Stirling Bridge
Wealth Partners, LLC

MARKET COMMENTARY – February 1, 2022

A Frigid Start to the New Year

Throughout the second half of 2021, there was a grinding sell-off for high-growth, no-profit companies. Our clients may be forgiven for not noticing such a thing occurred because they owned exceptionally few of these high-flier/low-sinkers. However, the start to 2022 has made certain that almost all investors are aware of frosty stock and bond prices. The selling has spread to more stable sectors of the market. What might this mean for the remainder of the year?

There is <u>some</u> truth to the old Wall Street adage, *As goes January, so goes the year.* The average return from February through December has been 14.0% for the last 50 years. Following a negative January, however, the Feb-Dec return was only 6.7%.

This is the essence of our forecast for 2022. We expect a volatile first half of the year – was it all jammed in the first month? – followed by a continued economic recovery.

We must acknowledge that our projections are based on inflation peaking in the first half and then moderating from late 2022 and into 2023. And so, how confident are we that inflation will moderate and that interest rates won't have to soar to do it?

Cutting to the chase, we still think the evidence lends itself to our predictions.

First, since the Fed began taking their price stability mandate seriously in the 1980s, whenever they have put a target on inflation's back, they eventually hit it. Their plans to cease Quantitative Easing, raise rates, and begin Quantitative Tightening in the comings months are rational and necessary. Also, since the 1980s, roughly 2/3 of the eventual increase in long term rates that would occur over the course of the coming cycle had already been reflected in rates by the time the Fed raised rates for the FIRST time. This means we may have already seen the lion's share of increases on the long end. Rates need not soar.

Second, while monetary policy certainly helped fuel some of the inflation we've experienced, a second portion was accelerated by the fiscal response from Congress and administrations. Multiple trillions of borrowed dollars were injected into our economy over a matter of months. This was inflationary. The death, or perhaps vast reduction, of the current administration's social spending agenda will help ease the inflationary pressures that would have otherwise been exacerbated by its passage.

Third, and likely the most important reason inflation ought to moderate over the coming year is that the bulk of upward pressure on prices came from the responses to the pandemic. We already mentioned fiscal spending, which stimulated demand. But specifically, with folks staying home, the demand for goods roared. And those goods had a tough time being made and shipped in a lockdown or rolling quarantine environment. While admitting our own missteps in forecasting humanity's response to the virus, it seems likely that 2022 will see steady, marginal easing of restrictions. We expect fewer logistical constraints with every passing quarter.

And speaking of the consumption of goods, we believe the nesting instinct that has gripped us all over the past two years will slowly wane. Instead of spending every extra dollar on Amazon deliveries, we might find cause to enjoy services again. More restaurants, more concerts, more amusement parks. If spending on activities resumes, the pressure on the prices of physical stuff can fade.

On the flipside, of all prices consumers face, we believe the cost of energy has the greatest chance of continuing its ascent in 2022. This year should mark the first time we surpass the number of oil barrels consumed in 2019. In the intervening two years, the amount of drilling and development of oil fields had fallen into the basement. We expect a supply/demand imbalance to be the result. And for the first time in many years, OPEC is in the driver's seat, pledging paltry supply increases. Their policy has the potential to cause periodic spikes in the price of oil. We believe independent producers will require another full year to catch up with the growing demand.

Lastly, as of this writing, the Russia-Ukraine and the China-Taiwan situations remain perilous. An escalation in either case would drastically alter the world's ability to grow economically and perhaps send prices roaring higher. They are just some of the many reasons we reiterate the importance of clients holding enough cash. Having such safety allows us to invest for the long term without the fear of running out of money for the monthly grocery bills.

Stirling Bridge Wealth Partners, LLC is fortunate to count many of you as clients. In the good times and bad, we remain committed to providing customized investment solutions and robust financial planning wrapped in a package of exceptional service. We thank each of you for your dedication to us and for your trust.

Sincerely
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President