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Market Commentary

January 2022

MARKET RETURNS AS OF JANUARY 31, 2022[1]

Index Total Returns, %	January	1 Year	3 Year	5 Year	10 Year
S&P 500 TR	-5.2	23.3	20.7	16.8	15.4
DJ Industrial Average TR	-3.2	19.4	14.5	14.6	13.4
NASDAQ Composite TR	-9.0	9.7	26.1	21.6	18.9
Russell 2000 TR	-9.6	-1.2	12.0	9.7	11.3
MSCI EAFE GR	-4.8	7.5	9.8	8.4	7.4
MSCI EM GR	-1.9	-6.9	7.6	8.7	4.5
Bloomberg US Agg Bond TR	-2.2	-3.0	3.7	3.1	2.6

THE MARKETS

That was a rough month. Concerns about the Fed being more aggressive on fighting inflation drove markets to deliver their worst monthly performance since March 2020 (at least for the S&P and the Nasdaq).

It could have been worse. Rewind just a few days ago to end of day January 27, and markets were looking even more bleak. The S&P 500, DJIA, and Nasdaq were down -9.2%, -5.9%, and -14.6%, respectively. Technology was amongst the hardest hit, given fears of what rising rates might mean for the sector's valuations.

And then along came Apple (AAPL), with a strong earnings report. Stocks closed out the month on a high note (although still down for the month): the S&P 500, DJIA, and Nasdaq rose +4.4%, +2.8%, and +6.7%, respectively in the last two trading days of the month.

In our January 21 update, we discussed how rising rate periods are not always bad for stocks, and that sell-offs are normal. This is all still very applicable a week and a half later.

THE FED

It was a long month waiting for "Fed day" on January 26 to hear if and how Fed Chair Jerome Powell was going to react to the volatile markets and get a little more dovish. In short, he didn't flinch—if anything he got more hawkish. The Federal Open Market Committee (FOMC) reaffirmed its plans to taper asset purchases by early March. Further, the committee said they expect it will "soon" be appropriate to raise the Fed funds rate (cue: March rate hike).[2]

From there, expectations vary on the number of rate hikes the market expects. Bank of America recently predicted seven rate hikes in 2022, while JPMorgan Chase & Co. and Goldman Sachs forecast five.[3]

YOUR NEXT MOVE

Watching the market decline is painful. And we are likely in for more volatility in 2022 as we adjust to a new normal for rates. Here are some ideas to consider in a market decline.

1. Check in on portfolio allocations. Volatility can lead to two things: (1) drift in portfolios, which could knock positioning off course and (2), opportunities across sectors and asset classes. Consider taking advantage of a rebalance to lean into any areas of the market that may outperform going forward in the changing market landscape.

2. Use tax-loss harvesting to lower next year's tax bill. TLH is the process of selling an investment for a loss and using that loss to offset (or decrease) overall capital gains. Market sell-offs can be a great time to find losses in taxable accounts to lock in.

3. Consider putting some dry powder to work. Dollar cost averaging might be a smart approach in volatile markets.

These are just ideas, not recommendations, and whether they make sense will depend on an individual's personal circumstances.

If you have questions on your portfolio positioning, or have any changes to your goals, risk tolerance, or time horizon, please reach out to schedule a conversation.

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1. Morningstar as of 1/31/2022.
2. J.P. Morgan https://www.chase.com/personal/investments/learning-and-insights/article/tmt-january-twenty-eight-twenty-two
3. Bloomberg.com. http://www.bloomberg.com/news/articles/2022-01-29/goldman-sachs-predicts-fed-will-raise-rates-five-times-this-year