

January 2022 REVIEW & COMMENTARY

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What Happens Next?



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Equity markets, both in the United States and around the world, started 2022 with a thump. In the U.S., the S&P 500 Index fell 5.17%, the Dow Jones Industrial Average fell 3.24%, and S&P International 700 Index fell 3.58%. At its nadir on January 24th, the S&P 500 was down 11.3% putting it in correction territory (a drop of 10% or more from a recent high), although it never closed down more than 9.23%. Strong markets on the month’s last two days substantially mitigated the month’s loss. Smaller stocks fared worse than larger stocks, with the S&P MidCap 400 and Small Cap 600 down 7.21% and 7.27% respectively.

For the most part, the pain was spread among the 11 S&P sectors. Only the energy sector, up 19.1%, and the financial sector, up 0.06% rose while the weakest performance was in the consumer discretionary sector, down 9.7%, the real estate sector, off 8.5%, and the information technology sector, off 6.9%. Bonds were not a source of strength in the month either, with the S&P U.S. Aggregate Bond index off 1.9% in the month.

Why the drop?

If you think emotions rule markets – fear overcame greed in January. If you believe in more rational explanations – after two strong years markets were at lofty valuations at year-end 2021 and we were faced with the near certainty of rising interest rates along with a level of inflation not seen in years as well as significant global turmoil involving Russia-Ukraine and China-Taiwan. So, people voted with their feet and sold equities knowing that they will not have to pay taxes on the gains until April 2023.

The question to consider now is what happens next? Will we see a recovery, or a continued decline? Last year the S&P 500 fell 1.1% in January, only to return 29.7% between then and year-end and end the year up 28.7%. In 2020, the S&P 500 was down 0.2% in January, fell by 30.4% more in the Covid-induced market panic but ended up for the year 16.3%.

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There have been 29 “down” Januarys in the 69 years from 1953 to 2021. In all those cases, except one (2021), markets continued to fall to a further low – sometimes modestly like the 0.9% drop in 1956, sometimes more substantially like the 45.4% drop in the financial crisis year of 2008. The average drop of these down periods was 13.0%. Overall, because of some really bad years, following down Januarys since 1953 led to an overall average of about a positive 1.1% return for the 29 periods.

However, averages are sometimes misleading. In the 29 years with down Januarys, markets still ended up 15 times, or about 52%. The average gain in those years was 10.9%.

(over)

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So it is not yet time to despair!

While all these statistics are confusing, they point out a need to at least watch equities more closely as the year progresses. And, more importantly, it points out the important role asset allocation can serve in mitigating against big losses.

We are here to help you effectively navigate the potential uncertainty ahead.

<u>Year</u>	<u>31-Jan</u>	<u>% chg. in Jan.</u>	<u>% chg. Jan. to low</u>	<u>% chg. Feb- Dec.</u>	<u>% chg. Full Year</u>	<u>% gain if up Feb-Dec</u>	<u>% gain if up Full Year</u>
1953	26.38	-0.7%	-13.9%	-6.0%	-6.6%	0.0%	0.0%
1956	43.82	-3.6%	-0.9%	6.5%	2.6%	6.5%	2.6%
1957	44.72	-4.2%	-12.8%	-10.6%	-14.3%	0.0%	0.0%
1960	55.61	-7.1%	-0.6%	4.5%	-3.0%	4.5%	0.0%
1962	68.84	-3.8%	-24.0%	-8.3%	-11.8%	0.0%	0.0%
1968	92.24	-4.4%	-4.9%	12.6%	7.7%	12.6%	7.7%
1969	103.01	-0.8%	-13.4%	-10.6%	-11.4%	0.0%	0.0%
1970	85.02	-7.6%	-18.6%	8.4%	0.1%	8.4%	0.1%
1973	116.03	-1.7%	-20.6%	-15.9%	-17.4%	0.0%	0.0%
1974	96.57	-1.0%	-35.5%	-29.0%	-29.7%	0.0%	0.0%
1977	102.03	-5.1%	-11.1%	-6.8%	-11.5%	0.0%	0.0%
1978	89.25	-6.2%	-2.6%	7.7%	1.1%	7.7%	1.1%
1981	129.55	-4.6%	-13.0%	-5.4%	-9.7%	0.0%	0.0%
1982	120.4	-1.8%	-14.9%	16.8%	14.8%	16.8%	14.8%
1984	163.42	-0.9%	-9.5%	2.3%	1.4%	2.3%	1.4%
1990	329.07	-6.9%	-10.2%	0.4%	-6.6%	0.4%	0.0%
1992	408.79	-2.0%	-3.5%	6.6%	4.5%	6.6%	4.5%
2000	1394.46	-5.1%	-9.3%	-5.3%	-10.1%	0.0%	0.0%
2002	1130.2	-1.6%	-31.3%	-22.2%	-23.4%	0.0%	0.0%
2003	855.7	-2.7%	-6.4%	29.9%	26.4%	29.9%	26.4%
2005	1181.27	-2.5%	-3.7%	5.7%	3.0%	5.7%	3.0%
2008	1378.55	-6.1%	-45.4%	-34.5%	-38.5%	0.0%	0.0%
2009	825.88	-8.6%	-18.1%	35.0%	23.5%	35.0%	23.5%
2010	1073.87	-3.7%	-4.8%	17.1%	12.8%	17.1%	12.8%
2014	1782.59	-3.6%	-2.3%	15.5%	11.4%	15.5%	11.4%
2015	1994.99	-3.1%	-6.4%	2.5%	-0.7%	2.5%	0.0%
2016	1940.24	-5.1%	-5.7%	15.4%	9.5%	15.4%	9.5%
2020	3225.52	-0.2%	-30.6%	16.4%	16.3%	16.4%	16.3%
2021	3714.27	-1.1%	1.5%	28.3%	28.7%	28.3%	28.7%
2022	4515.55	-5.2%					
Source: Stock Traders Almanac			-12.8%	2.7%	-1.1%	12.9%	10.9%