MURRAY
INVESTMENT MANAGEMENT

4th Quarter 2021 Update

The broad equity markets produced very strong returns during 2021 with the S&P 500 up 28.71%, the Russell 2000 (small caps) up 14.82% and the MSCI EAFE (International index) up 11.26% for the year. During the year, domestic stocks outperformed international and large cap stocks outperformed small caps, which continued two trends that we have seen over the last decade.

	4Q21	YTD
S&P 500 (large cap)	11.03%	28.71%
MSCI EAFE (International index net return)	2.69%	11.26%
Rusell 2000 (small cap)	2.14%	14.82%

After unprecedented levels of fiscal (government spending) and monetary (low interest rates) accommodation, attention is now turning to how the economy will respond when those 2 things are taken away or reduced in 2022. In other words, the Federal Reserve will take center stage this year and try to walk the fine line of raising rates to keep inflation in check while not upsetting the economy. The Fed indicated in December that they will likely raise interest rates 3 times in 2022 and taper bond purchases. As the Fed has become clearer on its intentions to raise rates, the market has become more volatile, and I expect to see increased market volatility in 2022.

Interest rates ended mostly unchanged during the quarter but rose during the year. Even with the slight increase, rates remain at historically low levels. With rates so low, the fixed income space remains a somewhat limited investment opportunity since bond prices are currently very high and will fall when rates rise. Consequently, I am largely using cash in the fixed income allocation for most portfolios while continuing to look for better opportunities as rates rise.

The economy continues to improve, and the following factors should be positive market influences for 2022:

1. Strong consumer spending driven by low unemployment and the wealth effect
2. Supply chain disruptions start to ease
3. Extremely low interest rates that leave investors with few investment alternatives other than equities
4. Strong corporate earnings

On the other hand, some areas of concern include inflation, rising interest rates and equity valuations. If low interest rates and massive amounts of government spending have driven markets higher, we have to be mindful of the potential for increased volatility when these 2 things are pulled back during 2022. In addition, there are growing signs of speculative market behavior such as increased leverage, increased options trading, meme stock valuations and SPACs.

When these factors are all put together, the U.S. economy should continue to grow throughout the year, but we should expect more equity market volatility as the Fed becomes less accommodative. Given the performance that equity markets have produced over the last 18 months, it would not be surprising to see some sort of pullback during 2022.

On a tactical basis for portfolios, I like the 1) international space, which has underperformed domestic equites for the last decade, 2) the value investing style and 3) small cap securities. Strategically, I am continuing to focus on longer-term trends and maintaining diversified, balanced portfolios that are constructed in a manner that is consistent with clients' risk tolerance and long-term goals and objectives.

Sources: Morningstar, Treasury.gov
The performance data shown represents past performance, which is not a guarantee of future results.
Return data is as of 12/31/2021. Except as noted, index returns are total returns.