January Jitters May Create Buying Opportunities

Volatility was the trend for domestic and foreign equity markets in January, as well as the domestic bond market, albeit to a lesser extent. The broad-market S&P 500 flirted with a 10% pullback, for example. The ups and downs in the domestic equity indices stabilized briefly ahead of the Federal Reserve's (Fed's) meeting, which left short-term interest rates unchanged, but turned skittish shortly after Fed Chair Jerome Powell announced there was "quite a bit of room" to raise rates in the near future. The market seemed to have priced in three hikes this year but may have presumed the announcement meant the central bankers planned two more moves in response to inflationary pressures, explains Raymond James Chief Investment Officer Larry Adam.

Powell said that no decisions have been made as yet, but he could not rule out raising rates more aggressively if warranted. Chief Economist Scott Brown believes accelerated increases are not necessarily a foregone conclusion but notes that the labor market is tight, and inflation is well above the Fed's long-term goal of 2%.

With uncertainty regarding inflation, economic slowing (though it remains at a healthy growth rate) and a Fed tightening cycle upon us, we may be in for several months of volatility before the market can resume its uptrend, notes Joey Madere, senior portfolio strategist, Equity Portfolio & Technical Strategy. Headwinds also include geopolitical tensions between Russia and Ukraine as well as uncertainty over the direction of U.S. policy. In Washington, D.C., the current focus appears to be on economic competition and China policy, which has the potential to boost next-generation technology and domestic manufacturing, adds Washington Policy Analyst Ed Mills.

Let's look at the longer-term numbers:

	12/31/21 Close	1/31/22 Close	Change Year to Date	% Gain/Loss Year to Date
DJIA	36,338.30	35,131.86	-1,206.44	-3.32%
NASDAQ	15,644.97	14,239.88	-1,405.09	-8.98%
S&P 500	4,766.18	4,515.55	-250.63	-5.26%
MSCI EAFE	2,336.07	2,201.56	-134.51	-5.76%
Russell 2000	2,245.31	2,028.45	-216.86	-9.66%
Bloomberg Aggregate Bond	2,355.14	2,305.06	-50.08	-2.13%

Performance reflects price returns as of market close on Jan. 31, 2022. MSCI and Bloomberg Barclays Aggregate Bond performance reflect Jan. 28, 2022, closing values.

As we close out the month, here are a few trends we're keeping an eye on:

Sector roundup

We are also seeing slow progress toward a revised and targeted Build Back Better bill, which could direct additional federal funding toward energy and renewables, healthcare, and education, but the potential timeline for a final deal remains unclear.

Technology companies have borne the brunt of market weakness this year as higher interest rates put pressure on high valuations. While valuations remain relatively expensive, importantly, information technology demand remains strong and supportive of the sector's backdrop.

Tension on the Russia-Ukraine border drove up natural gas prices in the European market as Russia deliberately curtailed its export volume. We believe that Russia's aggressive strategy is partly economic and partly political. In the meantime, the U.S. and other exporters are bolstering supply. Concern about excessive dependence on Russian oil and gas will likely accelerate energy transition toward wind, solar and energy efficiency, notes Energy Analyst Pavel Molchanov.

Around the world

Almost all equity markets across Europe, Asia and the world's other emerging economies saw losses in January. However, performance was best in the U.K. and select emerging markets in Latin America due to a range of strong commodity sector performances. A little over half of early corporate earnings season updates in Europe and Asia have been ahead of expectations, but both February and March will provide more detailed insights.

Unsurprisingly, the latest International Monetary Fund survey showed a reduction in 2022 economic growth expectations. While a number of emerging market central banks raised interest rates during January, the People's Bank of China continued to soften monetary policy in an attempt to counter slowing Chinese growth levels. The European Central Bank will not change its formal negative interest rate policy for at least a few quarters, but the Bank of England is set to further raise its interest rates in February.

The bottom line

As we approach the two-year anniversary of this bull market where, historically, returns become more moderate, volatility increases and investors become more discerning (e.g., selectivity becomes critical), it is important that market participants remain patient, committed to their investment strategy and avoid any knee-jerk portfolio moves.

We have said in recent months that volatility and pullbacks are to be expected throughout 2022, although overall conditions are likely to remain healthy. And wider spreads coupled with higher Treasury yields translates to higher income opportunities for fixed income investors. Savvy investors may elect to thoughtfully add to their portfolios at opportune times. I'm here to provide you not only with insight, but with advice on how we can work to help manage the effects of – and capitalize upon – the markets' movements.

I know that volatility can be unnerving but sticking to a financial plan has historically worked in favor of long-term investors, which is why I remain focused on helping you make progress toward your future goals. Thank you for your continued trust in me. Please feel free to reach out with any questions.