



Capital Market Review

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The Year Ending December 31, 2021

Many will remember 2021 as being year two of the ongoing COVID-19 pandemic. However, the S&P 500 Index looked past the pandemic, as well as supply chain disruptions, labor shortages, and, of course, inflation to end the year up 29%. Despite volatility-inducing events occurring throughout the year, the S&P 500 closed at a record high at least once each month and a total of 70 all-time-high closes for the year; this was second only to the 77 record closes in 1995.

The meme stock craze, led by GameStop, was one of the more surprising themes of 2021. These stocks garnered attention in a Reddit forum, as retail investors targeted stocks heavily shorted by hedge funds with the goal of causing a short squeeze. The action began within the online community, only to pique the interest of retail investors who did not want to miss out on the astonishing gains of these stocks. Many of these stocks are trading significantly lower than craze-driven prices, as fundamentals will always be the long-term driver of performance.

Growth stocks such as technology and consumer discretionary companies have dominated the past decade. At this time last year, strategists were forecasting 2021 to be the year value stocks, such as energy and financial companies. This outlook made it through the first quarter, then quickly reverted to the long-time favorite growth companies leading the market higher through the rest of the year. However, strategists were not completely wrong as energy rebounded from its -34% return in 2020 to be the top sector performer in 2021 with a return of 55%.

Since the S&P 500 Index finished in negative territory in 2018, it has posted three consecutive years returning at least 18%, almost two-thirds of this time amid a global pandemic. Even the highest inflation readings in decades were not enough to slow down the stock market last year. The Federal Reserve is beginning to unwind its easy monetary policies and will most likely increase short-term interest rates later this year. Yet, 2021 closed just below an all-time record.

There will always be economic concerns somewhere in the world, just as there will always be appreciating assets. The critical factor in building an investment portfolio is assessing the probability of these concerns and opportunities. No one could have predicted a global pandemic, let alone what the stock market would do during the past two years. However, maintaining a portfolio with exposure to international assets provides the best opportunities to share in the appreciating assets, while mitigating risks when concerns arise.



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