Market Review and Outlook—January 11, 2022

COVID Has Been Good for Stocks – The table below shows that, two years into the worst pandemic in a century, stocks have enjoyed very strong returns, especially US stocks. There are a lot of reasons including incredible science to develop tests, treatments, and vaccinations quickly, and record-levels of federal spending and monetary support from the Fed.

2021 Was Good for the Economy – President Biden and Congress have delivered substantial support this year. The American Rescue plan passed in March providing $1.9 trillion of relief, and the Bipartisan Infrastructure Bill passed in November adding $650 billion to the $550 billion that Congress was already expected to authorize for infrastructure. This relief has boosted consumer finances, and confidence, and led to solid economic growth this year – so strong that it led to substantial supply chain disruptions.

In 2021, the market appeared to celebrate the fact that neither of these two bills reversed reductions in corporate and individual high-income tax rates to help pay for the programs. Additionally, any such proposal was removed from the as-yet-unpassed Build Back Better bill. That certainty boosted investor spirits, as it removed a dark cloud hanging above future corporate profits, and thus investor profits.

Federal stimulus wasn't the only economic benefit in 2021. In the past year, US unemployment fell from 6.7% to 4.2%, and thus millions of US workers began earning money and boosting the US economy. This led to wage growth rising from 4.2% to 5.9%, and this, in turn, contributed to core inflation rising from 1.7% to 5.0% (all these figures compare November 2020 to November 2021 levels).

Where Are We? – The table below shows good foreign stock returns, terrific US stock returns, and uninspiring bond returns. Despite the exceptionally strong three-year stock returns, US stocks are more than 7% cheaper than they were a year ago, as their earnings grew faster than their prices. Furthermore, future US economic expectations remain strong, leading to expectations of at least two more years of record-setting stock profits.

The past three years have brought incredible volatility; however, patient investors have been rewarded handsomely. Furthermore, investors have not had to 'pick the winners' as a blended 60/40 stock/bond portfolio earned over 14% annualized over the past three years. Even/especially in times of high volatility, patience and discipline are most often rewarded well.

Category	**3 Months**	**12 Months**	**3-Yr Avg**	**5-Yr Avg**	**10-Yr Avg**
Fidelity Cash Reserves	+0.00%	+0.01%	+0.72%	+0.85%	+0.44%
Intermediate Core Bond	-0.25%	-1.50%	+4.80%	+3.47%	+2.95%
Intermediate Muni Bond	+0.61%	+1.68%	+4.30%	+3.60%	+3.08%
Multisector Bond	+0.06%	+2.41%	+5.61%	+4.28%	+4.46%
Large-Cap Stock	+9.48%	+26.09%	+23.81%	+16.57%	+14.96%
Small-Cap Stock	+5.45%	+24.17%	+19.71%	+11.20%	+12.74%
Foreign Large-Cap Stock	+2.51%	+9.67%	+13.53%	+9.36%	+7.84%
Health	+0.57%	+6.88%	+18.84%	+15.55%	+16.17%
Real Estate	+14.24%	+38.73%	+18.90%	+10.74%	+10.91%
Technology	+4.35%	+15.09%	+35.13%	+26.65%	+21.08%
Moderate Allocation (60% stocks)	+4.80%	+13.93%	+14.87%	+10.41%	+9.33%

The data in this table comes from Morningstar and is as of December 31, 2021.
Information herein should not be construed by any consumer and/or prospective client as a solicitation to effect, or attempt to effect, transactions in securities, or the rendering of personalized investment advice for compensation.