



QUARTERLY ASSET CLASS REVIEW

NEPC Research

Fourth Quarter
2021

GLOBAL EQUITIES

Global stocks were a mixed bag in the fourth quarter. Domestic equities led the charge with the S&P 500 Index hitting a new record high in December and ending the quarter up 11%. Outside the United States, international developed markets gained 2.7%, while emerging market equities lost 1.3%, dragged down by Brazil and China. U.S. and developed international small-cap stocks underperformed large caps, while emerging market small-cap equities outperformed large-cap stocks. In the United States, within large-cap equities, growth outperformed value, while in small-cap stocks, value trumped growth; within sectors, energy, financials, materials and industrials led the market, while real estate, utilities and consumer staples lagged.

In hedge funds, long/short equity funds gained 1.9% in the fourth quarter, underperforming the S&P 500 Index by nearly 10% and finishing 2021 with gains of 12% compared to returns of 28.7% posted by the S&P 500. Managers kept up with the market in October and December but underperformed in November during the equity selloff. The selling reversed in December as global equities saw the largest net buying since 2020, driven by short covers in macro products. Technology and healthcare sector funds were in the red for the three months ended December 31.

Meanwhile, global private equity fundraising totaled \$134 billion in the fourth quarter, according to Preqin, compared to \$148 billion raised in the previous quarter. For the year, global fundraising totaled

Global Equity Market Returns as of 12/31/2021

Global Equity	Quarter	1 Year	3 Yrs	5 Yrs
MSCI ACWI	6.7%	18.5%	20.4%	14.4%
US Equity	Quarter	1 Year	3 Yrs	5 Yrs
S&P 500	11.0%	28.7%	26.1%	18.5%
Russell 1000 Growth	11.6%	27.6%	34.1%	25.3%
Russell 1000 Value	7.8%	25.2%	17.6%	11.2%
Russell 2000	2.1%	14.8%	20.0%	12.0%
Russell 2000 Growth	0.0%	2.8%	21.2%	14.5%
Russell 2000 Value	4.4%	28.3%	18.0%	9.1%
International Equity	Quarter	1 Year	3 Yrs	5 Yrs
MSCI EAFE	2.7%	11.3%	13.5%	9.5%
MSCI EAFE Hedged USD	3.9%	18.7%	13.4%	8.4%
MSCI EAFE Small Cap	0.1%	10.1%	15.6%	11.0%
MSCI Europe	5.7%	16.3%	14.9%	10.1%
MSCI Emerging Markets	-1.3%	-2.5%	10.9%	9.9%
MSCI Emerging Markets Small Cap	1.3%	18.8%	16.5%	11.5%
MSCI China	-6.1%	-21.7%	7.8%	9.4%
Alternative	Quarter	1 Year	3 Yrs	5 Yrs
HFRI Equity Hedge	1.9%	12.0%	14.5%	9.6%
HFRI Emerging Markets	1.5%	7.6%	10.7%	7.6%
HFRI ED: Activist	5.1%	18.8%	15.4%	7.7%
HFRI ED: Merger Arbitrage	0.0%	9.8%	7.2%	5.9%

\$818 billion, up 14.5% from 2020. U.S. buyout deal activity—confirmed and estimated—came in at a record high of \$406 billion across 2,478 deals, according to PitchBook data, bringing the total for 2021 to \$1.2 trillion, a whopping 79.5% increase from a year earlier. U.S. buyout exit activity, at \$197 billion, slowed relative to the previous quarter’s \$306 billion. Deal sizes in 2021 were larger than previous years, with 107 deals greater than \$1 billion in value compared to 66 in 2020; exit activity last year, at \$638 billion, set a new record and was up 74% from 2020. In another quarterly high, deal activity in venture capital totaled \$88 billion for the three months ended December 31; deal value in 2021 was \$330 billion, nearly two-fold from the year earlier, according to PitchBook. Exit activity was modestly lower in the fourth quarter from the prior quarter, but the yearly total of \$774 billion in value far exceeded 2020’s \$289 billion.

GLOBAL FIXED INCOME

In the fourth quarter, fixed-income markets experienced continued volatility amid concerns around inflation and the new surge in Coronavirus infections, leading to the overall flattening of the Treasury yield curve. Yields pushed higher in the shorter maturities with the two-year note increasing 46 basis points to 0.74%, while the long-end saw 30-year yields rally 12 basis points to finish the quarter at 1.9%. U.S. investment-grade debt spreads continue to hover around the low-end of their historical ranges, finishing the quarter at 92 basis points, modestly wider by eight basis points. Agency pass-throughs felt the weight of future tapering by the Federal Reserve and widened four basis points. Spreads on high-yield credit—a bright spot within fixed income—tightened six basis points to finish the quarter at 283 basis points over comparable Treasuries.

Meanwhile, hedge fund indexes focused on structured credit were in the black in the fourth quarter. During this period, the HFRI Relative Value Index returned 0.3%, and the HFRI Event Driven: Distressed/Restructuring Index gained 0.7%.

Global Fixed-Income Market Returns as of 12/31/2021

Global Fixed Income	Quarter	1 Year	3 Yrs	5 Yrs
BBG Global Aggregate	-0.7%	-4.7%	3.6%	3.4%
JPM EMBI Global Diversified	-0.4%	-1.8%	5.9%	4.7%
JPM GBI-EM Global Diversified	-2.5%	-8.7%	2.1%	2.8%
Domestic Fixed Income	Quarter	1 Year	3 Yrs	5 Yrs
BBG Aggregate Bond	0.0%	-1.5%	4.8%	3.6%
BBG Municipal Bond	0.7%	1.5%	4.7%	4.2%
BBG TIPS	2.4%	6.0%	8.4%	5.3%
BBG US Treasury	0.2%	-2.3%	4.1%	3.1%
BBG US Long Treasury	3.1%	-4.6%	8.8%	6.5%
BBG MBS	-0.4%	-1.0%	3.0%	2.5%
BBG US Credit	0.2%	-1.1%	7.2%	5.1%
BBG US Long Credit	1.5%	-1.2%	11.4%	7.6%
BBG High Yield	0.7%	5.3%	8.8%	6.3%
BBG Muni High Yield	1.2%	7.8%	7.8%	7.5%
S&P LSTA Lev. Loan	0.4%	3.5%	5.6%	3.9%
BBG T-Bills	0.0%	0.0%	1.0%	1.2%
Alternative	Quarter	1 Year	3 Yrs	5 Yrs
HFRI Credit Index	0.1%	7.8%	6.8%	5.3%
HFRI ED: Credit Arbitrage	1.0%	9.2%	7.9%	6.4%
HFRI ED: Distressed/Restructuring	0.7%	15.7%	10.0%	6.8%
HFRI Relative Value	0.3%	7.6%	6.1%	4.6%

REAL ASSETS

Real assets closed out the year on a high note, strongly rebounding from 2020. Real estate investment trusts (REITs) were up 15%, while natural resource equities posted gains of 7.3%. Returns for 2021 for both indexes were strong with the recent surge in the Omicron variant of the COVID-19 virus failing to put a dent in performance.

Oil prices were roughly flat quarter-over-quarter, with WTI around \$75 a barrel. Natural gas declined more than 35% from the third quarter, ending the year at \$3.73 per MMBtu. OPEC+ remains committed to gradually increasing oil output well into 2022 to phase out legacy production cuts enacted at the onset of the pandemic. Demand continues to recover to pre-pandemic levels for oil, while natural gas remains volatile with especially large seasonal swings over the past year.

Meanwhile, private core real estate posted another quarter of historically strong returns; the NCREIF ODCE Index recorded a preliminary gross return of nearly 8% in the fourth quarter, bringing 2021 year-to-date returns to 22.2%. This performance has largely been driven by industrial and multifamily assets, which continue to demonstrate accelerating rent growth. The gains in REITs mark the seventh consecutive quarter of returns as property markets rebound from the depths of the pandemic. Industrial REITs were the strongest performers in the fourth quarter, as demand for space—fueled mainly by the sustained growth in e-commerce—outpaces new supply. Many sectors saw continued improvements in occupancy and tenant health through the end of the year.

DISCLAIMERS

Past performance is no guarantee of future results.

All investments carry some level of risk. Diversification and other asset allocation techniques do not ensure profit or protect against losses.

The information in this report has been obtained from sources NEPC believes to be reliable. While NEPC has exercised reasonable professional care in preparing this report, we cannot guarantee the accuracy of all source information contained within.

The opinions presented herein represent the good faith views of NEPC as of the date of this report and are subject to change at any time.

Real Asset Returns as of 12/31/2021				
	Quarter	1 Year	3 Yrs	5 Yrs
BBG Commodity	-1.6%	27.1%	9.9%	3.7%
GSCI Commodity	1.5%	40.4%	8.0%	2.8%
Gold Spot	4.1%	-3.6%	12.6%	9.3%
WTI Crude Oil Spot	0.0%	55.6%	18.5%	8.8%
BBG Commodity - Agriculture	6.3%	26.7%	14.5%	3.6%
BBG Commodity - Energy	-13.0%	52.1%	-0.9%	-4.0%
BBG Commodity - Industrial Metals	8.6%	30.3%	17.5%	11.1%
BBG Commodity - Precious Metals	4.3%	-6.1%	11.3%	7.9%
S&P Global Natural Resource Equities	7.3%	25.2%	13.9%	9.6%
NAREIT Composite Index	15.3%	40.0%	19.1%	12.1%
NAREIT Global REIT Index	12.5%	32.6%	13.9%	8.7%
Alerian Midstream	-0.4%	38.4%	9.6%	2.2%

