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Investment Review and Outlook First Quarter 2022

The global investment markets exhibited much volatility in the first quarter, as inflation surged to 40-year highs, Federal Reserve Board members indicated that they would raise interest rates more quickly than previously expected, and Russia stunned the world with a full-scale military invasion of Ukraine, marking the first major military conflict in Europe in decades.

As the year began, interest rate worries weighed on stocks with the highest valuations, especially growth-oriented technology stocks. Then, on February 24th, Russia invaded Ukraine, which sent oil, wheat, corn, and natural gas prices surging, reflecting fears of production disruptions and reduced supply. Stock prices declined further as investors worried that higher commodity prices would add to inflationary pressures and impact corporate earnings and consumer spending. One could say that market conditions were just terrible.

As a reprieve, stocks did rebound well in March. Although the Federal Reserve raised interest rates by 0.25% on March 16th, the first-rate hike in over three years, the increase was no more than expected, so stocks reacted positively. More hikes are expected in the months ahead.

For the full quarter, though, investments suffered. U.S. large company stocks declined 4.6% (S&P 500), small company stocks declined 7.5% (Russell 2000 index), and international stocks dropped 6.6% (EAFE index). Bonds were not a good place to hide this quarter as interest rates rose (and bond prices declined). In the quarter, the Bloomberg U.S. Aggregate bond index declined 5.9%. Disappointing yes, but this is when investors need to distinguish between bad investments and bad market conditions, as selling good investments into a bad market is almost always a bad idea.

So how should we invest at this point? Your investment portfolio should be positioned with your investment time horizon in mind. If your time horizon is at least five or even ten years, then it is recommended that you “stay the course” and maintain your target asset allocation. On the other hand, money you plan to spend within the next one or two years should be conservatively invested in money markets or other cash equivalent investments.

We continue to remain positive on the stock market over the longer term. We believe that over time a well-diversified portfolio will reward your strength and patience.

As always, please call us anytime if you have any questions or if we can assist you in any way.

Best Regards,

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