

This month's Market Minute reflects the views of our Investment Office and was composed by [Thomas Seay, Senior Managing Director, Research.](#)



OVERVIEW

What a way to start the year. Although financial markets did not experience the worst month on record, after reaching lofty levels in 2021, significant market sell offs were widespread in January. Rising inflation, the prospects of multiple Fed Funds rate hikes, and an unsettling geopolitical environment in eastern Europe gave investors plenty of excuses to commence selling. And frankly, outside of cash earning zero, it was difficult to find a safe hiding place.

DOMESTIC EQUITY *As of January 31, 2022*

U.S. EQUITY MARKETS				
Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
DJIA	-3.2%	-3.2%	-3.2%	19.4%
S&P 500	-5.2%	-5.2%	-5.2%	23.3%
Russell 2000	-9.6%	-9.6%	-9.6%	-1.2%
Russell 1000 Growth	-8.6%	-8.6%	-8.6%	17.5%
Russell 1000 Value	-2.3%	-2.3%	-2.3%	23.3%

The S&P 500 (-5.2%) recorded its weakest start of a year since 2009 and the Nasdaq (-9.0%) recorded its worst January since 2008.¹ Valuations of growth and technology stocks have come under increasing scrutiny, as concerned investors evaluate companies trading at expensive price/earnings multiples when the U.S. Federal Reserve is about to remove the punch bowl and start the tightening monetary process to normalize interest rates.

US small-cap stocks and growth companies led the tumble as the Russell 2000 declined -9.6% while the Russell 1000 Growth Index chimed in at -8.6%. Although value outperformed, it was not rewarding as the Russell 1000 Value Index also declined, but only -2.3%. Reflecting the rising inflation pressures, consumer discretionary stocks were down -9.7%, while the energy sector rose 19.1% on the back of rising oil prices.¹

INTERNATIONAL EQUITY MARKETS

Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
MSCI ACWI ex USA	-3.7%	-3.7%	-3.7%	3.6%
MSCI EAFE	-4.8%	-4.8%	-4.8%	7.0%
MSCI Emerging Markets	-1.9%	-1.9%	-1.9%	-7.2%
MSCI EAFE Small Cap	-7.3%	-7.3%	-7.3%	2.4%

Although non-U.S. markets outperformed U.S., returns for the most part were also negative. Just as in the U.S., globally interest rates are on the rise (the German 10-Yr bond yield reached positive territory (0.001% yield) for the first time since mid-2019)¹ similarly pressuring international stocks as was the case in the U.S. markets. Emerging markets in general outperformed developing markets, but again their losses were just smaller – MSCI Emerging Markets -1.9% vs. MSCI EAFE -4.8%.

The standoff on the Ukrainian border with Russia and its impact on gas supplies for Western Europe have added to the pressures facing European financial markets, as both the French (CAC 40 – 2.1%) and German (DAX -2.6%) bourses also suffered losses.

FIXED INCOME *As of January 31, 2022***FIXED INCOME MARKETS**

Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
BarCap US Aggregate	-2.2%	-2.2%	-2.2%	-3.0%
BarCap Global Aggregate	-2.0%	-2.0%	-2.0%	-5.8%
BarCap US High Yield	-2.7%	-2.7%	-2.7%	2.1%
JPM Emerging Market Bond	-2.9%	-2.9%	-2.9%	-3.2%
BarCap Muni	-2.7%	-2.7%	-2.7%	-1.9%

Normally, fixed income markets are safe havens during equity market selloffs, but January 2022 deviated from normalcy. Leading the chaos was a “bear market flattening” of the U.S. yield curve; that is, short rates rose more than long rates. During the month, U.S. Treasury 2-year rates rose 45 basis points to 1.18% while 10-year yields increased 27 basis points to 1.78%.¹ This rise in interest rates was the primary cause for the Bloomberg Aggregate Index to return -2.2% for the month, which spilled over to the Bloomberg Municipal Bond Index returning -2.7%.

The combination of higher interest rates and poor performing equity markets was reflected in high yield bonds also delivering negative returns (Bloomberg U.S. Corporate High Yield Index -2.7%). Fleeing overseas was no place to hide as emerging market debt was also down for the month (J.P. Morgan Emerging Markets Bond Index -2.9%).

CLOSING

After such a dismal month you might ponder running for safety, but that would not be our recommendation. First, after finishing at nearly a record high at the end of 2021 - a year that saw 70 separate record highs and only one 5% drawdown¹ – investors should not be surprised to witness a bit of volatility and the occasional pullback, which is normal market behavior. Second, reported Q4 2021 corporate earnings have largely been good, just not as good as last year (which was exceptional) and the number of firms beating estimates and the amount of the beats is closer to long-run averages. Overall, Corporate America’s debt levels are low and manageable, and their balance sheets are strong. Finally, the absolute level of interest rates remains low and are not punitive. We would agree that the easy money has been made, but we believe there is more upside for the patient, dedicated investor.

SOURCES:**1: Bloomberg LP**

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