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INVESTMENT MANAGEMENT

Minute Market Update – *"Staying the Course"*

February 23, 2022

After a year of historically low volatility in 2021, volatility has re-entered the market in the first two months of 2022 with a desire to make up for lost time. However, this increase in volatility was not unexpected. Although current happenings in Russia and Ukraine could not be predicted, we knew that inflation was rising and the Fed had a plan to reduce their buying programs as well as increase interest rates throughout 2022. While we feel that the recent anxiety is likely to continue into Q2, we do expect things to calm down with regards to the daily market fluctuations we have been absorbing. Remember, markets are both emotional and fundamental, and the degree of those two behaviors will vacillate over time, often rotating depending on the economic cycle.

Inflation and interest rates have been themes within the markets for much of the last year. Recent inflation, consumer spending and income numbers should set the table for the Fed's meeting in March to increase interest rates. As of this moment, the Fed is still buying bonds in the open market, effectively applying some downward pressure on yields. We expect that to end in March, just as they vote on increasing interest rates. While the impact of higher rates will not be immediate, the increase will be a loud signal that the "easy money" policy of the Fed is over, for now. **How will the Fed react when unemployment increases or slowing economic data begins to bite?**

If history is any guide, they will be back in the financial markets, buying bonds once again. Although consumers expect inflation to continue rising before beginning to decline, whether inflation continues to rise at this pace depends on what is driving it in the first place. If inflation does prove to be more about supply chains than about monetary policy, for instance, then overreacting in one's portfolio by only focusing on inflation may not be the right move. Similarly, if inflation does remain hot but in a way that benefits corporate profits, many parts of the market can still do well even as the Fed hikes rates. Maintaining a well-diversified portfolio that is built to sustain different economic conditions across a full business cycle can be crucial in times of uncertainty like now.

In addition to the concerns about the Fed's ability to fight inflation, the specter of war between Russia and Ukraine has been added to investors' plates. President Biden has responded with increased sanctions against Russia. NATO and other world organizations are working in overdrive to de-escalate the situation and bring peace to the region. The situation is still evolving as new headlines are released every day. However, it is important for investors to stay level-headed in the face of geo-political conflicts. History shows that it's a mistake to make dramatic shifts in portfolios in response to geopolitical crises. The past century witnessed several major global conflicts including World War II, the Vietnam War, and the tensions of the Cold War. Throughout these periods, the economy and stock market were able to grow steadily. For long-term investors, overreacting to these events would have been the wrong move. Properly diversified portfolios, especially diligently managed portfolios built by a trusted advisor, are designed to handle these periods of uncertainty. It's always the case that markets can swing wildly at any moment, whether it's due to wars, economic shocks, financial crises, pandemics and more. None of this is to dismiss the severity of the current situation in Ukraine from a geopolitical, humanitarian, or regional economic perspective. While these issues will be closely watched, investors ought to avoid rash decisions with respect to their portfolios.

It is critical to keep in mind that although these issues weighing on the markets are specific to the present, each year brings its own trials and tribulations. Since 1950, the S&P 500 has experienced 36 "corrections" (peak to trough loss of 10% or more).1 That means on average, the S&P 500 corrects once every two years. The most recent correction was in March of 2020, so in some ways, the S&P 500 was due for this behavior. It is also important to maintain perspective in investing. Of those 36 corrections since 1950, only 10 have gone on to lead to "bear markets" (peak to trough loss of 20% or more). On average, the S&P 500 experiences a so-called bear market once every 7 years. As we know, March of 2020 was the most recent of these bear market moves, and the S&P 500 returned to pre-pandemic prices less than a year later. This is not to say that because we experienced a bear market in 2020, it is impossible for another to occur now. However, it is essential to keep in mind that the recent correction in the markets is natural and, although the world issues, uncertainty and volatility we are experiencing now feel dire, the markets are simply adhering to a 70+ year trend and we believe it is vital to remain unemotional and maintain a long-term outlook when considering your investments.

We at Kingsview Investment Management remain diligent in our processes' and focused on the long-term outlook of the economy. We feel it is best for investors to remain diligent with their investment solutions and utilize time-tested, defendable investment methodologies even in times of great uncertainty and new trials.

[1] *https://awealthofcommonsense.com/2022/01/how-often-should-you-expect-a-stock-market-correction/*

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