January 2022 Market Update

Special points of interest:

- **Equity and bond markets posted losses in January.**
- **The overall domestic economy performed better, however—strong payroll growth and record job openings.**
- **In addition to hitting consumer wallets, higher inflation will push the Fed to raise rates as soon as March.**
- **Advance prep and dynamic portfolio allocation helps address portfolio volatility.**

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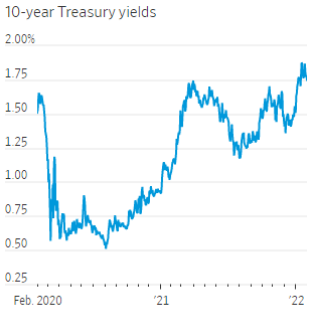
The Markets in January 2022

I received several calls in January with a simple question in response to various downbeat market news articles: how bad is it? Coming after a year of lower volatility and mostly higher high's, it certainly felt pretty bad. The S&P 500 index recorded its worst month since March 2020, dropping 5.3%. Only energy stocks countered the trend—the remaining 10 of 11 S&P sectors retreated. Worse, the Nasdaq fell 9% in January, while the Dow Jones Industrial Average did relatively better with only a 3.3% loss for the month.

Bond yields continued to rise, with the 10-year Treasury yield



Source: Tullett Prebon

now back at pre-pandemic levels, as can be seen in the graph here. With these results, it seems clear that any pandemic premiums in the markets are now over.

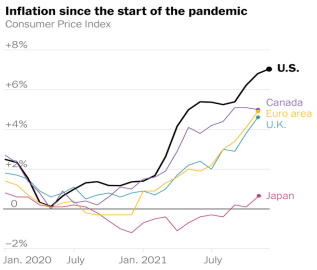
So the markets didn't do well. How did the overall economy do? Not as bad! Despite the Omicron variant and resulting staffing shortages, U.S. payrolls still grew impressively by 467,000 in January (on top of 363,000 in December), while the jobless rate ticked up slightly to 4%. Further, the Labor Department reported 10.93 million job openings at the end of December, up from 10.78 million in November. It may be a volatile market but the economy continues to rebound!

The bear market (declining stock prices) was ascendant this month, resulting in painful losses especially in certain market segments.

The Look Ahead

In the U.S., we have seen higher recurring inflation readings than other countries—the highest inflation since the 1980's. As a result, stock and bond markets have been spooked this month. The Fed has also taken notice, and it's likely they will start to increase interest rates as soon as March.

I posted recently online about Sequence of Returns risk, and



YTD market results underline the concern. How do you withdraw from a portfolio that is declining in value? The short answer is to prepare for it ahead of time. It's a balancing act—holding too much cash may be comforting, but with high inflation, this can result in real loss of purchasing power over time. However, too little is more immediately problematic. Further, prices for conventional inflation hedges have already increased. Dynamic portfolio allocation is all about gauging the balance of risks, long vs. short-term.

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