LORI L. LIFFRING, CFA ♦ MICHAEL L. BRIDGMAN, ChFC ♦ JUSTIN S. ANDERSON, MBA AAMS ♦ KAREN K. BENEFIEL, CMT CPA
GAYLAN C. ABOOD, CHAIRMAN EMERITUS

January was a tough month for stocks and bonds. Large cap stocks in the S&P 500 index were down -5.2% for the month while small cap stocks in the Russell 2000 were down -9.6%. International stocks in the MSCI EAFE index had a loss of -4.8% and emerging market stocks lost -1.9%. Yields jumped in January resulting in a -2.2% loss for the Barclays US Aggregate Bond Index.

The COVID numbers escalated again due to the easily spread Omicron variant which also was resistant to vaccines. Businesses experienced outages of workers due to sickness which continued to exacerbate the overall labor shortage and impacted supply chains making it difficult to overcome shortages.

Economic growth picked up again in the fourth quarter and posted the best quarterly results of 2021. GDP growth was 6.9% which was well above the 2.3% of the third quarter. For the full year, GDP growth was 5.7% which was the fastest it has grown since 1984. This momentum is not expected to continue in 2022 as GDP growth is expected to slow considerably. The Atlanta Federal Reserve's GDPNow gauge is projecting nearly flat growth in the first quarter. Other analysts like Goldman Sachs and Bank of America have been reducing their estimates which are now 0.5% and 1.0% respectively. Reasons cited for lower projected growth include the Omicron disruptions noted above, the inventory rebuild has already occurred, less fiscal support as the Build Back Better Act has been parred down, and a tighter Fed.

Fourth quarter earnings reports reflect the strength of the economy. More companies have exceeded their estimates for earnings and revenues than in previous years; 79% have beaten on earnings and 69% have beaten on revenues. Fourth quarter earnings are projected to be 22.1% higher and revenues are projected to be 12.2% higher than the year ago quarter. Full year earnings are up 45.6% in 2021 versus 2020. The current Zacks projections are for 9.4% earnings growth and 7.5% revenue growth in 2022.

Inflation has been top of mind for investors as the inflation rate has reached levels not seen since June 1982. The annual inflation rate of 2021 was 7.0% according to the US Labor Department. Energy prices were largely to blame as they increased 29% but Americans paid more for most everything they bought in 2021. Energy prices will not likely increase at the same pace, but other areas such as food and rents are expected to still increase. Labor market shortages are also pushing wages higher and are unlikely to revert. Analysts hope that as supply chain bottlenecks are worked out and shortages are resolved, prices on those goods can return to more normal levels. Many companies will continue to push their higher input costs through to consumers through price increases. The Fed has stopped calling inflation transitory and most analysts expect we will be dealing with inflation for a while - higher than the 2% Fed target but still not runaway inflation.

The Fed has also signaled that they will end bond purchases in March and begin increasing interest rates. The 10-year Treasury bond yield rose from 1.5% to 1.8% in response. Some analysts project that we could see three to five rate hikes in 2022 and the first could be a 50 basis point increase. Others think the Fed will be more dovish and slower to act partly due to the high level of US debt – an increase could result in the interest paid on Treasury bonds exceeding the entire defense budget of the US.

Investors have valid reasons for concern which is resulting in more volatility in markets and which is likely to remain throughout the year. In the second year of a president's first term, the stock market sees on average a -19% decline at some point during the year. We continue to advocate against market timing and in favor of investing for the long term according to your risk tolerance. It's one thing to get out of the market when it's going down, but much more difficult to know when to get back in. Missing out on the best days can significantly impact your return. As always, please contact us with any questions or concerns.