



Market Outlook

Fourth Quarter 2021



MARKET SNAPSHOT

It's been another remarkable year for the S&P 500 Index which returned a stunning 28.7%. It meaningfully outperformed U.S. small-cap stocks (the Russell 2000 Index was up 14.8%), developed international stocks (MSCI EAFE Index, up 11.3%), and emerging-market (EM) stocks (MSCI EM Index, down 2.5%) for the year. Much of this outperformance occurred in the fourth quarter, with the S&P 500 gaining 11.0%, compared to 2.1%, 2.7%, and -1.3% for small caps, developed international stocks, and EM stocks, respectively.

The core bond index (Bloomberg US Aggregate Bond Index) lost 1.5% for the year, as interest rates rose moderately. The benchmark 10-year Treasury bond yield ended the year at 1.51%, compared to a 0.92% yield at the end of 2020.

Our base-case macro and market scenario is cautiously optimistic: that the pandemic recedes, the global economy slows but still grows above trend, corporate earnings growth slows but is still solid, the U.S. rate of inflation remains elevated but is falling, and U.S. interest rates rise moderately.

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Market Recap

It's been another remarkable year for the S&P 500 Index, with the index of large-cap U.S. stocks returning a stunning 28.7%. It meaningfully outperformed U.S. small-cap stocks (the Russell 2000 Index was up 14.8%), developed international stocks (MSCI EAFE Index, up 11.3%), and emerging-market (EM) stocks (MSCI EM Index, down 2.5%) for the year. Much of this outperformance occurred in the fourth quarter, with the S&P 500 gaining 11.0%, compared to 2.1%, 2.7%, and -1.3% for small caps, developed international stocks, and EM stocks, respectively.

A strong dollar, the renewed surge in COVID-19 infections late in the year (particularly in Europe and emerging markets), and China's policy-induced economic slowdown and stock market decline drove the disparity of returns. The MSCI China Index sank 21.7% for the year and lost 6.1% in the fourth quarter. Chinese stocks comprise roughly 35% of the MSCI EM Index. The MSCI EM ex-China Index gained 10.0% for the year.

Turning to the bond markets, the core bond index (Bloomberg US Aggregate Bond Index) lost 1.5% for the year, as interest rates rose moderately. The benchmark 10-year Treasury bond yield ended the year at 1.51%, compared to a 0.92% yield at the end of 2020. Given the very sharp rise in inflation, most pundits would not likely have predicted such a mild increase in bond yields.

Finally, credit markets fared much better than core bonds in 2021. The U.S. high-yield bond index returned 5.4% (ICE BofA ML High Yield Cash Pay Index). These returns were consistent with our expectations for a recovering and growing economy.

Investment Outlook

Our base-case macro and market scenario is cautiously optimistic: that the pandemic recedes, the global economy slows but still grows above trend, corporate earnings growth slows but is still solid, the U.S. rate of inflation remains elevated but is falling, and U.S. interest rates rise moderately.

That would be a positive scenario for the economy and global equity and credit markets, although not for the core bond market. But even in the best case, it likely won't be a smooth journey: the pandemic remains uncontained, domestic and global political and social tensions are elevated, the risks of an economic policy

mistake have risen, and any number of other bumps in the road may occur. And were we to see a sharply inflationary environment that is well above current consensus expectations, it would undoubtedly be damaging for both stocks and bonds, as interest rates rise and equity market valuations fall.

Closing Thoughts

The last two years have been extraordinary in many respects. Amidst the COVID-19 pandemic and all the chaos it has wrought, there have been many reminders that markets commonly defy consensus predictions and confound investors in the short term. In the face of a deep drop in economic activity early in the pandemic, markets rebounded and have racked up remarkable gains since. More recently, as supply chain and labor market disruptions have been among the contributors to a spike in inflation, increases in bond yields have been surprisingly mild. Of course, surprises that defy prediction happen in both directions, and this is why we maintain broad diversification and focus squarely on the long term, which can be analyzed with much higher confidence—even while we work hard day in and day out to understand how the never-ending stream of new developments will impact the portfolios we manage.

As always, thank you for your continued confidence and trust.

Best regards,
Retirement Plan Advisors



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www.retirementplanadvisors.com

105 West Adams Street, Suite 2175 | Chicago, IL 60603 | 312.701.1100

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Market Indicators

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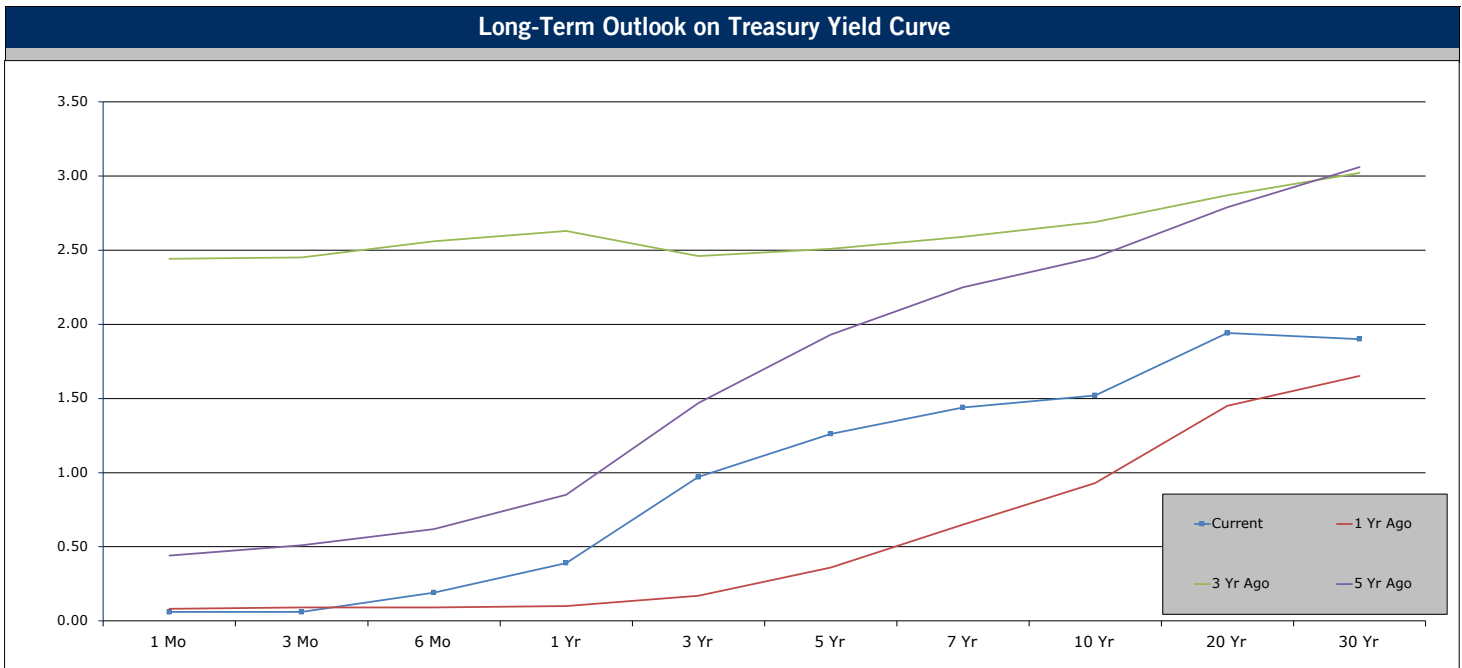
THE FUTURE IS BETTER THAN YOU THINK

S&P Sectors	QTR	YTD	1Y	5Y
S&P Technology Select Sector TR USD	16.64	34.71	34.71	31.05
S&P Financial Select Sector TR USD	4.57	35.04	35.04	13.26
S&P Consumer Disc Select Sector TR USD	14.03	28.01	28.01	21.74
S&P Health Care Select Sector TR USD	11.17	26.13	26.13	17.54
S&P Industrial Select Sector TR USD	8.64	21.12	21.12	13.44
S&P Cons Staples Select Sector TR USD	12.86	17.32	17.32	11.45
S&P Energy Select Sector TR USD	7.87	53.43	53.43	-1.28
S&P Utilities Select Sector TR USD	12.93	17.67	17.67	11.77
S&P Real Estate Select Sector TR USD	17.54	46.19	46.19	14.89
S&P Materials Select Sector TR USD	15.20	27.34	27.34	15.06
S&P Telecom Select Industry TR USD	7.00	21.81	21.81	9.45

Market Returns	QTR	YTD	1Y	5Y	10Y
S&P 500	11.03	28.71	28.71	18.48	16.55
Russell Mid Cap	6.44	22.58	22.58	15.10	14.90
Russell 2000	2.14	14.82	14.82	12.02	13.23
MSCI EAFE	2.69	11.26	11.26	9.55	8.03
MSCI Emerging Markets	-1.31	-2.54	-2.54	9.88	5.49
BBgBarc U.S. Agg Bond	0.01	-1.54	-1.54	3.57	2.90
High Yield	0.71	5.28	5.28	6.30	6.83

Value / Growth Returns	YTD			Previous Calendar Year		
	Large	Mid	Small	Large	Mid	Small
Value	24.90	30.65	28.77	24.90	30.65	28.77
Growth	32.01	18.90	22.62	32.01	18.90	22.62

Index Characteristics	LTM P/E	NTM P/E	Div Yld	Earn Yld
S&P 500	25.15	21.80	1.20	4.59%
Russell Mid Cap	20.76	19.49	1.05	5.13%
Russell 2000	16.51	14.92	0.94	6.70%
MSCI EAFE	16.51	14.33	3.32	6.98%
MSCI Emerging Markets	12.49	11.96	1.99	8.36%



Source: Morningstar

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