



# Ten Key Insights From 2021

January 2022



## KEY INSIGHTS

- Although macroeconomic events may have dominated financial markets during the pandemic, earnings and fundamentals still matter.
- Easing supply bottlenecks could mitigate inflationary pressures, but durable increases in housing costs and wages could mean higher inflation for longer.



**Tim Murray, CFA**  
*Capital Markets Strategist,  
Multi-Asset Division*

While we bid farewell to an eventful 2021, it is worth taking a moment to reflect on the past 12 months. I would like to share these 10 insights that I believe will continue to impact financial markets in the new year.



### 1. Earnings matter.

Monetary and fiscal stimulus faded sharply in 2021, as did the pace of economic

growth. In spite of these headwinds, stock markets continued to notch record highs boosted by strong earnings growth (Figure 1), which not only met but exceeded lofty expectations.



### 2. Fed hikes expected to be limited.

Despite the recent hawkish pivot, aggressive tightening could upend

## Strong Earnings Drove Equity Markets in 2021

(Fig. 1) Earnings growth estimates for the Russell 3000 and MSCI All Country World Indexes exceeded expectations in 2021



Sources: Russell and MSCI. T. Rowe Price analysis using data from FactSet Research Systems Inc. All rights reserved. See Additional Disclosures.

<sup>1</sup> Revisions to earnings estimates reflect changes in the expectations of the company's earnings in 2021.

**For illustrative purposes only. Actual outcomes may differ materially from estimates. Estimates are subject to change.**

the economy, and the futures market expects the Federal Reserve (Fed) to pause or even reverse course well before reaching its targeted hiking projection of above 2%. However, if the economy is still strong and inflation remains untamed by the end of 2022, these expectations may need to be reassessed.

### **3. Chinese regulatory policy is a big deal.**

In recent years, there has been a lot of chatter in the U.S. about regulating big tech, but real actions have mainly come from China. In 2021, Chinese regulatory policy was the biggest driver of performance for emerging markets and will continue to be a key factor going forward.

### **4. Is elevated inflation structural?**

The spike in inflation has mostly been driven by COVID-related shocks given the faster recovery in demand than supply. While this mismatch could ease considerably in the next few years, the tight housing and labor markets are likely to result in higher sustained inflation.

### **5. Growth versus value.**

The growth and value valuation gap has reached levels only exceeded during the tech bubble. In this cycle, however, solid fundamentals and secular tailwinds underpin higher growth stock valuations. Although it is difficult to predict whether growth or value will perform better in 2022, the potential upside for growth stocks appears more limited.

### **6. Investors are clamoring for alternatives.**

Given extended valuations relative to history and the diminished hedging qualities of bonds amid low yields, investors are seeking potential alternatives to stocks and bonds. Previously obscure segments, such as special purpose acquisition companies (SPACs) and

cryptocurrency, have seen massive inflows, quickly becoming crowded.

### **7. U.S. politics, all sound but no fury.**

After the Democratic sweep, regulations on infrastructure, tax reform, carbon emissions, and big tech were expected to meaningfully impact financial markets. However, despite the noisy headlines, progress on these initiatives has been uneventful, and new potential regulation is likely to be heavily watered down relative to original expectations.

### **8. Stock selection is important.**

Since the pandemic, macro factors have often trumped company-specific fundamentals. However, we believe stock selection is beginning to matter again, and unless the emergence of a new variant results in another full-scale global lockdown, the impacts of the coronavirus and its extreme echo effects appear to be fading.

### **9. Credit market fundamentals are supportive.**

Credit sectors offer modest yields, but their fundamentals look remarkably strong. While tight spreads<sup>1</sup> are typically a headwind for U.S. high yield sectors, leverage, margins, and interest coverage ratios all look very healthy.

### **10. U.S. dollar strength.**

The dollar faded sharply during the second half of 2020, and most investors went into 2021 expecting more of the same. Instead, the opposite has happened as U.S. economic growth outpaced other developed markets. The dollar is likely to strengthen further as the Fed shifts to a tightening bias while other major central banks remain firmly on hold.

As we welcome 2022, we will continue to monitor these market themes and provide updates accordingly.

<sup>1</sup> Credit spreads measure the additional yield that investors demand for holding a bond with credit risk over a similar-maturity, high-quality government security.

---

**Additional Disclosures**

Financial data and analytics provider FactSet. Copyright 2022 FactSet. All Rights Reserved.

MSCI and its affiliates and third party sources and providers (collectively, "MSCI") makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used as a basis for other indices or any securities or financial products. This report is not approved, reviewed, or produced by MSCI. Historical MSCI data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. None of the MSCI data is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such.

London Stock Exchange Group plc and its group undertakings (collectively, the "LSE Group"). © LSE Group 2022. FTSE Russell is a trading name of certain of the LSE Group companies. Russell® is a trademark of the relevant LSE Group companies and is used by any other LSE Group company under license. All rights in the FTSE Russell indexes or data vest in the relevant LSE Group company which owns the index or the data. Neither LSE Group nor its licensors accept any liability for any errors or omissions in the indexes or data and no party may rely on any indexes or data contained in this communication. No further distribution of data from the LSE Group is permitted without the relevant LSE Group company's express written consent. The LSE Group does not promote, sponsor or endorse the content of this communication. The LSE Group is not responsible for the formatting or configuration of this material or for any inaccuracy in T. Rowe Price Associates' presentation thereof.

## INVEST WITH CONFIDENCE®

T. Rowe Price focuses on delivering investment management excellence that investors can rely on—now and over the long term.

To learn more, please visit [troweprice.com](https://troweprice.com).

# T.RowePrice®

---

## Important Information

This material is provided for informational purposes only and is not intended to be investment advice or a recommendation to take any particular investment action.

The views contained herein are those of the authors as of January 2022 and are subject to change without notice; these views may differ from those of other T. Rowe Price associates.

This information is not intended to reflect a current or past recommendation concerning investments, investment strategies, or account types, advice of any kind, or a solicitation of an offer to buy or sell any securities or investment services. The opinions and commentary provided do not take into account the investment objectives or financial situation of any particular investor or class of investor. Please consider your own circumstances before making an investment decision.

Information contained herein is based upon sources we consider to be reliable; we do not, however, guarantee its accuracy. Actual future outcomes may differ materially from any estimates or forward-looking statements made.

**Past performance is not a reliable indicator of future performance.** All investments are subject to market risk, including the possible loss of principal. As interest rates rise, bond prices generally fall. Investments in high-yield bonds involve greater risk of price volatility, illiquidity, and default than higher-rated debt securities. Alternative investments may be more difficult to value and monitor, may be subject to high volatility, involve higher risks, and may use leverage which can magnify the effect of losses. They are typically considered speculative and are not suitable for everyone.

T. Rowe Price Investment Services, Inc.

© 2022 T. Rowe Price. All Rights Reserved. T. ROWE PRICE, INVEST WITH CONFIDENCE, and the Bighorn Sheep design are, collectively and/or apart, trademarks of T. Rowe Price Group, Inc.