

OBSERVATIONS

- With one trading day to go, and following last Friday's +2.5% rally, the S&P 500 has declined -6.9% this month —on pace to be one of the worst January's on record.¹
- They give and they take: 40% of the S&P's year-to-date declines (as of 28-Jan) can be attributed to the information technology sector alone. Looking a little closer we find that Amazon, Microsoft, Tesla, Nvidia, Apple, Netflix, Meta, and Alphabet have accounted for over 40% of S&P 500 declines year-to-date — this same select group of stocks accounted for over 1/3rd of S&P 500 returns in 2021.¹
- Initial estimates by the Bureau of Economic Analysis show that the U.S. economy grew by a 6.9% annualized rate in Q4-2021, well ahead of consensus expectations of 5.5% as well as the 2.3% rate recorded in Q3-2021.² For the full CY2021, the U.S. economy grew by 5.7%—the highest real GDP growth rate since 1984.
- U.S. durable goods, however, softened in December and fell 0.9% month-over-month, however most of the decline was attributable to volatile transportation (airplanes and autos) and defense spending.³
- Vehicle sales improved in January to a seven-month high of 15.2 million annualized rate according to an early estimate by an auto industry analyst group.⁴
- Most Chinese markets are closed at least a portion of next week for Chinese Lunar New Year celebrations.

EXPECTATIONS

- Put option (an option that gives the buyer of the put the right to sell) volume for the S&P 500 reached the highest volumes since March 2020 last Monday. The contrarian indicator is often coincident with market extremes and short-term market bottoms.¹
- "Taking away the punch bowl"⁵...the Federal Reserve met last week, leaving the benchmark federal funds rate unchanged while, unsurprisingly, reiterated that conditions have been met to begin the process of raising the fed funds rate – markets are positioned for the initial of those rate hikes to be in March. Fed fund futures market are now pricing in five rate hikes of 0.25% by year end, up from three just a few weeks ago.¹
- About 1/3 of S&P companies have reported and the number of companies beating estimates has normalized to historic rates, but the number of companies issuing negative guidance is running ahead of those offering positive guidance as to future earnings growth.⁶

ONE MORE THOUGHT⁷: Russia-Ukraine Inching Towards War

Russia currently has over 100,000 troops deployed to the Ukrainian border, including battalions of tanks, armored personnel carriers, and air support (helicopters and fighters). Another 100,000 Russian troops are stationed in reserve in the general area of the Ukrainian border. Russia has positioned these troops along Russia's border with Ukraine in the east, on the Crimean Peninsula in southern Ukraine, but also in Belarus to Ukraine's north. The Russian troops positioned in Belarus are ostensibly there for joint exercises with Belarusian forces scheduled for February, but many of these Russian troops are within 75 miles of Ukraine's capital of Kiev. Diplomatic efforts to diffuse the situation have yielded little results. Russia is seeking assurances that Ukraine will never be invited to join

¹ Bloomberg LP

² <https://www.bea.gov/news/2022/gross-domestic-product-fourth-quarter-and-year-2021-advance-estimate>

³ <https://www.census.gov/manufacturing/m3/adv/pdf/durgd.pdf>

⁴ <https://wardsintelligence.informa.com/WI966194/January-US-LightVehicle-Sales-Tracking-to-7MonthHigh-Annualized-Rate>

⁵ Coined by Federal Reserve Chairman (1951-1970) William McChesney Martin in reference to reducing stimulus.

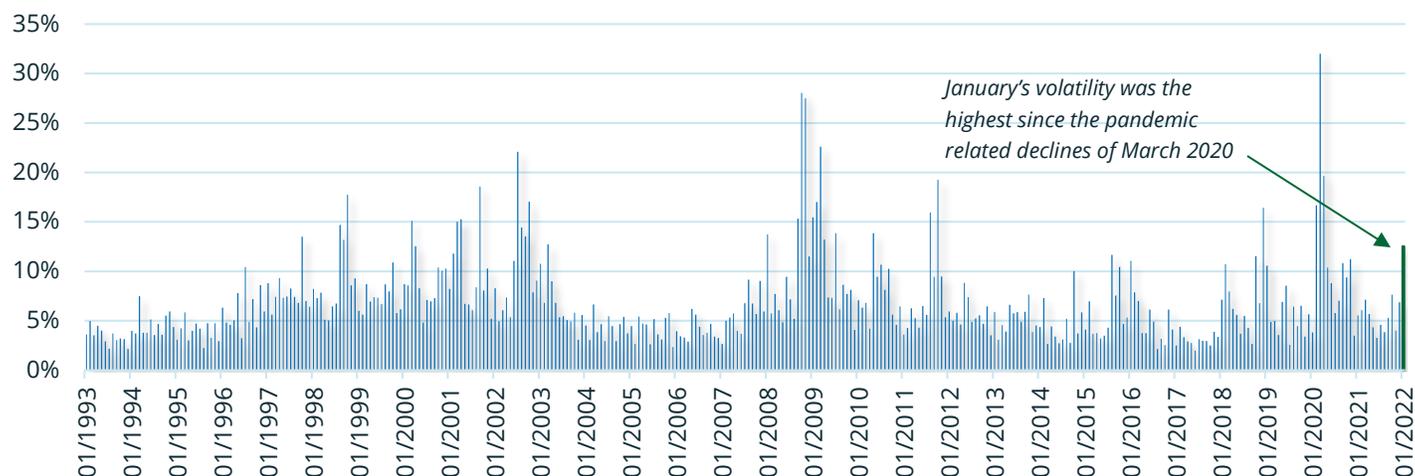
⁶ FactSet Earnings Insight 28-Jan-2022

⁷ <https://www.csis.org/analysis/russias-possible-invasion-ukraine>

NATO or deepen political ties with Western democracies, but the U.S. has firmly opposed making any such guarantee. However, NATO allies are not united on how to de-escalate the situation. The U.S. and U.K. have been actively providing military equipment and funding to Ukraine to bolster its defenses, while Germany has resisted even allowing fellow NATO allies to use German airspace to move military supplies into Ukraine. Some of the German reluctance to back more aggressive support of Ukraine likely stems from their reliance on Russian gas supplies. Germany is actively moving to reduce its consumption of coal-based power, and more than half of its natural gas supplies come from Russia. If Russia does invade Ukraine—the odds of which are increasing, but still is a 50-50 proposition in our view—expect more pressure on oil and natural gas prices in coming months. Such a spike in energy prices is likely to help boost the share prices of energy firms for a time, but it will ultimately act like a tax on the global economy and present a further headwind to global growth in 2022.

CHART OF THE WEEK

S&P 500 Intra Month Range
1993-2022



Source: Bloomberg LP, Clearstead, as of 28-Jan-2022 (1993-2022), Intra Month Range is the difference between the month's intraday high and the month's intraday low divided by the prior month's closing price.

Volatility in equity markets (S&P 500) during the month of January was the highest since March of 2020. While January is on pace to becoming one of the worst Januarys on record, the volatility observed during the month is something we believe investors should continue to brace for in the coming months.

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