Weekly Update
1/24/22

		Last Week	YTD Returns
Domestic Equities	S&P 500	-5.67%	-7.66%
International Developed	MSCI EAFE	-2.08%	-2.19%
Emerging Markets	MSCI EM	-1.04%	1.03%
Fixed Income	BBgBarc US Agg Bond	0.05%	-1.77%

The drawdown across markets accelerated last week as returns early in 2022 have looked ugly. There is a lot of confusion and uncertainty over why markets might be falling and where things will ultimately settle. In our view, there has been a paradigm shift that is causing volatility and uneasiness amongst investors. From the covid lows in March of 2020 there has been one fundamental economic philosophy, pumping cash and liquidity into the economy, but now that is changing.

The period from late March 2020 through the recent market tops late last year saw unprecedented amounts of cash being made available by governments and central banks across the world. As a result, the value of virtually all financial assets rose. Now as fiscal spending is set to decline and the Fed begins raising rates, things are set to change. We saw huge runups in cryptocurrencies, stay-at-home stocks, and the so-called meme stocks like Gamestop and AMC. Most, if not all of those areas have seen declines of over 50%, as the euphoria around them has faded and the reality of their extreme valuations sunk in. In essence, the easy money was made during that roughly 18 month period, and now we are returning to a more “normal” environment, where fundamentals matter.

The good news is that we continue to hold a positive view of the economy and stocks. It’s hard to say when this selling will end or how much further markets might be down, but we typically do not see bear markets (20%+ declines from the top) without a coinciding recession, and we do not see a recession on the horizon. Instead, the general belief is that we will see 3-4% GDP growth and 10-15% earnings growth in the S&P 500 this year. Yes, inflation is a concern, and the Fed will be raising rates to combat higher prices. However, as we hopefully move past Covid and towards normalization, we should see inflation figures moderate. Goods inflation is likely to come down as supply chain issues dissipate and inventories are rebuilt. The stickier part of the inflation equation will be wages and rents. We see both of those continuing to rise. We believe that inflation will be higher in the post-covid era than it was before, but the 7% CPI figure from December is likely to come down to a more moderate level. Now is a good time to reassess investments, take profits in some winners, look for values among the beaten-down areas, and readjust portfolios for economic realities ahead.

*Index returns are from Morningstar and are calculated on a total return basis, with dividends reinvested.