

FOURTH QUARTER 2021

## Quarterly Market Commentary

### Market Dashboard

Multi-Asset	MTD (%)	QTD (%)	YTD (%)	1Y (%)
Global 60/40 (ACWI/U.S. Core Bonds)	2.30	4.02	10.20	10.20
Wilshire Risk Parity Index <sup>SM</sup> – 12% Volatility	2.73	5.26	15.12	15.12

Source: Bloomberg. Indexes are total return.

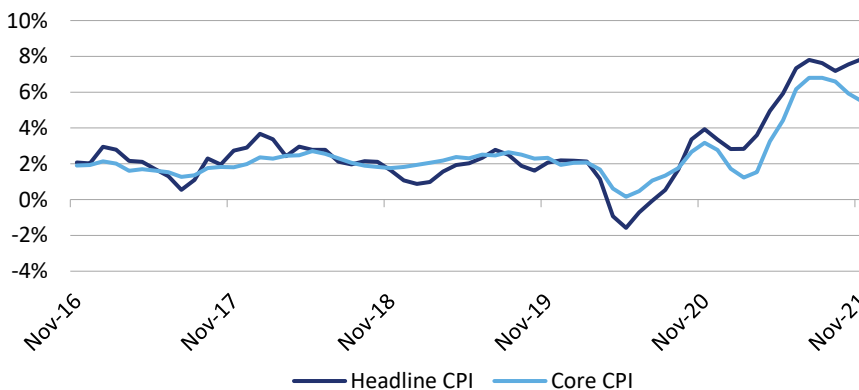
Strategic Allocation Themes	MTD (%)	QTD (%)	YTD (%)	1Y (%)
Growth <sup>1</sup>	4.00	6.68	18.54	18.54
Defensive Growth <sup>2</sup>	3.45	3.76	11.05	11.05
Diversified Credit <sup>3</sup>	1.49	0.22	2.26	2.26
Real Assets <sup>4</sup>	4.65	5.88	23.61	23.61
Defensive <sup>5</sup>	(0.26)	0.01	(1.54)	(1.54)

Source: Bloomberg. Indexes are total return.

### Quarterly Insight

Sharply rising inflation will likely be remembered as the economic story of 2021. Increases in CPI have reached rates not seen in 40 years. Food and energy prices are up meaningfully, but so too are the major “core” CPI items of automobiles and apparel. Consumers’ ability to manage this period will help determine whether the U.S. can continue its economic progress. The employment picture is quite strong, including an unemployment rate approaching 4% and continued above-trend growth in wages. However, the personal savings rate has fallen to a level last seen in late-2017, suggesting that consumers are saving less as they adjust to rising prices. Inflation and new COVID variants are likely behind depressed consumer sentiment surveys.

#### Inflation Rate (6-months Annualized)



Source: Bloomberg

### Economic highlights

**GDP:** Real GDP growth slowed during the third quarter, up an annualized 2.3%. The main drivers of growth were private investment (up 12.4%) and personal consumption (up 2.0%). Imports continue to rise while exports fell during the quarter, the net effect being a drag on economic growth of -1.3%. The Atlanta Fed’s GDPNow forecast for the fourth quarter currently stands at 7.6%.

Source: Bureau of Economic Analysis

**Interest Rates:** The Treasury curve rose meaningfully in the short end during the fourth quarter, while longer term rates were down. The 10-year Treasury closed at 1.51%, up two basis points since September. The 10-year real yield (i.e., net of inflation) fell 21 basis points to -1.10%. The Federal Open Market Committee left the Fed Funds rate unchanged this quarter. At the December meeting, the committee’s median outlook moved to three, 25 basis point increases in the overnight rate by the end of 2022.

Source: U.S. Treasury

**Inflation:** Consumer price changes have accelerated rapidly as the Consumer Price Index jumped 2.1% for the three months ending November. For the one-year period, the CPI is up 6.9%. The 10-year breakeven inflation rate increased to 2.59% in December versus 2.38% in September.

Source: Dept. of Labor (BLS), U.S. Treasury

**Employment:** Jobs growth has been quite strong this year, with an average of 378k jobs/month added during the three months ending in November. The unemployment rate continued to fall, dropping to 4.2%. Reported job openings continue to rise and are now above the number of unemployed persons.

Source: Dept. of Labor (BLS)

**Housing:** Low borrowing rates and a shortage of properties have driven home prices to record highs. The S&P Case-Shiller 20-city Home Price Index was up 3.0% and 18.4%, respectively, for the three- and 12-months ending October.

Source: Standard & Poor’s

## U.S. Economy and Markets

The U.S. stock market, represented by the FT Wilshire 5000 Index<sup>SM</sup>, was up 9.58% for the fourth quarter of 2021. Nearly all sectors were in positive territory, with Real Estate (+14.7%), Information Technology (+14.6%) and Materials (+14.4%) representing the best performing sectors. The only sector that was negative this quarter was Communication Services (-0.8%). From a size perspective, large-cap outperformed small-cap during the quarter. Growth stocks outperformed value within the large-cap segment of the market but underperformed in small-caps, while large-growth was the best performing market segment overall.

U.S. Equity	MTD (%)	QTD (%)	YTD (%)	1Y (%)
FT Wilshire 5000 Index <sup>SM</sup>	3.89	9.58	26.70	26.70
Standard & Poor's 500	4.48	11.03	28.71	28.71
Wilshire 4500 Completion Index <sup>SM</sup>	1.24	1.73	16.02	16.02
MSCI USA Minimum Volatility	6.79	10.41	21.01	21.01

Source: Bloomberg. Indexes are total return.

U.S. Equity by Size/Style	MTD (%)	QTD (%)	YTD (%)	1Y (%)
Wilshire US Large-Cap Index <sup>SM</sup>	3.97	10.24	27.46	27.46
Wilshire US Large-Cap Growth Index <sup>SM</sup>	2.24	11.56	28.86	28.86
Wilshire US Large-Cap Value Index <sup>SM</sup>	6.36	8.56	24.53	24.53
Wilshire US Small-Cap Index <sup>SM</sup>	3.23	3.28	19.17	19.17
Wilshire US Small-Cap Growth Index <sup>SM</sup>	1.67	1.78	10.12	10.12
Wilshire US Small-Cap Value Index <sup>SM</sup>	4.82	4.81	29.24	29.24
Wilshire US Micro-Cap Index <sup>SM</sup>	(1.56)	(8.36)	14.50	14.50

Source: Bloomberg. Indexes are total return.

GICS sector returns	MTD (%)	QTD (%)	YTD (%)	1Y (%)
Communication Services	2.12	(0.77)	20.40	20.40
Consumer Discretionary	(0.70)	11.11	23.47	23.47
Consumer Staples	9.87	12.39	17.81	17.81
Energy	2.60	6.36	56.35	56.35
Financials	3.00	4.82	35.45	35.45
Health Care	7.65	8.44	21.46	21.46
Industrials	4.64	8.04	19.57	19.57
Information Technology	2.62	14.61	30.85	30.85
Materials	7.15	14.37	27.86	27.86
Real Estate	9.60	14.74	40.39	40.39
Utilities	9.46	13.27	17.55	17.55

Source: Wilshire Atlas. Indexes are total return.

Large-Cap Growth was the best performing segment, up 11.6% this quarter

## International Economy and Markets

Performance results within international equity markets were mixed for the second straight quarter, with meaningful differences in return between developed and emerging markets. The MSCI EAFE Index was up 2.2% for the past six months, while the MSCI Emerging Markets Index was down -9.3%. The main sources of weakness were China, South Korea and Brazil. In China, the real estate market, which accounts for nearly a third of China’s GDP, has been experiencing a major slump and developers are heavily indebted. While their economic growth forecasts are on the decline, the economy is still expected to expand in 2021. In Europe, Germany is the area’s largest economy and is facing a potential recession as supply issues and new coronavirus cases weigh on growth. Germany’s Ifo Institute for Economic Research has forecasted a 0.5% drop in growth during the fourth quarter, with more weakness to begin 2022. Growth has slowed in the U.K., as well, and is expected to face additional headwinds.

Heavily indebted real estate developers in China are facing a major slump in prices

Non-U.S. Equity	MTD (%)	QTD (%)	YTD (%)	1Y (%)
MSCI ACWI	4.00	6.67	18.54	18.54
MSCI ACWI ex USA	4.13	1.82	7.82	7.82
MSCI ACWI ex USA Minimum Volatility	4.00	2.74	9.54	9.54
MSCI EAFE	5.12	2.69	11.26	11.26
MSCI Emerging Markets	1.88	(1.31)	(2.54)	(2.54)
MSCI ACWI ex USA Small Cap	4.23	0.62	12.93	12.93

Source: Bloomberg. Indexes are total return.

Non-U.S. Equity (local currency)	MTD (%)	QTD (%)	YTD (%)	1Y (%)
MSCI ACWI	3.71	7.03	20.90	20.90
MSCI ACWI ex USA	3.39	2.69	13.04	13.04
MSCI ACWI ex USA Minimum Volatility	3.54	3.20	13.71	13.71
MSCI EAFE	4.31	3.91	18.70	18.70
MSCI Emerging Markets	1.48	(0.91)	(0.19)	(0.19)
MSCI ACWI ex USA Small Cap	3.46	1.69	19.05	19.05

Source: Bloomberg. Indexes are total return.

## Fixed Income Markets

The U.S. Treasury yield curve was up 45 basis points in the short end (at the 2-year maturity) but down in the long end of the curve. The 10-year Treasury yield ended the quarter at 1.51%, up two basis points from September. Investment-grade credit spreads widened during the quarter, but the spread on the broad high yield tightened, closing the quarter at 2.83%. The Federal Open Market Committee met twice during the quarter, as scheduled, with no change to their overnight rate. Through the Fed’s “dot plot,” they are messaging that the current intent is for three 25 basis point increases in the overnight rate before the end of 2022. Their median forecast for year-end 2023 is for a Fed funds rate of 1.625%. During the December meeting, the committee announced that it would begin to reduce (i.e., taper) the monthly

pace of its asset purchases starting in January. Despite previously labeling increased inflation as “transitory,” Fed chair Jerome Powell acknowledged that increases have spread to a broader range of goods and that inflation may now be “more persistent.”

U.S. Fixed Income	MTD (%)	QTD (%)	YTD (%)	1Y (%)
Bloomberg U.S. Aggregate	(0.26)	0.01	(1.54)	(1.54)
Bloomberg Long Term Treasury	(1.42)	3.08	(4.65)	(4.65)
Bloomberg Long Term Corporate	(0.43)	1.47	(1.13)	(1.13)
Bloomberg U.S. TIPS	0.32	2.36	5.96	5.96
Bloomberg U.S. Credit	(0.08)	0.22	(1.08)	(1.08)
Bloomberg U.S. Corporate High Yield	1.87	0.71	5.28	5.28
S&P/LSTA Leveraged Loan	0.64	0.75	5.20	5.20

Source: Bloomberg. Indexes are total return.

Market Rates	Dec 31	Sept 30	June 30	Mar 31
10-Year Treasury	1.51	1.49	1.47	1.74
10-Year Breakeven Inflation	2.59	2.38	2.34	2.37

Source: Bloomberg. Indexes are total return.

Global Fixed Income	MTD (%)	QTD (%)	YTD (%)	1Y (%)
Bloomberg Global Aggregate	(0.14)	(0.67)	(4.71)	(4.71)
Bloomberg Global Aggregate (Hdg)	(0.41)	0.04	(1.39)	(1.39)
Bloomberg EM LC Gov't Universal	0.70	0.36	(1.15)	(1.15)
Bloomberg EM LC Gov't Universal (Hdg)	(0.09)	(0.47)	(1.58)	(1.58)

Source: Bloomberg. Indexes are total return.

Long-term bond prices were up as rates fell in the long portion of the curve

## Real Asset Markets

Real estate securities were up during the fourth quarter in both the U.S. and abroad. Commodity results were negative for the quarter, although crude oil was up slightly, 0.2% to \$75.21 per barrel. Commodities were quite strong for 2021, up broadly more than 27%. Natural gas prices rose dramatically during 2021, increasing by more than 100% during a six month period. Prices were down by -36% , however, during the fourth quarter, ending at \$3.73 per million BTUs. Gold prices were volatile in 2021 and were up 4.2% during the quarter, finishing at approximately \$1,829 per troy ounce.

Real Assets	MTD (%)	QTD (%)	YTD (%)	1Y (%)
Wilshire US Real Estate Securities Index <sup>SM</sup>	8.86	17.15	46.11	46.11
Wilshire Global Real Estate Securities Index <sup>SM</sup>	7.38	13.12	34.05	34.05
FTSE Global Core Infrastructure 50/50	7.36	7.72	15.71	15.71
Alerian Midstream Energy	1.13	(0.35)	38.42	38.42
Bloomberg Commodity	3.53	(1.56)	27.11	27.11
Gold	3.08	4.11	(3.64)	(3.64)
Bitcoin	(18.91)	6.67	59.79	59.79

Source: Bloomberg. Indexes are total return.

## Alternatives

Liquid alternative managers posted a positive quarter, though sub-strategy performance was mixed. Equity Hedge managers led the way for the Index, posting strong returns for the quarter despite a difficult environment in late November. Multi-strategy managers also performed positively for the quarter. Global Macro managers struggled during the quarter as many managers struggled to navigate reversals and choppy trading environments in multiple asset classes, most notably equities and commodities. Event Driven managers also posted small losses for the quarter, with tightening deal spreads and elevated merger activity outweighed by the equity sell-off in late November. Relative Value managers ended the quarter in negative territory as rising yields had a negative impact on most credit markets.

Global macro managers struggled to navigate choppy trading environments

Alternatives	MTD (%)	QTD (%)	YTD (%)	1Y (%)
Wilshire Liquid Alternative Index <sup>SM</sup>	0.71	0.57	4.68	4.68
Wilshire Liquid Alternative Equity Hedge Index <sup>SM</sup>	1.89	3.25	12.75	12.75
Wilshire Liquid Alternative Event Driven Index <sup>SM</sup>	0.03	(0.35)	2.04	2.04
Wilshire Liquid Alternative Global Macro Index <sup>SM</sup>	0.33	(1.33)	2.67	2.67
Wilshire Liquid Alternative Multi-Strategy Index <sup>SM</sup>	0.78	0.91	5.32	5.32
Wilshire Liquid Alternative Relative Value Index <sup>SM</sup>	0.15	(0.65)	0.43	0.43

Source: Bloomberg. Indexes are total return.

<sup>1</sup> 100% Global Equity

<sup>2</sup> 60% Low Vol Global Equity, 40% US Convertibles

<sup>3</sup> 42.5% U.S. High Yield, 42.5% EMD, 15% Banks Loans

<sup>4</sup> 43% Global REITS/GLI, 33% Commodities, 48% TIPS, 9% Gold, -31% Cash

<sup>5</sup> 100% US Core Bonds

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