

Market Commentary

Q4 2021 in Perspective

Buckingham's evidence-based investing portfolios are strategically invested with a focus on long-term performance objectives. Portfolio allocations and investments are not adjusted in response to market news or economic events; however, we evaluate and report on market and economic conditions to provide our investors with perspective and to put portfolio performance in proper context.

During the fourth quarter, global stock markets progressed upward as key indices set new all-time highs, reversing the trend from the previous quarter. Renewed COVID concerns related to the quick spread of the omicron variant caused worsening delays in air travel, business staffing shortages, and sparked concern among investors to result in some short-term market volatility. In addition to tapering bond purchases, the Federal Reserve also announced the possibility of an accelerated timetable for multiple rate hikes in 2022 to combat rising inflation. These events and other factors nonetheless resulted in positive performance for domestic and international equity markets during the quarter.

For the quarter, U.S. stocks (as measured by the Russell 3000 Index) gained 9.3%, and non-U.S. developed market stocks (as measured by the MSCI World Ex U.S. Index) gained 3.1%. Emerging market stocks (as measured by the MSCI Emerging Markets IMI Index) lost 1.0%.

The U.S. Dollar Index, a measure of the value of the United States dollar relative to a basket of foreign currencies, increased during the quarter—the U.S. dollar increased by 1.8% compared to foreign currencies. Over the past 12 months, the U.S. dollar increased by 6.7%. The increase in the dollar is a headwind to non-U.S. investments held by U.S. investors for the last 12 months.










U.S. interest rates remained unchanged during the quarter as the Fed continues to maintain a target range of 0.0% to 0.25% for the federal funds rate. However, markets have currently priced in the expectation of three rate hikes during 2022.

U.S. Economic Review

The final reading for third quarter annualized GDP growth of 2.3% showed continued economic expansion, albeit at a slower rate than previous quarters. The unemployment rate continues to shrink with a reading of 3.9% to end the quarter. Domestic inflation showed a reading of 4.7% in November 2021 as the Fed's preferred gauge of overall inflation, the core Personal Consumption Expenditures (PCE) index, remained above the Fed's long-term target average of 2.0%. For comparison, the Consumer Price Index, which includes more volatile product groups like food and energy, showed a 6.9% reading for the period.

Financial Markets Review

Domestically, all size and style equity categories were up during the quarter. International developed stock markets also posted positive performance but were impacted during the quarter by the strengthening U.S. dollar. U.S. REITs were the best performing asset class and emerging market value stocks were the worst performing asset class during the quarter. U.S. and global bonds were each down slightly for the quarter.

U.S. Large-Cap Stocks	U.S. Value Stocks	U.S. Small-Cap Stocks	U.S. REIT Stocks	Int'l Value Stocks	Int'l Small-Cap Stocks	EM Value Stocks	U.S. Short-Term Bonds	Global Bonds
+9.8%	+7.8%	+2.1%	+17.2%	+1.9%	+0.4%	-0.4%	-0.5%	-0.5%
								
U.S. STOCKS				INTERNATIONAL STOCKS			BONDS	

Source: Morningstar Direct January 2022. Market segment (index representation) as follows: U.S. Large-Cap Stocks (Russell 1000 Index), U.S. Value Stocks (Russell 1000 Value Index), U.S. Small-Cap Stocks (Russell 2000 Index), U.S. REIT Stocks (Dow Jones U.S. Select REIT Index), International Value Stocks (MSCI World Ex USA Value Index (net div.)), International Small-Cap Stocks (MSCI World Ex USA Small Index (net div.)), Emerging Markets Value Stocks (MSCI Emerging Markets IMI Value Index (net div.)), U.S. Short-Term Bonds (ICE BofA 1-3Y US Corp&Govt TR), Global Bonds (FTSE WGBI 1-5 Yr Hdq USD).

In the U.S., large-cap stocks outperformed small-cap stocks in all style categories. Value stocks outperformed growth stocks in all size categories except large-cap stocks. Among the nine style boxes, large-cap growth stocks performed the best and small-cap growth stocks had the lowest return during the quarter.

Source: Morningstar Direct January 2022. U.S. markets represented by respective Russell indexes for each category (Large: Russell 1000, Value, and Growth; Mid: Russell Mid Cap, Value, and Growth; Small: Russell 2000, Value, and Growth).

U.S. Stocks Q4 2021

	Value	Core	Growth
Large	7.8%	9.8%	11.6%
Mid	8.5%	6.4%	2.8%
Small	4.4%	2.1%	0.0%

In developed international markets, large-cap stocks outperformed small-cap stocks in all style categories for the quarter. Growth stocks outperformed value stocks in all size categories except small-cap stocks. Among the nine style boxes, international large-cap growth stocks performed the best and international small-cap growth stocks experienced the smallest increase during the quarter.

Source: Morningstar Direct January 2022. International markets represented by respective MSCI World Ex USA index series (Large: MSCI World Ex USA Large, Value, and Growth; Mid: MSCI World Ex USA Mid, Value, and Growth; Small: MSCI World Ex USA Small, Value, and Growth).

International Stocks Q4 2021

	Value	Core	Growth
Large	2.2%	3.7%	5.1%
Mid	0.7%	1.2%	1.5%
Small	0.7%	0.4%	0.1%

A diversified index mix of 60% stocks and 40% bonds would have gained 4.0% during the fourth quarter.

60/40 Index Mix: 30% U.S. Large Cap (S&P 500 Index), 6% U.S. Small Value (Russell 2000 Value Index), 12% International Large Cap (MSCI World ex USA Index net div.), 6% International Small Value (MSCI World ex USA Small Value Index net div.), 6% Emerging Markets Total Stock Market (MSCI EM IMI net div.), 20% Global Short Bonds (FTSE WGBI 1-5yr Hdg USD Index), 20% U.S. Intermediate Government Bonds (BBgBarc US Govt Intern TR index).

Indexes are unmanaged baskets of securities that are not available for direct investment by investors. Index performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results. Foreign securities involve additional risks, including foreign currency changes, political risks, foreign taxes, and different methods of accounting and financial reporting. Emerging markets involve additional risks, including, but not limited to, currency fluctuation, political instability, foreign taxes, and different methods of accounting and financial reporting. All investments involve risk, including the loss of principal, and cannot be guaranteed against loss by a bank, custodian, or any other financial institution.

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