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MARKET UPDATE

Stocks ended January lower as investors dealt with concerns over inflation, the prospects of rising interest rates, and the pace of global economic recovery. Not since March 2020 has the S&P 500 fallen as steeply as it did last month. The Russell 1000 Growth also fell over 8.5 percent, and the Russell 2000 Growth fell over 13 percent. Global markets were also down, though emerging markets outperformed on a relative basis.

Technology shares were hit particularly hard as investors feared higher rates would expose lofty valuations and raise operating costs. However, this notion has been rethought as February begins.

January also wasn't a straight trip downward. The start of the fourth-quarter corporate earnings season has been positive. S&P 500 companies are beating analysts' earnings expectations — but they are doing so by a lower margin than over the past year. While earnings are mainly going back to normal, supply-chain issues and inflationary pressures have taken a toll.

While the Federal Reserve kept interest rates steady at the end of its January meeting, policymakers say they are ready to raise interest rates in March. They also didn't rule out moving at every meeting to tackle the highest inflation in decades.

The announcement came as the Consumer Price Index continued to climb — putting another multi-decade high in the books with a 7 percent annual increase.

ADVISORS' PERSPECTIVE

Inflation spooked the market in January, with stocks having a lousy start to the year. As the Federal Reserve pivoted from their reading of inflation as "transitory" and acknowledged the surge has proven larger and more persistent than expected — it seems to have left investors feeling uneasy heading into 2022.

In January, technology stocks were particularly hard hit, and many feared the sector was in a downward spiral. We don't think so and see favorable conditions ahead. Strong earnings last week from Apple support the market, and we believe the tailwinds that helped propel tech stocks higher in 2021 have just switched direction.

We also think many discretionary stocks tied to the economy's reopening will continue to recover. Also, longer-term trends toward e-commerce and electric vehicles are likely to support this sector's growth.

While the link between January trading and the rest of the year is relatively weak, we expect markets to remain volatile as investors price in prospects for higher interest rates. However, it's important to note that its recent swings have been only slightly larger than usual. The average high-low spread over the past 60 years — the difference between the highest point of the day and the lowest point — has been 1.4 percent. So far this year, that measure is 1.8 percent.

We also expect the markets to respond to how companies contend with growth and supply chain disruptions. Yet, there are signs that things have started to normalize. A gauge of constraints produced by the Federal Reserve Bank of New York shows that pressures reached their highest point in October. The index based on 27 variables, including international shipping rates and air freight costs, ticked slightly lower in November and December. So, it seems likely that at least some supply chain issues will soon resolve themselves.

We expect the equity rally to resume and still predict the market will end 2022 higher. Buoying our optimism is that corporate profits keep climbing. It's been a solid earnings season thus far, with nearly 80 percent of S&P 500 companies that have posted results beating bottom-line expectations. So, last month's market activity doesn't signal an end to the bull market by any means.

And as interest rates are set to increase, we should be mindful they are coming off levels that were not far from historic lows. That means there's some room for higher rates without hurting the economy — as long as the Federal Reserve can manage the process in a way that prolongs growth and keeps unemployment low.