



January 21, 2022

In light of the recent volatility in the stock market we wanted to send this email to highlight our thinking, and how we are assessing current market conditions. January can often be a volatile month with the changeover to a new year bringing portfolio turnover at large mutual funds and hedge funds, as well as selling by individuals who may have postponed sales at the end of the year for tax purposes.

This year we have the added variable of rising interest rates and the fear that the Federal Reserve will overreact to current inflation dynamics and raise rates too quickly and too dramatically. The current Federal Reserve Chairman Jerome Powell has taken a measured, data driven approach to tackling near term inflation pressures, and has well telegraphed three or four 25 basis point rate increases this year, as well as the cessation of open market bond purchases that the Fed accelerated during the beginning of the Covid crisis in March of 2020. The United States is no longer in an economic crisis. We have a strong economy and therefore we see these moves by the Fed as prudent.

There are a number of reasons we are still positive about equities. 1) while some valuations are still stretched, the current volatility has brought many companies back to attractive entry points 2) TINA or there is no alternative. The stock market still provides the best opportunity for a good return outlook when compared to cash and bonds. 3) the economy is strong and corporate earnings growth and elevated profit margins should provide a good catalyst in the next several months 4) we have confidence that the Fed will not overreact and raise rates too fast or too much and tip us into a recession 5) consumers have jobs with low debt and plenty of cash 6) the financial system is sound. All of this provides a healthy backdrop for equities.

We encourage you to call us or make an appointment to come in to talk about your portfolio, the markets or the economy in general. The new year is a good time to meet and catch up and we welcome the opportunity to see you in our office or speak by phone.

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