PUBLIC EQUITIES

Equity Markets	Q4 2021
US Large Cap (S&P 500 TR)	11.0%
Nasdaq	8.5%
US Small Cap (Russell 2000)	2.1%
Japan (TOPIX)	-1.7%
Europe (MSCI Europe)	7.7%
China (CSI 300)	1.6%
Global EM (MSCI EM)	-1.4%

Bond Markets	Q4 2021
US 2yr	-45.7
US 10yr	-2.3
US 30yr	14.2
German 10yr	-2.2
German 30yr	7.9
UK 10yr	5.1
UK 30yr	25.7
JGB 10yr	0.1
JGB 30yr	-1.3

Currency Markets	Q4 2021
DXY	-1.5%
EUR	1.8%
GBP	-0.4%
JPY	3.5%
MSCI EM Currency Index	-0.7%

Commodity Markets	Q4 2021
Crude Oil (WTI)	-0.2%
Nat Gas	57.3%
Gold (Spot)	-3.9%
Steel (Rebar)	28.3%
Ag & Livestock (Bloomberg)	-5.3%

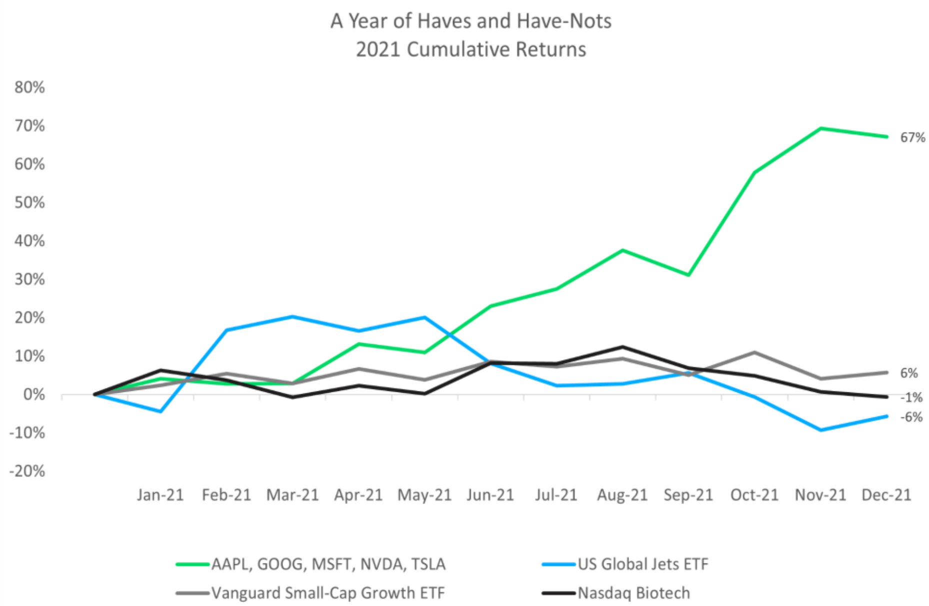
RCG HF Indices	Q4 2021
All Hedge Funds	0.5%
Equity Hedge	0.8%
Absolute Return	0.3%
Equity Market Neutral	0.7%
Event Driven	1.5%
Global Macro	-0.5%

US equities outpaced other developed markets, with the S&P 500 gaining 11 percent in the fourth quarter and 29 percent for the full year. Europe was not far behind, though, with the Stoxx Europe 600 rising 7 percent and 22 percent for the quarter and year, respectively, while Asia was a major laggard, with the MSCI Pacific registering a 3 percent loss for the quarter and a modest 3 percent gain for the year.

Although on the surface it was a great year for US equities, it was very much a year of haves and have nots. Large-cap indices were strongly influenced by a small handful of mega-caps. Five stocks – Apple, Microsoft, Nvidia, Tesla, and Alphabet – were responsible for about a third of the S&P 500's 2021 returns. This was emblematic of a relatively narrow market and, consequently, just 1 percent of active growth managers and less than a quarter of core investors in the US outperformed the index.[1] Results were much better for small-cap strategies, with 85 percent outperforming the Russell 2000, as value-oriented strategies with over-weights to energy and financials did particularly well.

Entering 2021, there were high expectations for reopening stocks to outperform, as vaccines became widely available. However, new variants prevented a straight-line recovery and the US Global Jets ETF – one gauge of reopening stocks – lost its earlier momentum and ended the year down 6 percent. While underperformance by these economically sensitive stocks and outperformance by mega-cap tech illustrated the defensive posture of investors, there were a few pockets of speculation spurred on by excess liquidity and a surge in retail trading activity. No one can forget the huge price swings early in the year in GameStop and other meme stocks, along with cryptocurrency craze, and the proliferation of SPACs that caught those investors on the wrong side by surprise.

[1] **Source**: Bank of America



Now, inflation and subsequent Fed tightening are weighing on valuations of longer duration assets to the benefit of near-term value opportunities. Many of the stay-at-home companies that saw their stock jump more than sales and profit growth could justify have seen sharp reversals. Peloton Interactive tumbled 76 percent in 2021, while shares of online resale platform Poshmark and education tech company Chegg plunged 81 percent and 66 percent, respectively.

As financial conditions continue to tighten, we expect to see continued multiple compression in forward-looking growth opportunities and a greater bias towards near-term earnings. In an environment with inflation running well above trend, profit margins are likely to be a key driver of stock performance. Fundamental value strategies emphasizing businesses with wide moats and pricing power are likely to be rewarded. Energy, autos, and other industrial sectors in high demand are seeing their profit margins expand. Banks are also natural beneficiaries of rising interest rates due to expanding net interest margins. Conversely, technology, chemicals, media, travel & leisure, and other areas susceptible to rising interest rates, pandemic fears, and increased input and wage costs appear to be at risk. Consumer staples, which lack pricing power and struggle to pass on rising input costs, are being challenged in the current market environment.

After years of underperforming US equity markets, the scales may be tipping back in Europe's favor. Valuations are certainly cheaper. It is also possible that the US advantage in economic growth could dissipate as its fiscal stimulus rolls off. European policy makers, by contrast, have not reacted as forcefully during the pandemic and the region may see fiscal support boost 2022 growth. Rising bond yields also favor European markets because of their greater share of shorter-duration and less rate-sensitive sectors. Interestingly, unlike for most of the past decade, European companies' 12-month forward EPS have been stronger than their US counterparts over the past year. As always, Europe faces its own political, demographic, and energy-related challenges, but the potential upside in its markets relative to downside stacks up well versus other regions.

In Japan, equities delivered a lackluster performance in 2021. Compared to other developed nations, Japan was late to roll out vaccines, which led to rolling lockdowns across the country's major cities. Empty arenas during the Tokyo Olympics showed – in high-relief – a country struggling to contain the pandemic. Fast forward to today and vaccination rates are among the highest of the G-7 nations, inflation worries are largely non-existent, yen weakness enhances export competitiveness, equity valuations are considerably lower than those in other developed markets, and earnings have been accelerating – all portending a good year ahead for Japanese equities.

EMERGING MARKETS

Q4 emerging market reactions reflected much of what we saw throughout the year, with Chinese assets significantly lagging peers. It was a woeful quarter – and year – for Chinese equities, with regulatory crackdowns on tech behemoths, a distressed property sector, geopolitical tensions surrounding Taiwan and the Xingjian region, and – by year-end – slowing economic growth all weighing heavily on markets. With over a 32 percent share of benchmarks, it is no surprise that China's underperformance weighed heavily on the asset class. MSCI EM index finished the year down 2.5 percent, contrasting the MSCI EM ex-China Index which finished the year up over 10 percent. This large outperformance underscores that there were bright spots in emerging markets for investors that were able to differentiate across countries and regions.

Interestingly, the ten best performing 2021 equity markets were all in emerging and frontier markets. After accounting for some of the less significant frontier market stock exchanges, the top ten scoreboard includes five emerging economies for 2021.

MSCI Country Indices

MSCI Country Indices - Performance as of December 31, 2021

	MSCI Index	1 Yr	3 Yr	5 Yr	10 Yr
1	ZIMBABWE	390.87%	-23.48%	22.77%	13.48%
2	BOTSWANA	105.73%	-0.76%	-10.07%	-5.01%
3	KAZAKHSTAN	90.87%	37.66%	34.34%	12.96%
4	LEBANON	77.88%	16.07%	5.53%	3.58%
5	CZECH REPUBLIC	55.02%	15.76%	14.96%	3.16%
6	UNITED ARAB EMIRATES	50.19%	15.65%	8.00%	14.19%
7	AUSTRIA	41.51%	16.14%	12.47%	7.59%
8	BOSNIA AND HERZEGOVINA	41.08%	23.40%	14.67%	4.45%
9	SAUDI ARABIA	37.70%	14.14%	13.89%	
10	SLOVENIA	33.91%	27.96%	22.87%	9.70%

MSCI Country Indices (Including Frontier)

MSCI Country Indices - Performance as of December 31, 2021

	MSCI Index	1 Yr	3 Yr	5 Yr	10 Yr
1	CZECH REPUBLIC	55.02%	15.76%	14.96%	3.16%
2	AUSTRIA	41.51%	16.14%	12.47%	7.59%
3	NETHERLANDS	27.62%	27.91%	19.18%	14.59%
4	USA	26.46%	25.95%	18.12%	15.96%
5	INDIA	26.23%	16.21%	15.08%	10.85%
6	TAIWAN	26.14%	34.35%	23.01%	15.16%
7	CANADA	25.98%	19.15%	10.21%	6.03%
8	VIETNAM	24.79%	15.65%	17.36%	10.08%
9	MEXICO	22.53%	10.23%	5.58%	1.81%
10	NORWAY	22.00%	9.76%	9.16%	4.21%

Source: RockCreek, MSCI

The gap between China and other emerging markets speaks to a much higher level of return dispersion across countries and sectors. This is a welcome change from past years when a handful of tech related stocks (mostly Chinese) dominated the market's direction. The phenomenon of growing dispersion should reward strong stock selection in the coming months.

Looking ahead, although regulatory and geo-political risks in China continue to be present, we think selective stock picking can generate alpha. Chinese stocks, currently priced at the low end of the five-year price to earnings ratio, are at a deep valuation discount to global equities (30-40 percent) and have record low foreign ownership levels. Modest policy easing already underway to soften domestic macro stresses and to ensure stability ahead of the 20th Party Congress could possibly be a catalyst for a re-rating of Chinese stocks. Healthcare, green energy, and certain Chinese technology stocks look particularly attractive, especially versus US tech names.

ASEAN markets (which include Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam) and India are where we are expressing our most bullish stance in the new year. In India, we are focusing on a mix of cyclical stocks and a growing list of public tech companies. While the potential for new Covid outbreaks and risks tied to rising oil prices continue, activity in India is now well above pre-pandemic levels. Existing signs of an incipient CAPEX cycle and market reforms could potentially lead to a sustained economic up-cycle in India.

ASEAN's cyclical economies are similarly well positioned to benefit in 2022, led by strong demand from developed markets and post-Covid re-openings in emerging markets. ASEAN markets underperformed throughout the pandemic, especially during the Delta strain, and would be leading beneficiaries of a global "normalisation" in the year ahead if Covid retreats. Valuations look attractive both relative to other regions and to their own long-term averages, and foreign ownership of ASEAN markets is close to record lows after almost $50 billion of disinvestment over the past decade. Importantly, vaccinations and immunity from infection are finally rising rapidly across the region. Our focus is on domestic growth themes and less dependent on regional macro developments (i.e., China), including wholesale retailers in the Philippines, digital banks in Malaysia, Thai telecom companies, and Indonesian domestic transport and logistics companies. The region is also well placed as a source of less sophisticated microchip supply for everyday consumer goods. We are avoiding sectors such tourism, international logistics, and companies with an over dependence on Chinese market demand. Risks to watch for include Omicron-linked lockdowns and travel disruptions, developed markets' inflation and rate hikes, and a stronger US dollar. Interestingly, currencies in the region have typically had less sensitivity to a stronger greenback than their peers in emerging markets.

MEDIAN FX PERFORMANCE DURING PERIODS OF USD STRENGTH