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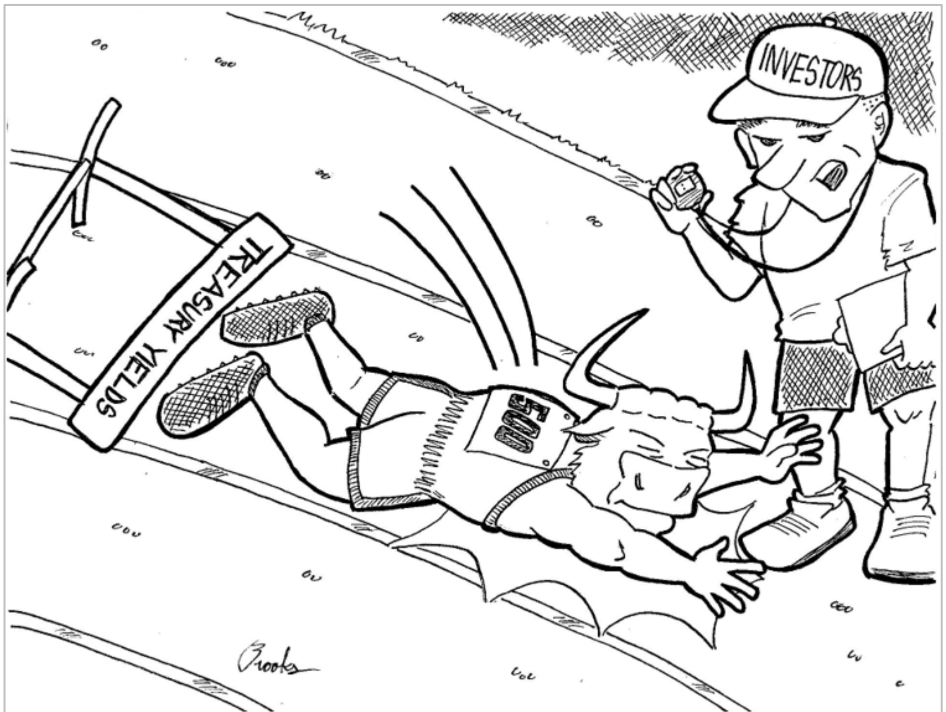
Equities stumble on yield backup, rate hike speculations

A swift and sizable move in treasury yields caused a frightful nose dive in the markets to start off 2022. The market reached a fresh all-time high on only the second trading day of the year and then all desire to own growth stocks dissipated as yields spiked to 1.80%. Hawkish commentary from the Fed, soft economic reports, and signs that inflation is trending higher pushed investors to dump the growth darlings that led the market for the past 3 years. So far, Value stocks have outperformed their growth counterparts by over 6% with the tech-heavy Nasdaq index bearing the brunt of most of the decline. It's down 9% versus the more industrial and value centric Dow 30 which is only 3% off its 2021 close. Investors brave enough to buy the dip have trended towards value and dividend stocks where only modest losses have been endured for the year.

Index Returns (%)	1M	3M	12M
S&P 500	(5.2)	(1.6)	23.3
S&P MidCap 400	(7.2)	(5.4)	14.1
S&P SmallCap 600	(7.3)	(5.3)	10.7
Factor Returns (%)	**1M**	**3M**	**12M**
S&P 500 Value	(1.6)	1.9	24.9
S&P 500 Low Volatility	(4.5)	3.3	20.9
S&P 500 High Beta	(5.7)	(4.9)	33.6
S&P 500 Growth	(8.4)	(4.8)	21.6
Top 3 Sectors (%)	**1M**	**3M**	**12M**
Energy	19.1	16.5	77.5
Financials	0.1	(2.5)	37.4
Consumer Staples	(1.4)	7.6	23.4
Bottom 3 Sectors (%)	**1M**	**3M**	**12M**
Consumer Discretionary	(9.7)	(8.1)	11.9
Real Estate	(8.5)	(0.0)	33.1
Information Technology	(6.9)	0.5	26.4

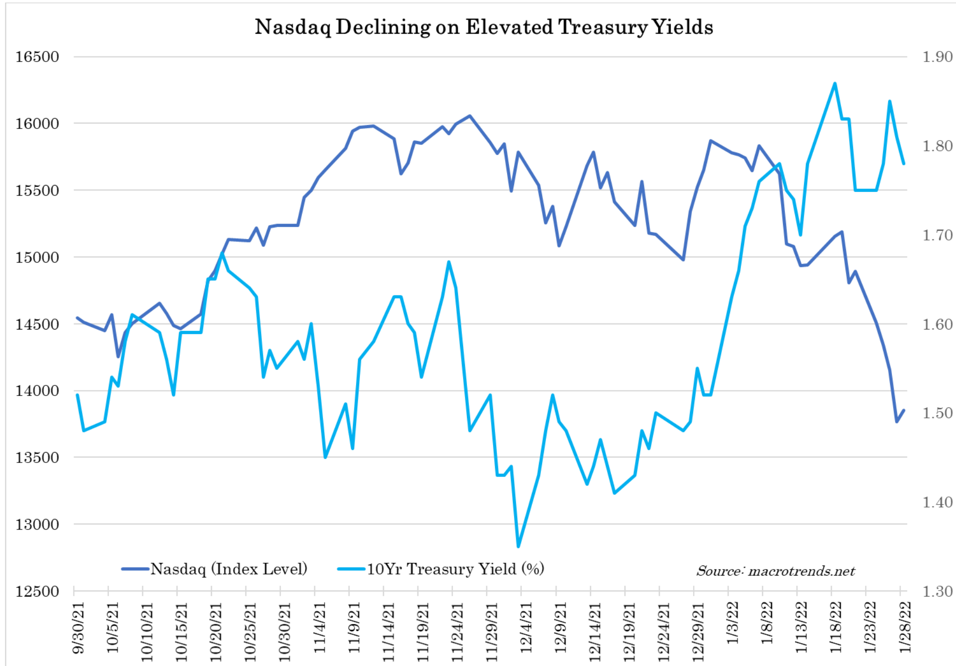


I think there's room for improvement at the next hurdle…

Signs of inflation spur rate concerns:

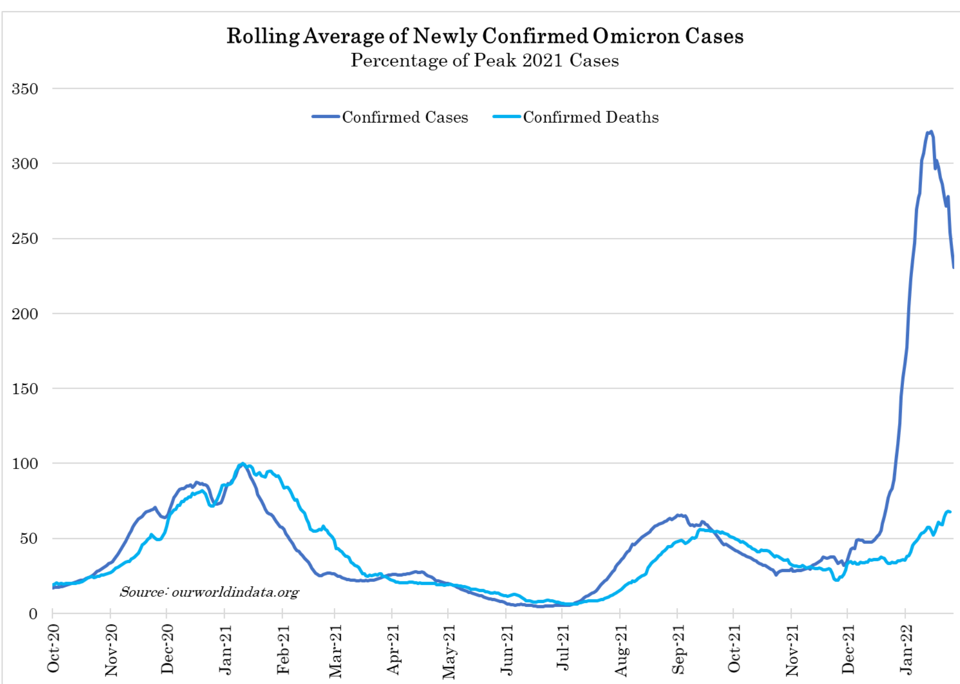
Without question, the theme of 2022 has been rising rates. Also without question is the Fed's commitment to hiking rates this year to stave off the effects of inflation. The only question being discussed now is how soon before the first rate hike and how many successive hikes to expect for the year. Market consensus is trending towards the first coming in March with a range of three to four total hikes throughout the year (Bank of America is the notable super-hawk with a forecast of 7 hikes this year).

Most investor attention has looked to economic reports for signals that the Fed will carry through on this consensus and the December CPI report validated this thinking. The highly anticpated report showed a 7% year-over-year increase, well above consensus and the highest in nearly 20 years. Other reports on the economy were somewhat soft. Labor reports were mixed, manufacturing and services indices fell, and December retail sales missed though its assumed that holiday shopping was pulled forward in October.



Omicron weighs on earnings:

Surging numbers of Omicron cases to start the year may not have rattled markets but the effects of the spread were mentioned throughout most earnings calls. Companies largely beat estimates but highlighted continued staff shortages and lingering supply chain constraints as reasons for higher than expected expenses. Banks and tech firms named wage pressures as a near-term headwind as the cost to attract and retain talent rose meaningfully in the past year. A narrative of peak margins also gained steam as companies reported deceleration (but not declines) in their fastest growing revenue segments. Positive takeaways included discussions about strong consumer demand, healthy overall margins, and firms maintaining pricing power to offset inflationary cost inputs.



Outlook: BUY or SIT BY the dip?

While rising rates have certainly punished stocks year-to-date, real rates continue to be deeply negative reaffirming stocks as a rational investment vehicle to combat inflation. As a result, buying the dip narratives have picked up traction especially among tech darlings with their impressive growth rates and recently depressed multiples. Investors brave enough to buy into such stocks may be rewarded handsomely in the long-term but until the smoke of monetary tightening clears, sitting by the dip may prove to be just as rewarding.