BLACK OAK

FAMILY OFFICE

Economic & Market review – December 2021

Equities finished December on a strong note as both the S&P 500 Index and the Dow Industrials rose over 4%. These markets took in stride higher COVID-19 cases, inflation concerns, and the Federal Reserve's (Fed) evolved hawkish sentiment. The growth-laden Nasdaq Composite lagged but managed a gain of 0.7%.

Developed international market and emerging market stocks reversed course from November in December, finishing the month higher. Amid concerns about an increase in COVID-19 rates worldwide, China property giant Evergrande's solvency, along with the Chinese regulatory crackdown, investors added risk overseas.

Sectors performed well across the board in December. Real estate enjoyed an excellent December as well as a solid year. Investors saw opportunity in the sector given its income producing properties and potential to act as an inflation hedge. Moreover, consumer staples had an excellent December after being one of the worst performing sectors in 2021. Finally, healthcare and materials produced gains of over 7%.

Regarding Fixed Income, the benchmark Bloomberg Barclays U.S. Aggregate Index finished lower in December as some market participants sold off bonds in light of the Federal Reserve's hawkish sentiment. High yield bonds which sold off during October and November, rallied in December and have been a bright spot in the fixed income space this year. International bonds finished the month mixed as developed international bonds lost ground while emerging market bonds performed well.

Overall, consumer prices increased for the ninth straight month in November. The headline Consumer Price Index (CPI) increased at its fastest pace since 1982. The growth in CPI came in over 6.5% on a year-to-year basis, which was more than analysts expected. Removing volatile food and energy prices, the Core Consumer Price Index increased by 4.9% on a year-to-year basis, which was in-line with economists' expectations. The Labor Department stated that the increases for the food and energy components were the fastest 12-month gains in at least 13 years.

Inflation is proving stickier than many anticipated. However, inflation should stabilize once the economy completes its reopening, when supply chains are fully operational, and labor shortages ease. The mitigation of COVID-19 variants worldwide and containment of the new Omicron variant, will continue to be critical factors in determining the economy's trajectory for 2022.