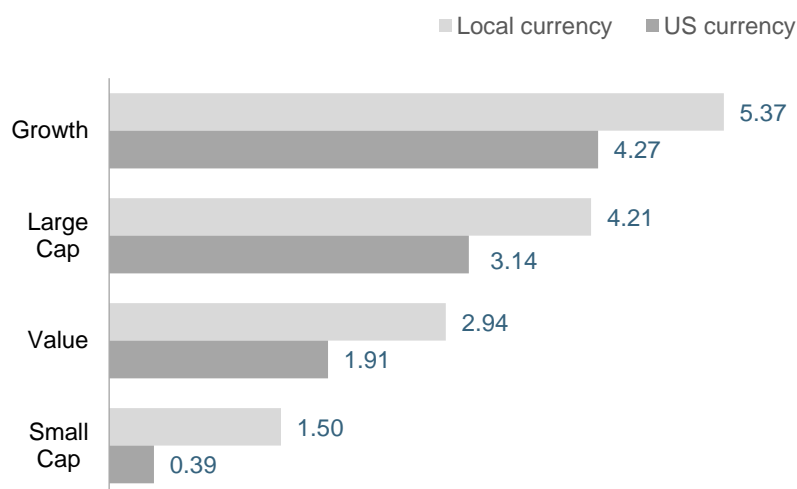
Fourth Quarter 2021 Index Returns

Developed markets outside the US posted positive returns for the quarter. They underperformed US equities but outperformed emerging markets.

Value underperformed growth.

Small caps underperformed large caps.

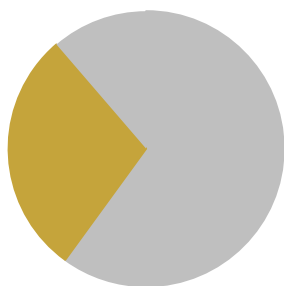
Ranked Returns (%)



World Market Capitalization— International Developed

29%

International
Developed Market
\$22.8 trillion



Period Returns (%)

Asset Class	QTR	* Annualized			
		1 Year	3 Years*	5 Years*	10 Years*
Growth	4.27	11.57	19.11	13.37	9.66
Large Cap	3.14	12.62	14.07	9.63	7.84
Value	1.91	13.26	8.66	5.69	5.83
Small Cap	0.39	11.14	16.27	11.03	9.99

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Emerging Markets Stocks

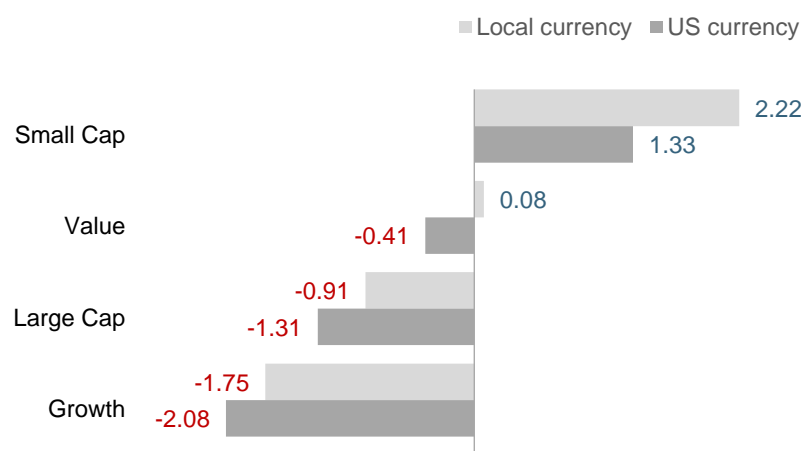
Fourth Quarter 2021 Index Returns

Emerging markets posted negative returns for the quarter, underperforming the US and non-US developed equity markets.

Value outperformed growth.

Small caps outperformed large caps.

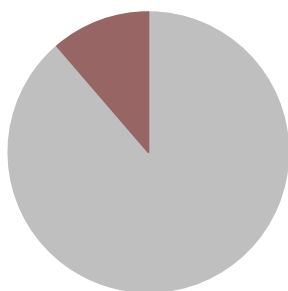
Ranked Returns (%)



World Market Capitalization— Emerging Markets

11%

Emerging Markets
\$9.0 trillion



Period Returns (%)

* Annualized

Asset Class	QTR	1 Year	3 Years*	5 Years*	10 Years*
Small Cap	1.33	18.75	16.46	11.47	7.42
Value	-0.41	4.00	7.08	7.02	3.31
Large Cap	-1.31	-2.54	10.94	9.87	5.49
Growth	-2.08	-8.41	14.60	12.55	7.52

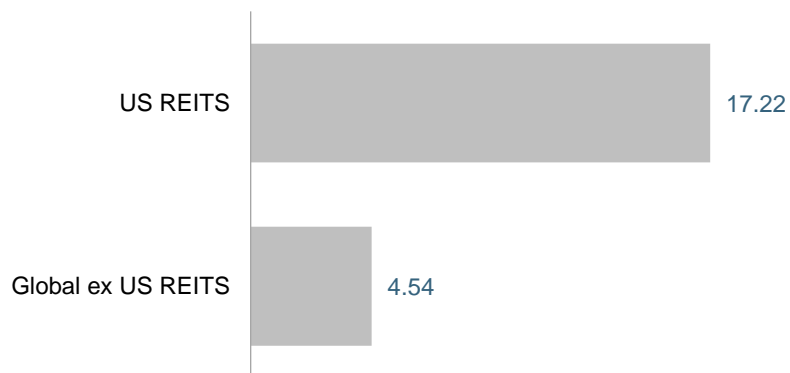
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Real Estate Investment Trusts (REITs)

Fourth Quarter 2021 Index Returns

US real estate investment trusts outperformed non-US REITs during the quarter.

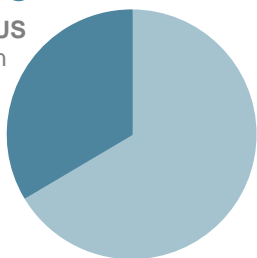
Ranked Returns (%)



Total Value of REIT Stocks

33%

World ex US
\$574 billion
290 REITs
(25 other countries)



67%

US
\$1,139 billion
115 REITs

Period Returns (%)

* Annualized

Asset Class	QTR	1 Year	3 Years*	5 Years*	10 Years*
US REITS	17.22	45.91	16.84	9.65	10.7
Global ex US REITS	4.54	12.70	7.79	6.04	7.17

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Number of REIT stocks and total value based on the two indices. All index returns are net of withholding tax on dividends. Total value of REIT stocks represented by Dow Jones US Select REIT Index and the S&P Global ex US REIT Index. Dow Jones US Select REIT Index used as proxy for the US market, and S&P Global ex US REIT Index used as proxy for the World ex US market. Dow Jones and S&P data © 2022 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved.

Fixed Income

Fourth Quarter 2021 Index Returns

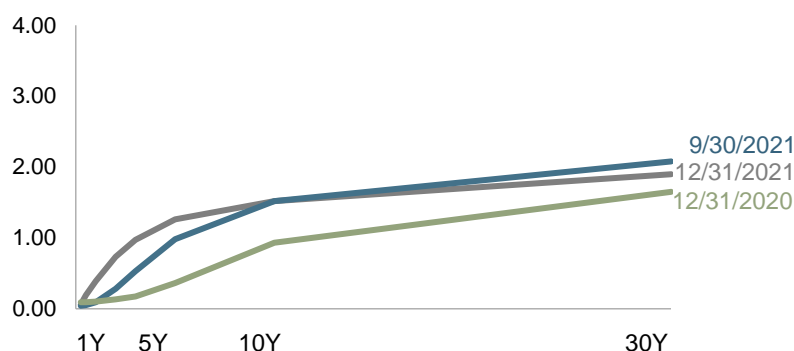
Interest rate movements in the US Treasury fixed income market were mixed during the fourth quarter. The yield on the 5-year US Treasury note increased 28 basis points (bps) to 1.26%. The yield on the 10-year US Treasury note remained unchanged at 1.52%. The 30-year US Treasury bond yield decreased 18 bps to 1.90%.

On the short end of the yield curve, the 1-month US Treasury bill yield decreased 1 basis point, ending at 0.06%, while the 1-year US Treasury bill yield increased 30 bps to 0.39%. The 2-year US Treasury note yield increased 45 bps to 0.73%.

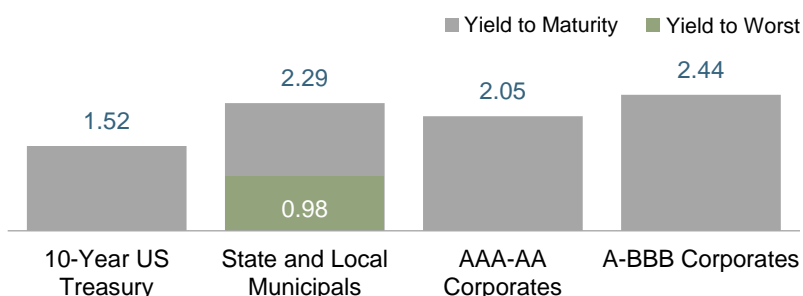
In terms of total returns, short-term corporate bonds lost 0.68%. Intermediate-term corporate bonds declined 0.56%.

The total return for short-term municipal bonds was -0.05%, while intermediate-term municipal bonds gained 0.27%. Revenue bonds performed in line with general obligation bonds.

US Treasury Yield Curve (%)



Bond Yields Across Issuers (%)



Period Returns (%)

Asset Class	QTR	1 Year	3 Years*	5 Years*	10 Years*
					*Annualized
Bloomberg US Government Bond Index Long	3.05	-4.57	8.78	6.53	4.53
Bloomberg US TIPS Index	2.36	5.96	8.44	5.34	3.09
Bloomberg Municipal Bond Index	0.72	1.52	4.73	4.17	3.72
Bloomberg US High Yield Corporate Bond Index	0.71	5.28	8.83	6.30	6.83
Bloomberg US Aggregate Bond Index	0.01	-1.54	4.79	3.57	2.90
ICE BofA US 3-Month Treasury Bill Index	0.01	0.05	0.99	1.14	0.63
ICE BofA 1-Year US Treasury Note Index	-0.18	-0.07	1.55	1.42	0.86
FTSE World Government Bond Index 1-5 Years (hedged to USD)	-0.52	-0.80	2.07	1.89	1.66
FTSE World Government Bond Index 1-5 Years	-1.41	-4.43	1.38	1.79	-0.33

One basis point (bps) equals 0.01%. Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Yield curve data from Federal Reserve. State and local bonds, and the Yield to Worst are from the S&P National AMT-Free Municipal Bond Index. AAA-AA Corporates represent the ICE BofA US Corporates, AA-AAA rated. A-BBB Corporates represent the ICE BofA Corporates, BBB-A rated. Bloomberg data provided by Bloomberg. US long-term bonds, bills, inflation, and fixed income factor data © Stocks, Bonds, Bills, and Inflation (SBBI) Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefeld). FTSE fixed income indices © 2022 FTSE Fixed Income LLC, all rights reserved. ICE BofA index data © 2022 ICE Data Indices, LLC. S&P data © 2022 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved.

Quarterly Topic: All-Time-High Anxiety

Fourth Quarter 2021

Weston Wellington
Vice President

Investors are often conflicted about record-high stock prices. They are pleased to see their existing equity holdings gain in value but apprehensive that higher prices somehow foreshadow a dramatic downturn in the future. And they may be reluctant to make new purchases since the traditional “buy low, sell high” mantra suggests committing funds to stocks at an all-time high is a surefire recipe for disappointment.

Financial journalists periodically stoke investors’ record-high anxiety by suggesting the laws of physics apply to financial markets—that what goes up must come down. “Stocks Head Back to Earth,” read a headline in the *Wall Street Journal* in 2012.¹ “Weird Science: Wall Street Repeals Law of Gravity,” *Barron’s* put it in 2017.² And a *Los Angeles Times* reporter had a similar take last year, noting that low interest rates have “helped stock and bond markets defy gravity.”³

Those who find such observations alarming will likely shy away from purchasing stocks at record highs. But shares are not heavy objects kept aloft through strenuous effort. They are perpetual claim tickets on companies’ earnings and dividends. Thousands of business managers go to work every day seeking projects that appear to offer profitable returns on capital while providing goods and

services people desire. Although some new ideas and the firms behind them end in failure, history offers abundant evidence that investors around the world can be rewarded for the capital they provide.

Whether at a new high or a new low, today’s share price reflects investors’ collective judgment of what tomorrow’s earnings and dividends are likely to be—and those of all the tomorrows to come. And every day, stocks must be priced to deliver a positive expected return for the buyer. Otherwise, no trade would take place. It’s difficult to imagine a scenario where investors freely invest in stocks with the expectation of losing money.

Investors should treat record high prices with neither excitement nor alarm, but rather indifference. If stocks have a positive expected return, reaching record highs with some frequency is exactly the outcome we would expect. Using month-end data over the 94-year period ending in 2020, the S&P 500 Index produced a new high in ending wealth in more than 30% of those monthly observations. Moreover, purchasing shares at all-time records has, on average, generated similar returns over subsequent one-, three-, and five-year periods to those of a strategy that purchases stocks following a sharp decline, as **Exhibit 1** shows.

1. Jonathan Cheng and Christian Berthelsen, “Stocks Head Back to Earth,” *Wall Street Journal*, February 11, 2012.

2. Kopin Tan, “Weird Science: Wall Street Repeals Law of Gravity,” *Barron’s*, August 7, 2017.

3. Russ Mitchell, “Tesla’s Insane Stock Price Makes Sense in a Market Gone Mad,” *Los Angeles Times*, July 22, 2020.

Quarterly Topic: All-Time-High Anxiety

Humans are conditioned to think that after the rise must come the fall, tempting us to fiddle with our portfolios. But the data suggest such signals only exist in our imagination and that our efforts to improve results will just as likely penalize them.

Investors should take comfort knowing that share prices are not fighting the forces of gravity when they move higher and have confidence that record highs only tell us the system is working just as we would expect—nothing more.

EXHIBIT 1

All Rise

Average annualized returns for S&P 500 Index after market highs and declines

	1 year later	3 years later	5 years later
After new market high	13.9%	10.5%	9.9%
After 20% market decline	11.6%	9.9%	9.6%

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