Thoughts from the Holy City – February 2022

"In my nearly 50 years of experience in Wall Street I've found that I know less and less about what the stock market is going to do, but I know more and more about what investors ought to do."

~ Benjamin Graham

January 2022 started off in stark difference to 2021 as both the equity markets and fixed income markets ended the month in negative territory. There is a myriad of reasons for the headwinds that each respectively faced, with inflation, an economic slowdown, the new Omicron variant, and a Fed tightening cycle being at the forefront. That is all a lot to digest, but fundamentally things remain intact. It is unsettling when volatility rears its head, especially after a banner year in the stock market in 2021. However, while it can be uncomfortable, we must keep things in perspective and use history as guide to navigate forward.

All equity indices ended January in negative territory with he DJIA -3.32%, the S&P 500 -5.26%, and the NASDAQ -8.98%. Many of the tech stocks that performed so well in 2020 and 2021 were severely beaten down in January. This is not overly surprising given that many of these stocks benefitted from the pandemic, stay at home craze. However, their earnings did not warrant their prices; like 2000, but also very different. The S&P 500 valuation is elevated, but this is acceptable if interest rates remain low and inflation moderates. Valuations are elevated; however, interest rates were 6% in 2000 versus 1.5% now.

The good news is that 9 of the past 10 times that stocks were down in January, the final 11 months were higher.

The January Barometer Hasn't Been As Accurate Lately

9 of the Past 10 Times January Was Red, The Rest Of The Year Was Green

	S&P 500 Index Returns	
Date	**January Return**	**Final 11 Months**
1/31/2003	-2.7%	29.9%
1/31/2005	-2.5%	5.7%
1/31/2008	-6.1%	-34.5%
1/30/2009	-8.6%	35.0%
1/29/2010	-3.7%	17.1%
1/31/2014	-3.6%	15.5%
1/30/2015	-3.1%	2.5%
1/29/2016	-5.1%	15.4%
1/31/2020	-0.2%	16.4%
1/29/2021	-1.1%	28.3%
1/30/2022*	-7.0%	?
Average	-4.0%	13.1%
Median	-3.6%	16.0%
Higher		9
Count		10
% Positive		90.0%

Source: LPL Research, FactSet 01/30/2022 *Month isn't over yet
All indexes are unmanaged and cannot be invested into directly. Past performance is no guarantee of future results.
The January Baromoeter Looks At S&P 500 Index Returns Based On January Returns

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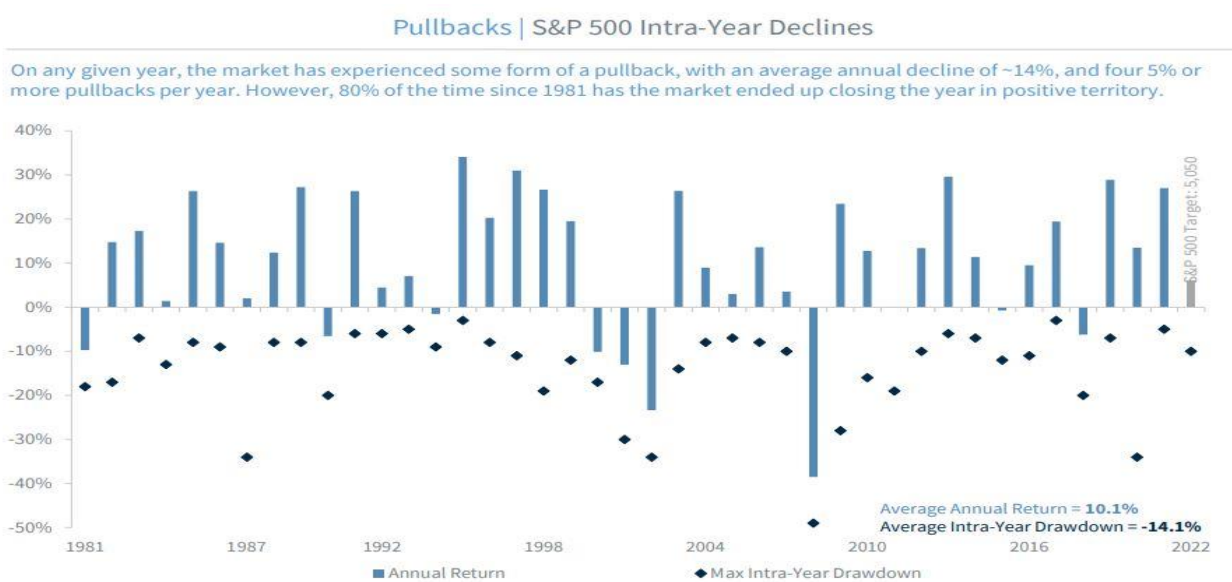
In looking at the fundamentals of both the economy and markets, I am optimistic this will hold true for 2022. Inflation has also been a major topic of discussion, with questions remaining on whether it is "transitory" or going to be here for a longer period. In the last two rate hike cycles (2015 and 2004) the equity markets pulled back around the initial hike., but the markets ultimately calmed down thereafter. Originally, the Fed believed that inflation was going to be transitory, but with the rise in inflation, wage pressures, supply chain strains, and general price increases, the Fed has taken a different stance (much warranted in my opinion). In November of 2021, the Fed began to reduce its pace of asset purchases by $15 billion per month, which will ultimately conclude in March of this year, and has indicated they will raise rates this year; most likely 3-4 times depending on the economic and stock market response. Given the change in tone from the Fed , it is not surprising to see investors de-risk not only in stocks, but bonds as well.

The bond markets have also had their share of challenges in the past month as we conclude a 30-year bull market for fixed income. As many readers know, bonds and interest rates have an inverse relationship. For the past 30 years interest rates have been declining from what was near a 20% prime rate in the 80's to zero as recently as 2020. So, not only have investors benefitted from very attractive interest rates on bonds, but they have also benefitted from capital appreciation in fixed income as interest rates declined. The current environment is forcing the Fed to raise rates, as they should, to have tools and prepare for the next inevitable recession. As this occurs, the value of bonds declines. We are now in an environment where two asset classes, stocks and bonds, that have historically had an inverse relationship are now correlated and moving in the same direction. This places much more emphasis on portfolio management to protect capital through an environment that we have not seen in decades.

The recent performance of the stock market is nothing to be concerned about. On any given year the stock market has experienced some form of pullback averaging -14%, and there are typically four 5% or more pullbacks per year.



Data as of January 31, 2021. The diamonds represent the max intra-year decline of the S&P 500 index and the bars represent calendar year returns.

Last year was an abnormality as the S&P 500 rose nearly 28% with very few pullbacks. This is due to the historically low interest rate environment and the trillions of dollars of government stimulus being pumped into the financial system. Most likely, you as an investor, have forgotten all the pullbacks that have occurred over the past 14 years. According to Dow Jones market data, the S&P 500 has closed down at least 1% 448 times since the beginning of 2008. Yet we tend to forget these occurrences focusing on the gains in our portfolios. It is more important to focus on maintaining your standard of living, on being able to live the life that you want to live; spending time with your family, giving back to the community, maintain a sense of well-being. Recessions and market pullbacks are inevitable, which is why we continue to manage capital with the mindset of managing risk and make decisions for the long-term ensuring that you are able to do so.

Be Well,

Grier

L. Grier Williford, CFP®

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