

QUARTERLY Market REPORT

4TH QUARTER - 2021

Markets performed well in the fourth quarter of 2021, despite a host of challenges: raging inflation, supply chain issues and new COVID-19 variants among them. But without any positive news to push them upward, markets stalled late in the year. Will it be more of the same as we head into the first quarter of 2022?

A DRAMATIC FINISH TO THE YEAR

Overall, the final quarter of 2021 was a strong one, with markets hovering near record highs for a good portion of October and early November. The quarter wasn't without drama, however. In late November, markets experienced their worst day of the year after a new COVID-19 variant was identified in South Africa.¹ They subsequently struggled to regain their footing as we finished the fourth quarter.

Equity Performance as of Dec. 31, 2021				
Equity Index	Q4	2021	3 YRS	5 YRS
S&P 500:	10.65%	26.89%	23.88%	16.31%
NASDAQ:	8.28%	21.39%	33.10%	23.79%
DJIA:	7.37%	18.73%	15.92%	12.95%

Source: Morningstar. Index Performance: Return (%). <http://news.morningstar.com/index/indexReturn.html>. Accessed Jan. 3, 2022.

The new variant wasn't the only thing spooking markets as we headed into the final stretch of 2021. Inflation rates skyrocketed to 6.8% in November, hitting their highest levels since 1982.² The rising rates created concern that corporate earnings might begin to feel the squeeze, especially as consumers slowed their spending as they headed into the holiday season.³

In response, the Federal Reserve changed its previous stance that inflation was "transitory" and took steps to mitigate rising rates, announcing plans to taper its bond-buying purchases. The original plan was to reduce purchases by \$15 billion per month through June 2022;⁴ however, in December it doubled the monthly taper to \$30 billion with intentions to end the taper by the end of April.⁵

Congress spent a good chunk of time throughout the fourth quarter debating the passage of two large pieces of legislation central to President Joe Biden's platform. In November, congressional members passed the infrastructure bill, approving \$1.2 trillion in spending on roads, ports, bridges, internet access and other improvements over the next several years.⁶ The Build Back Better bill didn't fare as well; senators never came to terms on the legislation, which called for \$1.75 trillion to be allocated for social spending programs.⁷

Despite these challenges, stocks performed well in the fourth quarter, just as they did throughout 2021. Over the past 12 months, markets moved mostly up with no meaningful corrections. Will they continue this trend into the first quarter of 2022 — or should investors brace for increased volatility in the coming months?



A LOOK AHEAD

Markets face several headwinds as we head into the new year. Questions concerning new COVID-19 variants and vaccine efficacy will hold back an already sluggish economy. The Fed has begun tapering its bond purchases and announced three potential interest rate raises in the coming year, but we won't see the full effect of these efforts for several months. Ongoing supply chain issues and consumer fatigue could hamper corporate earnings, leaving investors without many options in Q1.

We foresee increasing volatility well into 2022, given the current domestic and global concerns and challenges. Still, there is opportunity to be had in the markets. Our recommendation is for investors to return to the basics and make sure their portfolios are aligned with their risk tolerance and goals. And as always, rely on your financial professional to provide guidance and reassurance in times of uncertainty.

¹ Eustance Huang and Jesse Pound. CNBC. Nov. 26, 2021. "Dow tumbles 900 points for worst day of year on fears of new Covid variant, S&P 500 drops 2%." <https://www.cnbc.com/2021/11/26/stock-futures-open-to-close-market-news.html>. Accessed Dec. 22, 2021.

² U.S. Bureau of Labor Statistics. Dec. 15, 2021. "Consumer prices up 6.8 percent for year ended November 2021." <https://www.bls.gov/opub/ted/2021/consumer-prices-up-6-8-percent-for-year-ended-november-2021.htm>. Accessed Dec. 22, 2021.

³ Abha Bhattarai. The Washington Post. Dec. 15, 2021. "Retail sales disappoint in November, raising concerns that inflation is slowing spending." <https://www.washingtonpost.com/business/2021/12/15/retail-sales-november-2021/>. Accessed Dec. 22, 2021.

⁴ Jeff Cox. CNBC. Nov. 3, 2021. "Fed to start tapering bond purchases later this month as it begins pulling back on pandemic aid." <https://www.cnbc.com/2021/11/03/fed-decision-taper-timetable-as-it-starts-pulling-back-on-pandemic-era-economic-aid-.html>. Accessed Dec. 22, 2021.

⁵ Mark Kolakowski. Investopedia. Dec. 15, 2021. "Fed Will Double Pace of Tapering." <https://www.investopedia.com/fed-will-double-pace-of-tapering-5213346>. Accessed Dec. 22, 2021.

⁶ Jim Probasco. Investopedia. Nov. 29, 2021. "Understanding the Infrastructure Bills." <https://www.investopedia.com/here-s-what-s-in-the-usd1-trillion-infrastructure-bill-passed-by-the-senate-5196817>. Accessed Dec. 22, 2021.

⁷ Tami Luhby and Katie Lobosco. CNN. Dec. 20, 2021. "Biden's Build Back Better plan is on ice. Here's what that means for you." <https://www.cnn.com/2021/12/20/politics/joe-biden-build-back-better-setback-explained/index.html>. Accessed Dec. 22, 2021.

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