GSB Wealth Management

January 2022 Market Commentary

As this note is being penned, the stock market, as defined as both the S&P 500 index and NASDAQ composite index, has entered "correction" territory, defined as a 10% drop or more from recent highs. The Dow Jones Industrial index was down 1,000 points in early trading on Monday recovered and finished in positive territory. There is a tug of war going on between those who feel interest rates are going to need to be increased faster than the Fed has telegraphed to combat inflation, and the other side of the ledger which believes recent inflation numbers will recede on their own once industrial production gets back to normal and supply chain bottlenecks are resolved. Hence the "tug of war" and intraday volatility in the stock markets. After three solid years of stock market gains averaging over 20% per annum ending calendar year 2021, the markets can be expected to take a rest or experience a correction equal to 10% or more of market value. Looking further back, the NASDAQ index and S&P 500 have logged cumulative gains of 1000% and 585%, respectively, going back to the financial crisis lows of March 2009.

The root cause of recent stock market weakness is the potential and telegraphed tightening of momentary policy as laid out in recent missives from the Federal Reserve. Higher than expected inflation has become imbedded in the economy and as a result the Federal Reserve has telegraphed at least three future interest rate increases in increments of .25%. That should not and would not be a shock to the markets or the economy, but several economists and market strategists are suggesting four (or more) interest rate increases may be in the offing to get inflation under control. COVID 19 has produced side effects that the economy hasn't seen in recent memory, from production bottlenecks (witness ongoing shortages of various products at grocery stores) to labor shortages to the unwillingness of some individuals to re-enter the workplace for fear of contracting COVID. As a result, inflation, as measured by the consumer price index, is at a level higher than anytime witnessed since the 1980's. To put things in perspective, recent market losses have brought the NASDAQ and S&P 500 index back to levels they were trading three short months ago in October of 2021. Market corrections are to be expected from time to time and the period from the March 2020 COVID lows to the first of January 2022 witnessed a market that was essentially going straight up. The old adage "markets take the escalator up and the elevator down" seems to apply once again, as unnerving as it may be. Our portfolios are constructed of high-quality securities allowing us to stay the course and stick to long term established client objectives.
Please feel free to reach out to your advisor if you have any questions or concerns.

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