CETERA® INVESTMENT MANAGEMENT

COMMENTARY

January 25, 2022

Equity Markets End with Gains in Roller Coaster of a Day

- Before rebounding, the S&P 500 fell nearly 2.5% and briefly entered correction territory on Monday.
- The Nasdaq Composite fell nearly 5% before finishing the day in positive territory.
- Investors are worried about the Fed, geopolitical tensions and slowing economic data.

It was a roller coaster of a day for investors to start the week. When futures markets opened on Sunday night, investors seemed optimistic and futures markets were pointing to a positive market open, but then sentiment started to fade as investors feared a conflict between Russia and the West on the Ukrainian boarder. In addition, the Fed meeting will conclude on Wednesday and they could signal a more hawkish tone and announce plans to raise interest rates as soon as March to combat inflation. Markets opened down and continued in that direction when IHS Markit released their flash Purchasing Manager Index (PMI) for the manufacturing and service sectors, which both fell more than expected. The combined composite index was the lowest in 18 months and the service sector PMI came in at 50.9, just barely above contraction territory (below 50 is contraction). Omicron supply disruptions likely led to below-expectations index readings.

“Buy-the-dip” investors were common last year, but they appeared to be missing early in 2022 as markets continued to slide. That changed late in the afternoon and markets rebounded to recoup all their losses and end in positive territory. This was welcome news for investors, but the fears that drove markets lower in the morning did not just disappear. Those uncertainties remain.

While we don’t think markets will retrace March 2020 lows, we do think volatility will remain in markets for some time. The good news is that earnings and economic growth should be supportive. Earnings have been somewhat lackluster but around 75% of companies that have so far reported earnings have beaten expectations. While economic growth is slowing, it is still expected to be relatively high compared to pre-pandemic levels. Omicron appears to be slowing and this should ease some supply side constraints.

As far as the bad news, the Fed is expected to raise rates sooner than later to combat inflation. Arguably much of this is now priced into markets already. There is the possibility that the Fed overshoots and hurts the labor market, but the Fed will likely be cautious. Perhaps the biggest risk is rising long-term bond yields, which the Fed has less control over. Rising bond yields tend to hurt technology stocks the most as they are discounted over long periods of time for earnings growth. The Fed will taper its bond purchases which should pressure long-term yields higher, but there is still foreign demand for U.S. Treasuries and geopolitical risks only add to that demand. Geopolitical events are hard to predict and their impact to markets are sometimes even harder. The uncertainty tends to favor currencies such as the U.S. Dollar and safe-haven government bonds such as U.S. Treasuries.

We reiterate that in 2022, our primary investment themes are slowing economic growth, a more hawkish Fed, and an increase in market volatility. With market risks rising, we continue to anticipate more volatility in the near term. Any disruption to current expectations could be a headwind for stocks, and with stock market valuations priced to perfection, this could amplify any volatility. Still lingering stimulus, a financially healthy consumer and the eventual abatement of supply chain issues suggest limited market downside. We maintain that diversification is key in this market. In these times, your financial professional can help you stay focused on your long-term risk and return goals and help you with your personalized investment objectives

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A diversified portfolio does not assure a profit or protect against loss in a declining market.

Glossary

The **NASDAQ Composite** includes all domestic and international based common type stocks listed on The NASDAQ Stock Market. The NASDAQ Composite Index is a broad based index.

The **S&P 500** is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries