“Live the Life You’ve Imagined”

Investment Commentary

February 2022

Volatility jumped in January and most global stock markets were down for the month. Higher inflation, rising interest rates, and fading central bank support weighed on the outlook for the economy and earnings. The inflation and interest rate backdrop also pressured bond returns which, were broadly negative.

- Despite a late-month rally, the S&P 500 was down more than 5% in January, its worst performance since March 2020. Small-cap stocks were down even more, close to 10%.
- Omicron uncertainty, hawkish Fed comments, and mounting tensions between Ukraine and Russia spiked market volatility higher. These factors overshadowed mostly positive economic and earnings data.
- The U.S. economy grew at a stronger-than-expected 6.9% annual rate in the 4th quarter. In addition, more than 77% of S&P 500 companies reported 4th quarter earnings that beat expectations.
- Foreign developed and emerging stocks also declined but generally outperformed U.S. stocks.
- The broad U.S. bond market declined in January. Higher yields and wider credit spreads contributed to losses for all major credit indices.

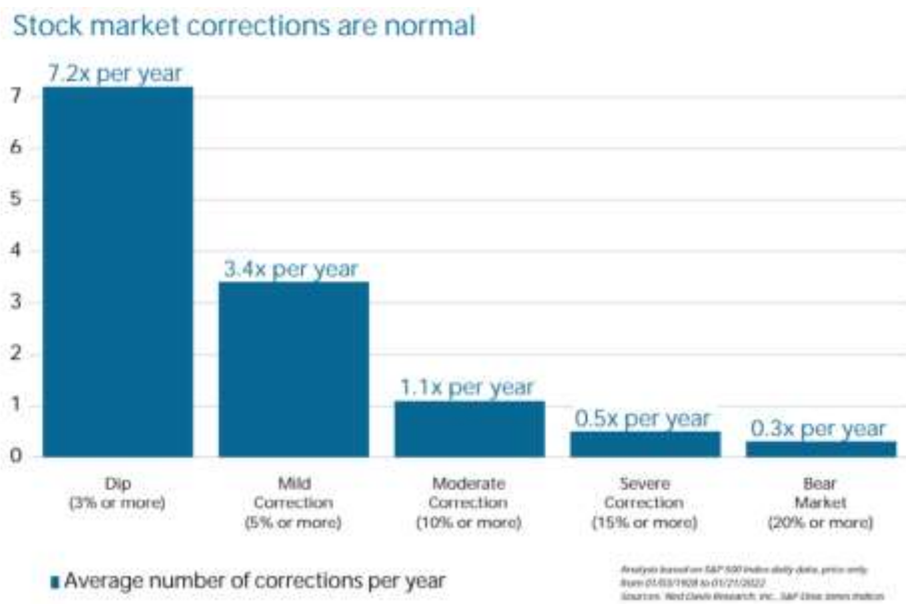
Return (%)	1 MO	3 MO	YTD	1 YR
S&P 500	-5.17	-1.61	-5.17	23.29
Russell 2000	-9.63	-11.46	-9.63	-1.21
MSCI EAFE	-4.82	-4.58	-4.82	7.52
MSCI Emerging Markets	-1.89	-4.06	-1.89	-6.94
Bloomberg Barclays U.S. Aggregate Bond	-2.15	-2.12	-2.15	-2.97
Bloomberg Barclays Global Aggregate Bond	-2.05	-2.47	-2.05	-5.83

Data as of 1/31/2022, Performance in USD. Source. FactSet.

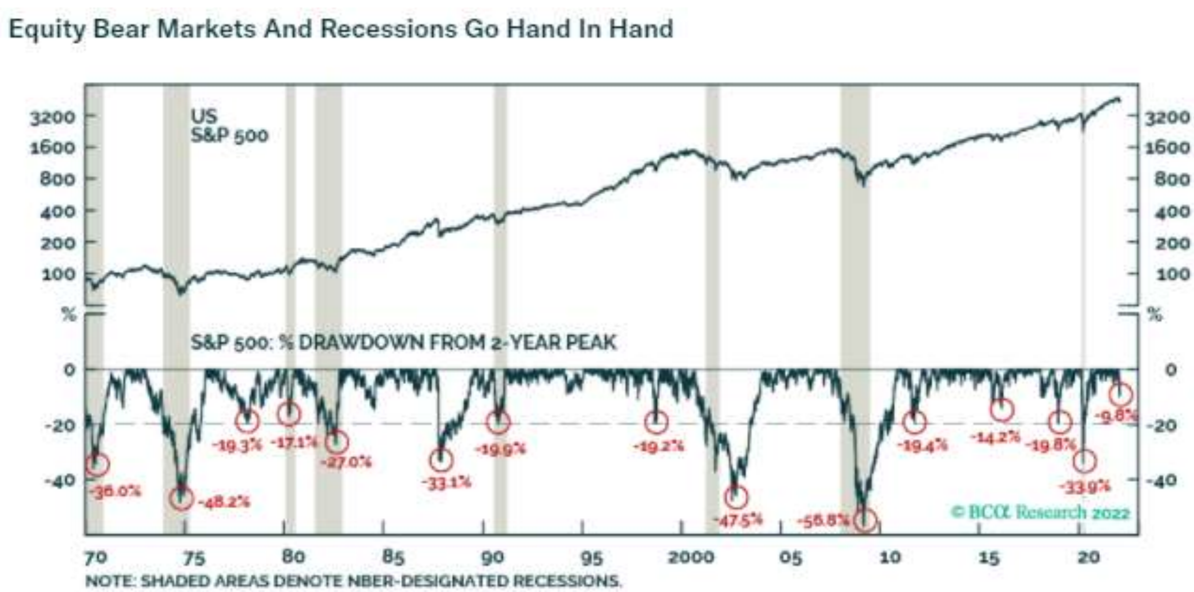
This month we take a look at the frequency of corrections and how they are a normal part of investing; and the importance of avoiding big losses in portfolios.

Corrections Are Normal

In our last commentary (early January) we wrote, “We would not be surprised to see a significant correction sometime this year, a pull-back anywhere from 5-15% would be perfectly normal. The timing of corrections is near impossible to market time and if it happens, we won’t panic.” Needless to say, we had no particular insight on the timing of a correction this year. However, it looks like we experienced one in January with broad markets declining close to 10%, and other more speculative parts of the market dropping 20% or more. The real carnage in the market has happened in what’s being referred to as “Spec Tech”, which is a nickname for speculative technology stocks with little to no earnings and “aspirational business models.” The reason we wrote that we wouldn't be surprised by a correction, is they are fairly common. The chart below, from Ned Davis Research, shows on average there are 3.4 corrections of 5% or more each year. What is less common are bear markets (down 20% or more), which on average happen only 0.3 times a year or about once every three years.



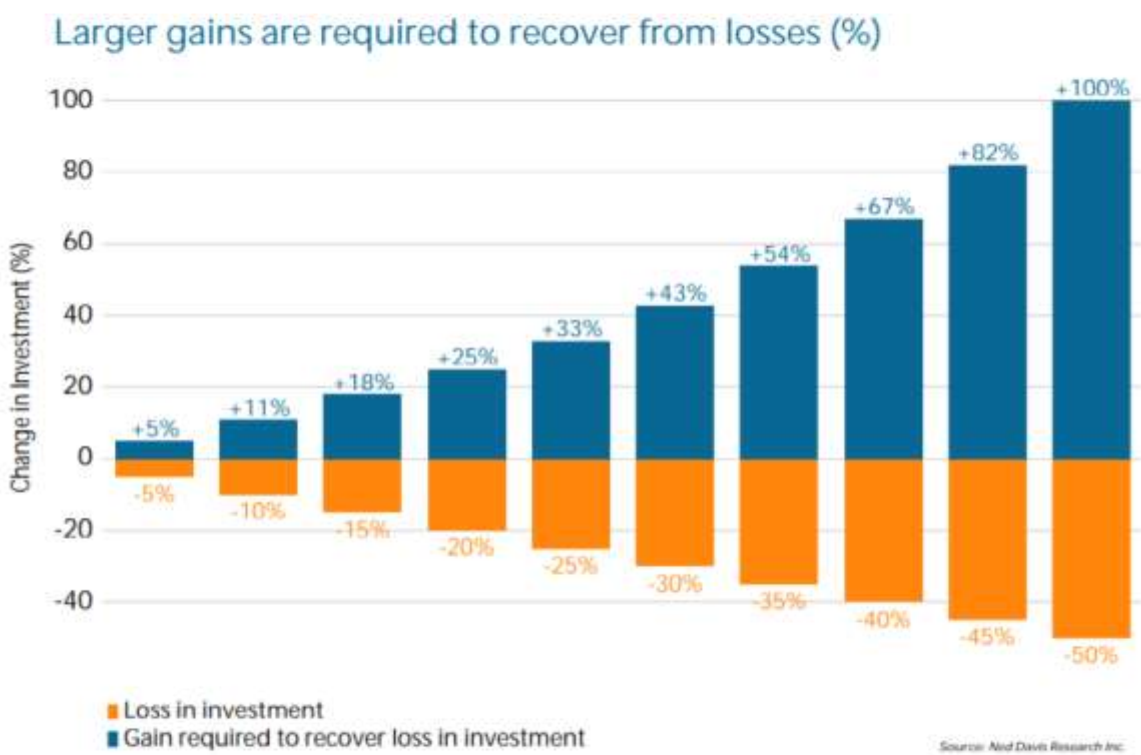
In fact, it's rare to experience a bear market outside of an economic recession. The chart below, from BCA Research, illustrates the clear relationship between recessions and bear markets. At this time, an economic recession does not seem likely in 2022, and in general, it pays to stay optimistic on stocks unless there is a high probability that a recession is imminent. With the economy and earnings still growing and monetary conditions still accommodative it's too early to get bearish.



Accredited Wealth Management

Avoid the Speculative S*&%!

Already this year the most speculative areas of the market are down 20% or more. Looking further back to early 2021 a lot of unprofitable technology companies ("spec-tech") have dropped more than 50%. These types of losses can devastate a portfolio and are difficult to recover from. The chart below is a good reminder that when a stock (or portfolio) drops by 50%, it takes a lot more than a 50% to get back to even (hint it takes a 100%!). One of the keys to growing wealth is minimizing large losses!



If you have any questions on this commentary or would like to discuss your investment strategy, please give us a call.

Best regards,

Steve Giacobbe, CFA, CFP®