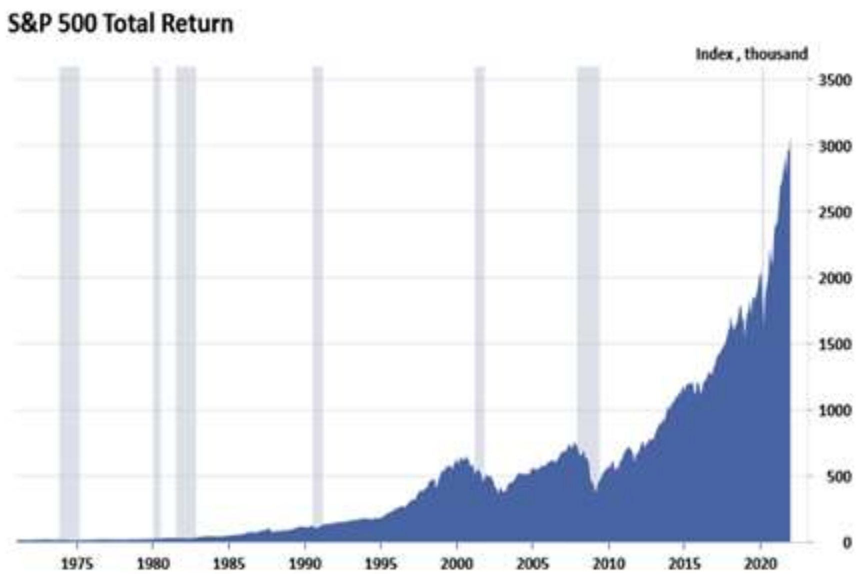
FLASH REPORT
January Market Volatility

It has probably escaped no one that the equity markets have taken a turn for the worse in the first 4 weeks of 2022. After hitting another all-time high on January 3rd, the S&P 500 index fell over 7.5% in a short period of time, nearly into correction territory (corrections occur when prices fall 10.0% or more from their high). Both the tech-heavy NASDAQ and the small cap Russell 2000 have corrected and sold off more than 10% from their recent highs.

We have seen very few market corrections since the pandemic lows of 2020, so investors have gotten used to a fairly stable and upward march for most equity indices over the last 15 months. However, typically a market does take two steps forward and one step back. Over the last 42 years, the average S&P 500 correction within a year is 14.0%! The good news is that over that same time frame, the average return for the S&P 500 is 10.5%. We had outsized returns the last 3 years with cumulative growth over 100%, so it is not surprising that the market has not continued to rise at this outsized rate. We believe this current volatility is a reminder form the markets that they do not always go up in lockstep and we are likely not done with volatility in 2022.



Source: JP Morgan; Shaded areas denote U.S. recessions

We have reported on monthly market moves as part of our newsletter informing clients of the current state of affairs. We noted that the equity markets were marching higher despite the reduced liquidity, already high valuations, and prospects of higher interest rates. The rise was actually a bit more shocking than the current decline, in our opinion. Again, a constructive market correction, provides for a rebasing that is positive for the long-term direction of the market and economy.

We see January's correction as just that and nothing more at play. The U.S. economy is still on good footing and economic indicators point to continued growth (albeit it slower). Omicron variant will likely affect growth in the short-term, but we see a healthy consumer with a high savings rate emerging. Regardless, these swift, downward moves create angst among many investors, and we wanted to address these concerns here.

A market correction doesn't happen in a vacuum and pundits can usually point to various concerns/unknowns as a reason for the downward move. This downturn is not different, and we think there are some key catalysts listed below that could be affecting the move.

WHY IS THE MARKET REACTING THIS WAY?

- History of volatility after a period of above average gains
- Worries about inflation & the Fed's interest rate response
- Trying to factor in the geopolitical unknown of Russia's latest aggressive stance to Ukraine
- Trying to factor in the path of COVID-19 variant(s)
- Reassessing valuations, especially in a rising rate environment

WHAT CAN I DO?

- Understand that pullbacks and market corrections are a normal part of the upward path of equity markets
- Take comfort in the fact that your portfolios are diversified to reduce risk and volatility
- Keep a long-term perspective for your investment horizon
- Stay on your investment course

Staying the course and remaining invested is prudent and while it feels uneasy as markets swoon, it's also important to know that big up days usually follow big down days and being out the market, even for a short period of time, is harmful to long-term performance. The illustration below is a great way to visualize the importance of staying the course. Over the last 20 years, 24 of the 25 **worst** trading days were within one month of the 25 **best** trading days.[1] The chart below shows how a hypothetical $100,000 investment in stocks would have been affected by missing the market's top-performing days over the 20-year period from January 1, 2000, to December 31, 2019. An individual who remained invested for the entire period would have accumulated $324,019, while an investor who missed ten of the top-performing days during that period would have accumulated $161,701.

Benefits to Staying Invested

It is early days in 2022 as the market resets and we have a lot of runway for improving results in the months ahead. Recency bias tells us that stock should keep rising at a similar path and pace (up 11% in 4Q21), but history tells us that markets have at least one 14% correction per year, on average. Try not to get caught up in the day-to-day market moves of the stock and bond markets. Remember to take a long view.

Please feel welcome to reach out to the Sandy Cove team if you should have any concerns. It may indicate that your asset allocation may need to be adjusted.

[1] *Only period without a corresponding best day within one month was September 17, 2001.*
Source: BlackRock, Bloomberg, Morningstar. U.S. stocks are represented by the S&P 500 Index, an unmanaged index that is generally considered representative of the U.S. stock market.