

# 2021 WAS A RECOVERY YEAR

FEBRUARY 2022



The major indexes finished with an impressive total return for US stocks of 28.7%, a notable 11.7% for international stocks and an unimpressive year for bonds at -1.5%. By the close of 2021, the long-term average on large-cap US stocks remained the strongest area for public market investment.

## 2021 MARKET TOTAL RETURNS

	BENCHMARK	Q4 2021	1-Year	3-Year	5-Year	10-Year
<b>U.S. Large Cap Stocks</b>	<b>S&amp;P 500® Index</b>	<b>11.0%</b>	<b>28.7%</b>	<b>26.1%</b>	<b>18.5%</b>	<b>16.5%</b>
<b>U.S. Small Cap Stocks</b>	<b>Russell 2000® Index</b>	<b>2.1%</b>	<b>14.8%</b>	<b>20.0%</b>	<b>12.0%</b>	<b>13.2%</b>
<b>International Developed Stocks</b>	<b>MSCI EAFE Index</b>	<b>2.7%</b>	<b>11.7%</b>	<b>14.0%</b>	<b>10.0%</b>	<b>8.5%</b>
<b>Emerging Market Stocks</b>	<b>MSCI EM Index</b>	<b>-1.4%</b>	<b>-2.5%</b>	<b>11.2%</b>	<b>10.2%</b>	<b>5.8%</b>
<b>U.S. Bonds</b>	<b>Bloomberg U.S. Aggregate Bond Index</b>	<b>0.0%</b>	<b>-1.5%</b>	<b>4.8%</b>	<b>3.6%</b>	<b>2.9%</b>

Note: Returns are annualized for periods over one year. Source: Bloomberg as of 12/31/2021. Indexes are unmanaged, do not incur fees or expenses, and cannot be invested in directly. Past performance is no guarantee of future results.

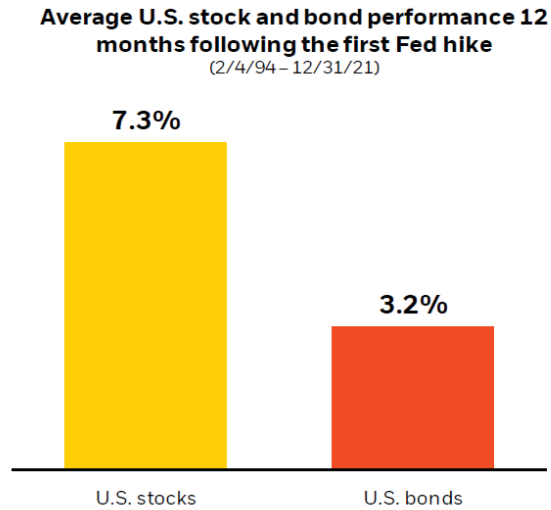
Courtesy Schwab Q4 2021 Chartbook

Strong performance was underscored by a two-pronged government stimulus that flooded the financial system with both monetary support from the Federal Reserve in the form of suppressed borrowing rates and fiscal stimulus to support states, localities and individuals.

The two-pronged approach certainly kept consumers spending, more so on physical goods than on services like global travel and restaurants, which remain weak sectors today. Unfortunately, the eager demand for physical goods collided with the roadblocks of too few truckers, service workers and inventory, creating supply chain bottlenecks and an upward spiral in the costs for labor and products. This spiked prices and delayed delivery times noticeably by year end.

2021 showed us that investors stayed optimistic from a very robust economic recovery. Near-zero interest rates encouraged investors to seek out higher-returning assets. Stock market prices, real estate values, cred-





**Specific periods of higher interest rates**  
(2/4/94 – 12/31/21)

1 <sup>st</sup> Federal Reserve rate Increase	U.S. stocks		U.S. bonds	
	Next 6 months	Next 12 months	Next 6 months	Next 12 months
2/4/94	-2.6%	2.5%	-2.7%	-1.2%
6/30/99	9.0%	8.0%	1.3%	5.1%
6/30/04	7.8%	7.5%	4.2%	7.1%
12/17/15	1.4%	11.3%	4.9%	1.7%
<b>Average</b>	<b>3.9%</b>	<b>7.3%</b>	<b>1.9%</b>	<b>3.2%</b>

Source: Morningstar as of 12/31/21. U.S. stocks are represented by the S&P 500 index. Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You cannot invest directly in the index.  
Courtesy BlackRock "Student of the Market January 2022"

## PROSPECTS FOR AREAS OF INVESTMENT

Where does the economy stand on getting back to “normal” again? What businesses will thrive and which trends will further create opportunities for investments?

Macro data is mixed. Manufacturing numbers continue to signal an expanding economy. December retail sales contracted, as did airline travel and lodging due to the ever-present threat of COVID variants. But consumer demand is expected to pick-up as the wave of infections and hospitalizations subsides. Small business surveys report that company spending and investment is climbing, particularly on physical assets like machinery, buildings and technology. As these investments pick up, we anticipate further market growth.

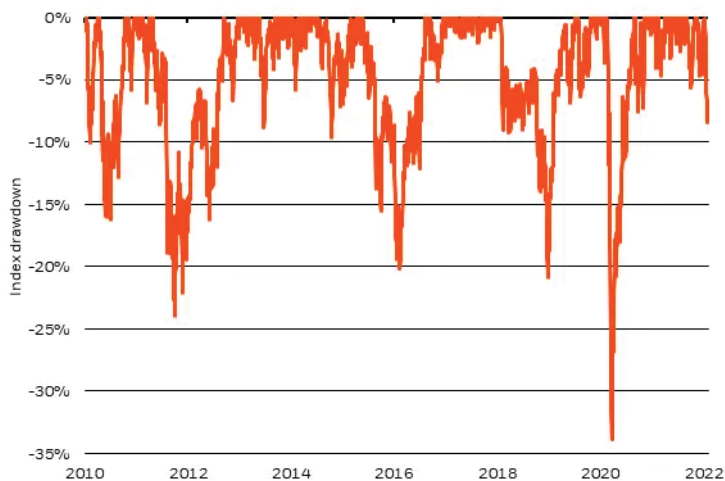
Traditional cyclical stocks tied to economic recovery have led the market so far in 2022. Banks and oil companies are outperforming. Tech firms have lagged the broader averages during January’s selloff as rising interest rates impact their current stock valuations. But the long-term value proposition of technology remains intact. Secular trends like data analytics, digitization, automation, artificial intelligence and software productivity will continue to be transformational.

## GUIDING PRINCIPLES THAT SHOULD UNDERPIN YOUR INVESTMENT STRATEGY:

1. Disciplined research that will identify high-quality companies with responsive and flexible management able to adapt and execute under changing conditions.

2. Discern what is sustainable. Companies with a strong competitive market position, talented management, innovative and stable cashflow will prevail.
3. Keep a long-term perspective. The retreat in January is far from the magnitude that warrants a full reassessment of investments. In fact, this pull-back is modest as compared to drops we have seen over the past decade. Further we believe this drawdown is consistent with our expectation for future measured growth going into 2022.

**Global equities rolling one-year price drawdown, 2010-2022**



**Past performance is not a reliable indicator of current or future results. Indexes are unmanaged and not subject to fees. It is not possible to invest directly in an index.** Sources: BlackRock Investment Institute, with data from Refinitiv Datastream, Jan. 28, 2022. Notes: The chart shows the price fall from the maximum level of the MSCI All-Country World Index over the previous one-year period.

## KEY TAKE-AWAYS AND WHAT TO EXPECT FOR 2022

- The market and economy will continue to expand.
- There is ample opportunity for stocks to recover and rally during the upcoming year.
- Uncertainty will linger.
- Be prepared for volatility.
- Volatility and “sell-offs” offer buying opportunities to add new stocks or add to existing quality investments.

We will stay focused on your long-term investment goals and make changes as opportunities present themselves. As always, we welcome your questions and comments.



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