OBSERVATIONS

- A key manufacturing gauge from the Institute for Supply Management (ISM) fell in January from December to 57.6, its lowest level since November 2020 — though remains well in expansion territory.[1]
- Despite fears that Omicron would dampen hiring in January, the U.S. economy added +467,000 jobs in January, well above consensus expectations for +125,000 new jobs. The month also saw the labor force participation rise to 62.2%--the highest level since March-2020—and December's job numbers were revised up from +199,000 to +510,000. The unemployment rate inched up to 4.0.% from last month's 3.9%, but this was largely due to more Americans actively searching for full-time jobs.[2]
- Job openings, as measured by the BLS JOLTS report, rose to 10.93 million in December, higher than expected and closing in on the record 11.1 million job openings registered in July 2021.[1]
- Inflation in the Eurozone reached a new record, with consumer prices jumping to +5.1% from one year ago. The surprise surge was materially more than the +4.4% median estimate as energy spikes drove prices higher. After stripping out food and energy prices, inflation rose +2.3% on a YoY basis, down from the +2.6% reading from the prior month.[1]
- The Bank of England, also concerned with persistent inflationary trends, increased its policy interest rate from 0.25% to 0.5% last week. This was the first time BoE raised rates at back-to-back meetings since 2004.[3]
- As global central banks tighten, yields are up globally. A 5-yr Japanese government bond is now trading with a positive yield for the first time since 2016, a 5-yr German bond is also trading with a positive yield for the first time since 2018, and the U.S. 10-yr bond closed on Friday above 1.9% for the first time since 2019. [4]
- The Beijing Winter Olympics began last Friday, and Chinese markets reopen after Lunar New Years.

EXPECTATIONS

- Money markets in the Eurozone are now pricing in the European Central Bank's first interest rate hike to come in July, rather than September as was generally expected before recent inflation readings. The ECB signaled a more hawkish stance at last week's meeting and press conference citing "unanimous concern" over recent inflation figures and a few ECB voting members have already called for hiking rates.[5]
- 56% of the S&P 500 have reported Q4 earnings, of these 76% have beat estimates—exactly in line with the 5-year average—but these earning beats (8.2% above estimates) are slightly less than the 5-year average.[6]

ONE MORE THOUGHT[7]: *January's ugly returns are jarring, but declines like this are not unusual*

Equity markets across the globe took a hit in January. The S&P 500 index closed on 27-Jan-2022 down -9.73% from its most recent peak achieved on 29-Dec-2022. The intra-day price of the S&P 500 was in correction territory (-10% from a peak) briefly on January 27 before recovering marginally. On average corrections of -10% or more happen about every 2.5 years and the S&P has had 33 corrections in the past 71 calendar years. Typically, these S&P 500 corrections are good buying opportunities. Examining these past S&P 500 corrections, the median correction has lasted roughly 5 months and encompassed a peak-to-trough decline of -18%. An investor buying the S&P 500 -10%

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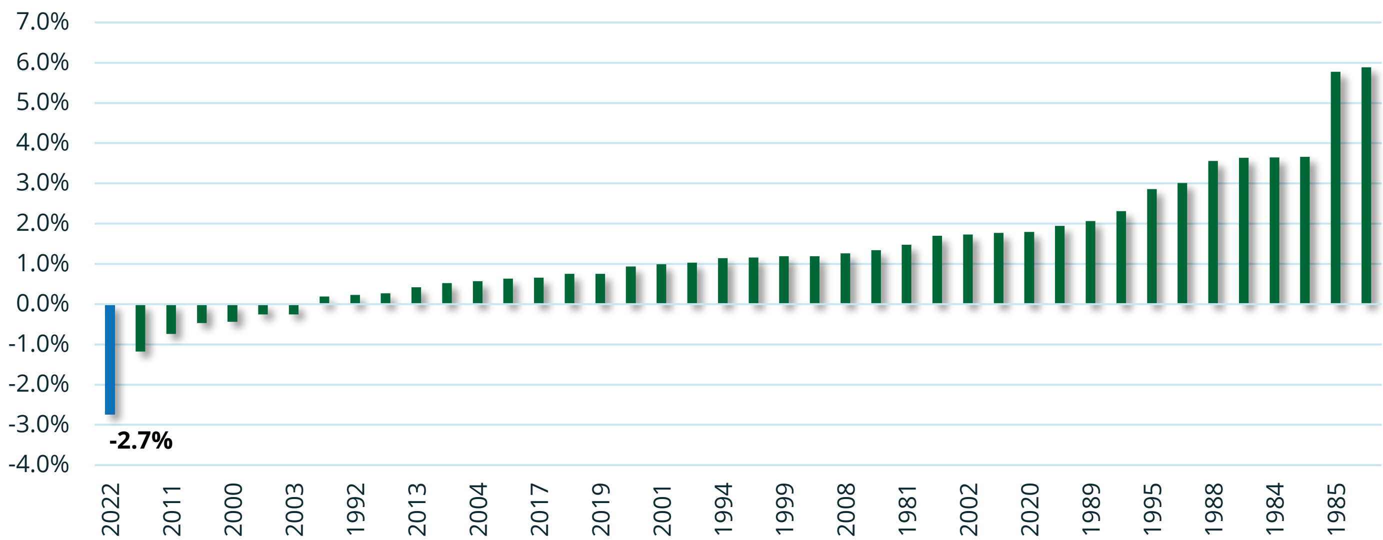
[1] *Bloomberg LP*
[2] *https://www.bls.gov/news.release/empsit.nr0.htm*
[3] *https://www.ft.com/content/7d2ed552-15c8-4f68-a83d-e48d318bc880*
[4] *https://www.ft.com/content/1e8f618d-0803-4fba-819c-9997f9593a35*
[5] *https://www.ft.com/content/e47d4c52-1a5f-4ec4-b130-748bb3767e4b*
[6] *https://insight.factset.com/sp-500-earnings-season-update-february-4-2022*
[7] *Goldman Sachs "US Weekly Kickstart – S&P 500 Correction Playbook" 31-Jan-2022*

below its most recent high, regardless of whether it was the trough or not, would have gained a median return of +15% during the subsequent 12 months. Additionally, 76% of the time (25 out 33 episodes) buying the dip at a -10% decline resulted in positive absolute returns over the next 12 months. Particularly, sharp declines are even more likely to generate these types of snap-back recoveries. Looking at nearly thirty years of the VIX Index (also known as the “fear index”), when it spikes by more than 1-standard deviation in a given sell-off—as it did this past January—86% of the time buying the dip in these instances leads to 12-month positive returns. This reinforces the notion that staying invested, and rebalancing are prudent strategies for the long-run investor.

CHART OF THE WEEK

January Total Returns Barclays Muni Bond (1981-2022)



Source: Clearstead, Bloomberg LP, Bloomberg Muni Bond Index, January total returns 1981-2022

While all eyes were on equity markets during the January declines, municipal bond markets also posted returns in the red. The Bloomberg Municipal Bond Index lost -2.7% in January — the index’s worst January since inception. Muni bond markets, like U.S. Treasury markets are grappling with the potential for five quarter point rate hikes in 2022. Muni bond funds had experienced positive weekly inflows since the week of 10-March-2021 up until the last two weeks of January. Notably, muni investors withdrew from muni bond funds at a clip ($1.4 billion) not seen since the week of 8-April-2020 when investors withdrew $2.3 billion.

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