

FLAGSTONE

FINANCIAL ADVISORS, INC.

MARKET REVIEW CALENDAR YEAR 2021

What Happened:

Living under the dark cloud of Covid-19, we can be forgiven for being distracted. Never has a year of rock-solid stock returns been so underappreciated by so many. We also had corporate earnings that were better than advertised, falling unemployment and rising wages. But, instead of celebrating, we remain stuck in a malaise of misery and uncertainty. A year ago, we were told that the pandemic would likely be in the rearview mirror by the end of 2021, but the Omicron variant didn't get the memo.

Covid was not the only headline in 2021. It was also a year that saw inflation kick up, rising to levels not seen in 40 years. Inflation is an insidious economic condition. Once it gets going, it is very hard to eradicate, largely because there is so much disagreement surrounding its causes and cures. Inflationary periods are generally accompanied by rising interest rates in the bond market. This time around, however, interest rates have only slightly inched upward suggesting that the bond market is indifferent toward inflation, or at least not overly concerned. Nevertheless, inflation is top of mind for us heading into 2022 and we will be watching the situation closely.

Calendar Year 2021 Performance:

S&P 500 Index (large stocks)	28.7%
Russell 2000 Index (small stocks)	14.8%
MSCI EAFE Index (international stocks)	11.3%
Bloomberg U.S. Aggregate Bond Index (bonds)	-1.5%

Prognosis:

We are learning to live in a Covid world. Businesses have pivoted to the new paradigm and are developing products and technologies that will strengthen corporate profits while also making our lives better. Nowhere is this more apparent than in the healthcare industry. Fighting Covid has given us miraculous scientific developments that will benefit all of mankind in areas extending far beyond coronavirus. Some of these advancements involve mRNA technology, the cornerstone of Covid vaccines. Alas, even the Covid cloud has a silver lining.

We are confident and optimistic heading into 2022 knowing that regardless of the obstacles, our clients' portfolios are positioned to fare well in an uncertain world. Wishing you all the best in 2022!

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