KANDOR GLOBAL

Unstoppable Markets Despite Covid Resurgence and Inflationary Fears

As of December 31, 2021

After posting slight losses in November, equity markets ended the year's final month reaching record levels. December was dominated by a rapid increase in infections due to the spread of the new Omicron variant, which raised concerns about the economic growth and led to flight cancellations around the world. Services purchasing managers' indices (PMIs) fell, reflecting a loss in momentum. However, manufacturing PMIs closed the month resilient despite supply constraints and rising input prices, which was positive for corporate earnings.
On the other hand, three of the major developed central banks indicated that they have greater concerns about inflation heading into 2022 than about the economic disruption that could be caused by Omicron.

US Equity	Dec-21	YTD	Last 12m
S&P 500	4.5%	28.7%	28.7%
Russell 1000	4.1%	26.5%	26.5%
Russell 1000 Value	6.3%	25.2%	25.2%
Russell 1000 Growth	2.1%	27.6%	27.6%
Russell 2000	2.2%	14.8%	14.8%
Russell 2000 Value	4.1%	28.3%	28.3%
Russell 2000 Growth	0.4%	2.8%	2.8%
International Equity			
MSCI All-Country World ex-US	4.1%	7.8%	7.8%
MSCI EAFE	5.1%	11.3%	11.3%
MSCI Europe	6.6%	16.3%	16.3%
MSCI Japan	1.9%	1.7%	1.7%
MSCI Emerging Markets	1.9%	-2.5%	-2.5%
Fixed Income			
U.S. Intermediate Treasuries	-0.3%	-1.7%	-1.7%
U.S. Long Treasuries	-1.4%	-4.6%	-4.6%
U.S. TIPS	0.3%	6.0%	6.0%
Corporate IG Bond	-0.1%	-1.0%	-1.0%
High-Yield Bonds	1.9%	5.3%	5.3%
Tax-Exempt Bonds	0.2%	5.2%	5.2%
International Bonds	-0.1%	-4.7%	-4.7%
Emerging Market Bonds	1.0%	-1.7%	-1.7%
Currencies			
Us Dollar	-0.3%	6.4%	6.4%
Euro	0.3%	-6.9%	-6.9%
Yen	1.7%	11.5%	11.5%
Emerging Markets	0.6%	0.9%	0.9%
Real Assets			
Commodities	3.5%	27.1%	27.1%
Energy	2.9%	47.7%	47.7%
Industrial Metals	5.0%	30.7%	30.7%
Gold	3.1%	-3.6%	-3.6%
Master Limited Partnerships	3.6%	40.2%	40.2%
Real Estate Investment Trust	8.8%	43.2%	43.2%
Alternativve Investments			
Equity Hedge	1.7%	12.1%	12.1%
Equity Market Neutral	1.2%	1.0%	1.0%
Event Driven	-1.2%	0.5%	0.5%
Relative Value Arbitrage	0.5%	0.4%	0.4%
Macro	0.8%	-0.8%	-0.8%

Fixed Income

The market closed its worst performing year since the Volcker Era due to persistent elevated inflation, hawkish central banks shifts and the emergence of the Omicron variant. Investors seeking real returns sought refuge in TIPS and high yield credits. Long dated treasuries moved inversely with equity markets erasing their gain of over 1.6% from earlier in the month. 10-year government yields reversed a downward trend, rising in the last weeks of the year, with 10-year Treasuries in the US closing at 1.51%. The spread between 2-year and 10-year Treasuries tightened 10bps.

Liquid Real Assets

Commodity prices recovered from last month's selloff; industrial metals rounded off their best year since 2009 following an unexpected acceleration in Chinese factory activity. Gold – which was uncharacteristically excluded from 2021's surge in asset prices – had its best month of the year as hopes grow that a tightening monetary policy will finally push investors toward the safe haven asset. REITs strengthened as investors sought to capitalize on the growing economy and shelter assets against inflation, posting their best month since November 2020.

US Equity

The S&P 500 climbed 4.5%, closing the month at 4,766.18, its third positive year in a row. Defensive stocks won out over cyclical/growth names as investors adapted to an environment of uncertainty. Large value stocks outperformed growth stocks as investors rotated to names with less sensitivity to an inflationary environment and rising yields. Consumer Staples equities led the month among economic sectors, closing with an increase of 9.95%, followed by Real Estate which advanced 9.74% as investors favored its inflation protection and income generation characteristics. Growth style underperformed as planned rate hikes are expected to harm their free cash flow projections and underlying valuations.
Large cap outperformed small cap stocks as investors favored companies with strong financial characteristics and capabilities to respond to economic uncertainty. Across the equity factor spectrum, Min Vol outperformed factors such as Quality and Momentum as investor favored the factor due to its defensive properties.

International Equity

Like US counterparts, international markets shook off Omicron woes closing the year on a high note. Europe was the best performing region of non-US equities as markets drew support from early data indicating a lower risk of severe illness due to Omicron. Utilities were among the top performers, with IT stocks also registering strong gains. The region experienced its second-best year since the Global Financial Crisis. Japanese stocks closed a positive month as the economy began to recover from temporary weakness caused by the global semiconductor shortage, reporting a positive surprise in industrial output data. Emerging markets – which were up almost 12% earlier in 2021 – could not recoup their losses as a real estate debt bubble continues to weigh on the Chinese economy and Beijing seeks to maintain its power over its own firms. A stronger US dollar was a significant headwind for EM markets.

Alternative Investments

Equity hedge led the month, finishing the year decisively ahead. While net exposure was a tailwind, alpha generation was healthy with substantial dispersion in returns further reflected by equity market neutral's solid month. V-shaped returns and deal closure extensions were disruptive for event driven. Macro had a solid month to close out a tough 2021 as rates markets delivered opportunities with a reasonably predictable Fed.

Sources: JP Morgan, Greycourt, Summit, Deutsche Bank, Bloomberg, Morningstar, Blackrock.

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