QUARTERLY MARKET COMMENTARY: 2021-Q4

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The last quarter of 2021 started on a positive note as we recovered from a downturn during the month of September. Despite the lack of complete answers to issues such as inflation, the direction of the Federal Reserve and the mystery that is the labor market, the belief that all the right questions were being asked gave markets a certain level of confidence as we forged ahead. Then came the news regarding a new variant of Covid emerging from overseas which triggered a moment of déjà vu. As we replayed the beginning of the pandemic in our minds and recalled the fear that was associated with unfamiliar uncertainties, it was remarkable how markets maintained a calmness resulting in manageable volatility. Downside risk was never truly tested during the mild roller coaster ride and equity markets eventually closed out the year near all-time highs.

Based on the available fundamental data, we believe equity markets closed out the year in overbought territory. As long-term investors, not only are we waiting for 4Q earnings reports to conclude 2021, but we are also seeking 2023 projections. This information will provide us with an updated perspective as to where market levels are relative to new fundamental data. We will soon have a better idea as to what upside potential may exist for 2022, what support levels look like in determining downside risk and identifying oversold opportunities.

Entering the new year, capital markets did feel some tremors after a year-end close where the foundation in confidence stood in the way of pandemic concerns. This confidence was supported by our ability to ask familiar questions about the new variant, Omicron, and how it measures against defined benchmarks/variables established by the Delta variant. The existence of established guidelines in the analysis of how a new variant may move through the population and impact global economies provided a relative advantage in evaluating Omicron. Watching a less aggressive, yet more contagious Covid variant unfold did provide a small sense of relief for the long-term outlook.

While taking a moment to breathe easier about Omicron’s possible economic impact, a sudden spike in the yield on the 10-year Treasury from approximately 1.4% to 1.8% certainly caught the market’s attention. Inflation & interest rates were now back in the spotlight as we digest more guidance from the Federal Reserve. It does not help when statements can be interpreted as a glass “half full” or “half empty”. Market reactions have reflected patterns based on perceived correlations derived from the past. As we observe patterns such as the technology sector pulling back due to anticipated higher rates, we also believe that such correlations should not be set in stone, using the tech pullback as an opportunity for the long-term. As for sector expectations, we believe that energy and financials will continue to perform well in an inflationary environment throughout 2022, noting that upside may not be to the extent of 2021 results.

Looking back at the beginning of the pandemic, we realize that many challenges have been faced by all. We want to express our appreciation to our amazing clients for their incredible support and confidence in us as we continue to navigate this challenging landscape together. As always, please reach out to your adviser should you have any questions regarding your portfolio or your financial plan. Wishing everyone a Happy & Healthy New Year!