

OBSERVATIONS

- Big move in interest rates and a rotation in stocks last week: U.S. Treasury 10-Yr yields rose 25bps to 1.76% during the first trading week of the year—the highest level since January 2020. The rise in interest rates weighed on growth stocks (Russell 1000 Growth) which lost -4.8%, while value stocks gained +0.8% (Russell 1000 Value) last week.¹
- The U.S. dollar jumped to 5-year highs last week against the Japanese Yen as traders handicap the prospects of higher U.S. interest rates, particularly as compared to in Japan.¹
- Apple became the first company to reach a \$3 trillion market capitalization, briefly reaching the milestone during last Tuesday's trading day. Apple ended the week with a \$2.8 trillion market capitalization which would make the company the world's 5th largest economy (behind the U.S., China, Japan, and Germany) as measured by GDP.²
- For the first time ever, Toyota outsells General Motors (GM) to become the top selling car company in the U.S. in 2021 — Toyota outsold GM by over 110k vehicles during the year as they navigated supply chain disruptions more effectively. GM had held the number one ranking for U.S. car sales since 1931.³
- Jobs Report: The U.S. added 199k jobs in December (less than expectations of 450,000) and the unemployment rate fell to 3.9% — total employment has increased by 18.8 million since April 2020. Employment gains in hospitality and leisure were the primary contributor with a net addition of +53k jobs in December.^{1,4}

EXPECTATIONS

- Last Friday's jobs report also noted that those working-part-time-but-seeking full-time-employment fell from 4.2 million in November to 3.929 million in December. This is the lowest reading of the past decade, lower than 3.947 million figure from July-2019 when the economy was considered to be at full employment, and only slightly above the 3.900 million level recorded in April 2006—the height of the U.S. housing bubble. This data shows how much economic opportunity there is for many disadvantaged classes in the U.S. and should give the Fed more confidence to tighten monetary policy without harming the working poor.⁴
- Minutes from the December Federal Reserve meeting suggested the central bank would take on a more aggressive stance hiking interest rates as it begins to normalize monetary policy while combating inflation. Treasury markets responded as noted in observations and are likely to continue to be volatile as investors adjust to a new monetary policy regime.¹

ONE MORE THOUGHT⁵: What happened to growth stocks versus value stocks in 2021...

Since 1979 (we'll call this the modern investment era), the calendar year performance between growth stocks versus value stocks has tended to be consistent across both large and small capitalization stocks. In other words, when value beats growth (or vice versa), that relationship has tended to hold true in small cap stocks as well as large cap stocks — roughly 85% of the time (36 of 43 calendar years from 1979). In another oddity of the post pandemic equity markets, 2021 was a year where the observation did not hold true, as small value trounced small growth by

¹ Bloomberg LP

² Bloomberg LP, <https://databank.worldbank.org/data/download/GDP.pdf>

³ <https://www.wsj.com/articles/detroit-seen-losing-ground-in-auto-sales-race-11641297653?mod=mhp>

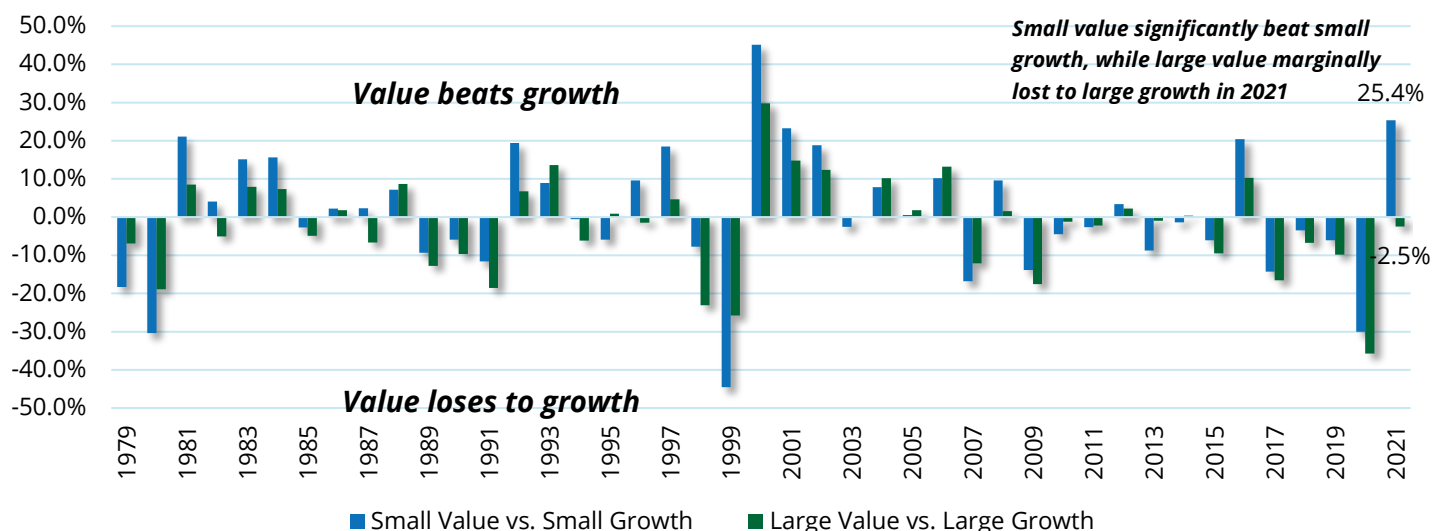
⁴ Bureau of Labor Statistics, *The Employment Situation - December 2021*

⁵ Clearstead, Bloomberg LP, Large Value = Russell 1000 Value, Large Growth = Russell 1000 Growth, Small Value = Russell 2000 Value, Small Growth = Russell 2000 Growth, Calendar year index total returns, as of December 2021, index weights as of 4-Jan.

+25.4% while large value underperformed large growth by -2.5%. There are a few points worth noting as they may continue to play a role for large and small cap investors alike. First, the obvious; large cap growth contains Apple, Microsoft, Alphabet (Google), Tesla, among other behemoth tech companies. There are no real equivalents of those companies in the small cap growth index. That in of itself helps to explain why large growth beat large value while small cap experienced the opposite effect. Apple and Microsoft are each nearly 10% of the Russell 1000 Growth index (incredibly Apple's market capitalization now exceeds that of the entire small cap value market while also eclipsing the entire small cap growth market). The two stocks accounted for 30% of the growth index's 2021 total return — simply remove Microsoft and large cap growth would have underperformed large cap value by -2.3%. To put the concentration of the large cap growth index into perspective, the cumulative weight of the 5 largest constituents in each of these indices is: 3.2% of small value, 3.2% of small growth, 10.9% of large value, and **35.6% of large growth**. The point of this data mining is really to reinforce that certain style-oriented equity markets (like large growth) could experience more turbulence than otherwise evident by broader diversified (i.e., core or style agnostic) indexes in 2022.

CHART OF THE WEEK

Growth vs. Value by Calendar Year



Source: Clearstead, Bloomberg LP, as of 31-Dec-2021, Calendar year total returns for Russell 1000 Growth (Large Growth), Russell 1000 Value (Large Value), Russell 2000 Growth (Small Growth), Russell 2000 Value (Small Value), 1979-2021

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