

Making Sense of January's Market Volatility

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Monthly Market Summary

- The S&P 500 Index produced a -5.3% total return during January, outperforming the Russell 2000 Index's -9.5% total return.
- Corporate investment grade bonds generated a -3.6% total return while the Aggregate U.S. bond market returned -2% in January.
- The MSCI EAFE Index of global developed market stocks returned -3.6% during January, underperforming the MSCI Emerging Market Index's +0.0% return.

Volatility Increases as Fed Responds to Inflation

The Federal Reserve is moving closer to addressing high inflation. The U.S. central bank is preparing to tighten monetary policy by ending its monthly bond purchases and raising interest rates. Monthly asset purchases began during the pandemic as a way to inject money into the economy by buying bonds, encouraging banks to go back out and lend again. In addition, the Fed lowered interest rates to decrease financing and debt servicing costs. Together, bond purchases and low interest rates stimulated demand during the depths of the pandemic. However, these two policies may have gone too far. Inflation rose +7% year-over-year during 2021, the fastest pace since 1982. Now, the Fed is preparing to tighten conditions in order to fight inflation.

Interest rates rose during January in anticipation of the Fed's future actions. The 10-year Treasury yield rose +0.27% to end the month at 1.78%. Rising rates led to higher real yields, which is the yield an investor earns after accounting for inflation. Figure 1 on page 2 shows real yields rose during January 2022.

Investors Prepare for Tighter Financial Conditions

There was a broad rotation in the equity and credit markets during January. De-risking was a prominent theme as real yields rose and investors adjusted portfolios. The S&P 500 and Russell 2000 indices both traded lower, and all but one of the eleven S&P 500 sectors traded lower. Trading action was volatile at times with large intra-day reversals. The S&P 500 swung more than 2% between the intra-day high and intra-day low each day from January 20th-28th, with a 4.6% intra-day swing on January 24th. The increased volatility is being attributed to changing Fed policy.

There were multiple performance trends worth mentioning. Figure 2 below shows S&P 500 Growth underperformed S&P 500 Value by -6.7% during January, Growth's fourth biggest month of underperformance since January 1994. Growth stocks are valued based on their future earnings, and rising interest rates tend to decrease the price-to-earnings multiple markets place on those earnings. Our tilt toward value stocks helped minimize the impact of underperforming growth stocks. In credit markets, bonds generated negative returns but still play a valuable role in reducing overall portfolio risk. Finally, cryptocurrencies plunged in January, with bitcoin falling -19.4% as speculative assets saw aggressive selling.

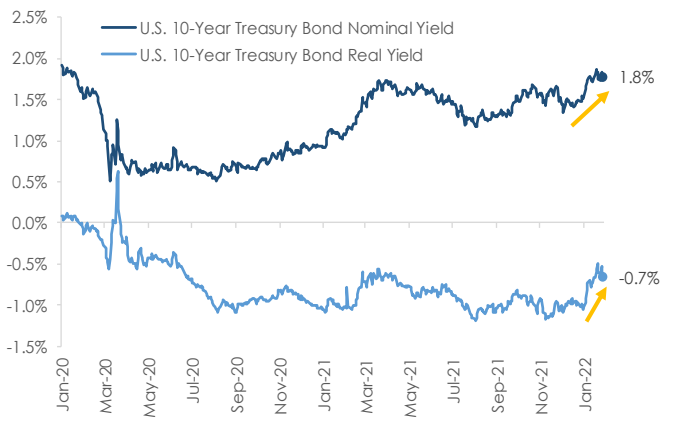
2022 is off to a rough start, but it is important to keep the big picture in mind. Figure 3 graphs the S&P 500's price return and maximum pullback for each year since 1986. The chart shows the S&P 500 experienced an average maximum pullback of -14.2% since 1986. For comparison, 2021's maximum pullback was -5.2%, or almost 10% below the average. The data indicates 2021 was the exception, not the rule. Volatility is normal. Volatility is the price of admission to investing and will continue to impact portfolios. Experiencing market selloffs is unpleasant, but Figure 3 shows annual returns historically finish the year well above the maximum drawdown level.

Thanks For Taking a Look!

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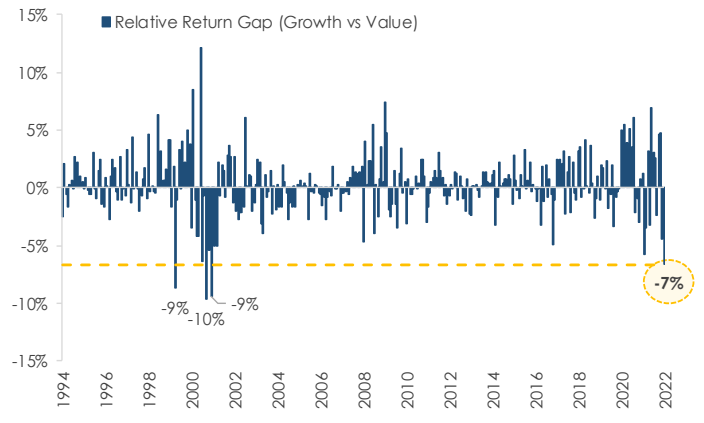
Dennis Packard
 Dennis Packard, CFP®

FIGURE 1 — U.S. 10-Year Treasury Nominal & Real Yields (Jan. 2020-Present)



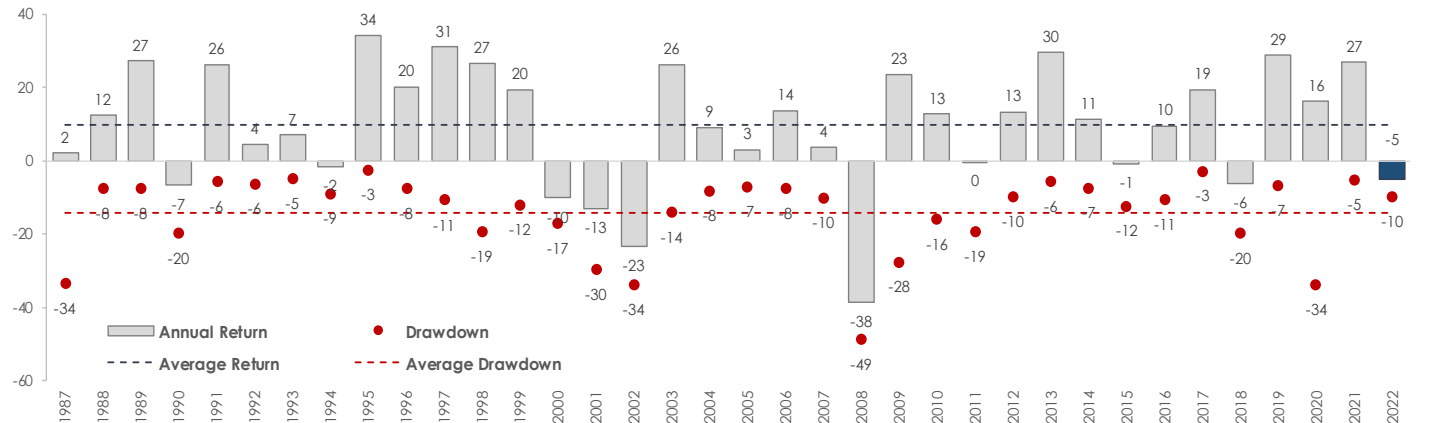
Source: MarketDesk, Federal Reserve

FIGURE 2 — S&P 500 Growth vs S&P 500 Value Monthly Returns (1994-Present)



Source: MarketDesk

FIGURE 3 — History of S&P 500 Annual Drawdowns



Source: MarketDesk. Analysis based on price returns and does not include dividends, trading costs, or management fees. Past performance does not guarantee future results. All indices are unmanaged and cannot be invested in directly.

THIS MONTH IN NUMBERS

FIGURE 4

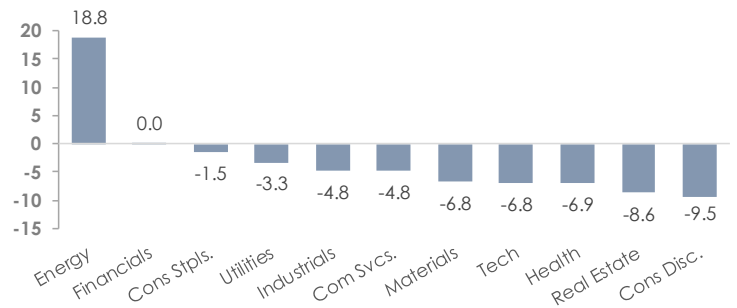
U.S. Style Returns (January in %)

	Value	Blend	Growth
Large	-2.4	-5.3	-8.7
Mid	-4.4	-7.4	-12.9
Small	-5.8	-9.5	-13.4

Data Reflects Most Recently Available As of 1/31/2022

FIGURE 5

U.S. Sector Returns (January in %)



Data Reflects Most Recently Available As of 1/31/2022

FIGURE 6

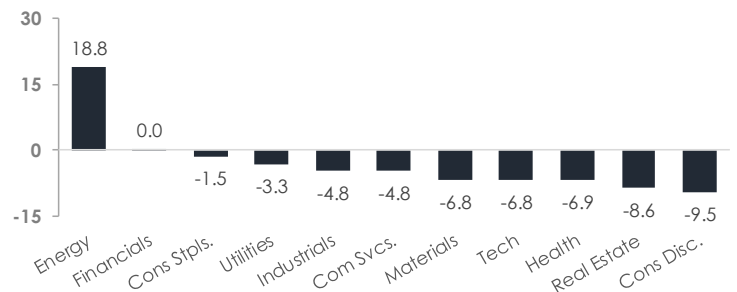
U.S. Style Returns (YTD in %)

	Value	Blend	Growth
Large	-2.4	-5.3	-8.7
Mid	-4.4	-7.4	-12.9
Small	-5.8	-9.5	-13.4

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FIGURE 7

U.S. Sector Returns (YTD in %)



Data Reflects Most Recently Available As of 1/31/2022

FIGURE 8

Market Data Center

Stocks	Level	1 month	3 months	YTD	1 year	3 years	Dividend Yield	NTM P/E	P/B
S&P 500	4,516	-5.3%	-1.7%	-5.3%	23.1%	73.0%	1.29%	19.3x	4.4x
Dow Jones	35,132	-3.3%	-1.5%	-3.3%	19.1%	47.4%	1.69%	17.8x	4.6x
Russell 2000	5,041	-9.5%	-11.5%	-9.5%	-1.1%	39.2%	1.07%	20.4x	2.2x
Russell 1000 Growth	1,858	-8.7%	-6.2%	-8.7%	17.3%	99.2%	0.56%	26.2x	11.8x
Russell 1000 Value	997	-2.4%	0.1%	-2.4%	23.1%	44.6%	1.68%	15.3x	2.5x
MSCI EAFE	1,312	-3.6%	-3.9%	-3.6%	8.4%	31.0%	3.50%	14.4x	1.8x
MSCI EM	68,773	0.0%	-2.6%	0.0%	-6.6%	20.2%	2.06%	12.0x	1.8x
NASDAQ	14,240	-8.7%	-5.8%	-8.7%	16.0%	118.9%	0.48%	25.4x	7.8x

Fixed Income	Yield	1 month	3 months	YTD	1 year	3 years
U.S. Aggregate	1.81%	-2.0%	-2.1%	-2.0%	-3.0%	11.1%
U.S. Corporates	2.39%	-3.6%	-3.7%	-3.6%	-3.5%	18.9%
Municipals (10 yr)	1.85%	-2.4%	-1.7%	-2.4%	-1.7%	10.4%
High Yield	4.13%	-2.7%	-1.6%	-2.7%	1.4%	13.8%

Commodities	Level	1 month	YTD
Oil (WTI)	88.32	17.4%	17.4%
Gasoline	2.41	8.5%	8.5%
Natural Gas	4.92	38.4%	38.4%
Propane	1.17	12.4%	12.4%
Ethanol	2.00	-18.7%	-18.7%
Gold	1,798	-1.7%	-1.7%
Silver	22.47	-3.8%	-3.8%
Copper	4.32	-3.1%	-3.1%
Steel	1,166	-18.7%	-18.7%
Corn	6.26	5.6%	5.6%
Soybeans	14.60	11.2%	11.2%

Key Rates	1/31/2022	12/31/2021	10/31/2021	7/31/2021	1/31/2021	1/31/2019
2 yr Treasury	1.16%	0.73%	0.49%	0.18%	0.12%	2.45%
10 yr Treasury	1.78%	1.51%	1.55%	1.23%	1.09%	2.63%
30 yr Treasury	2.10%	1.90%	1.94%	1.89%	1.85%	3.00%
30 yr Mortgage	3.74%	3.27%	3.14%	2.98%	2.88%	4.37%
Prime Rate	3.25%	3.25%	3.25%	3.25%	3.25%	5.50%

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