knowledgeable thoughtful ethical experienced interac

summaries

SIGMA INVESTMENT COUNSELORS

the official newsletter of sigma investment counselors

January 2022

MARKET COMMENTARY

At the end of 2020, we were glad to see the calendar turn to 2021 and were all looking forward to a return to normalcy. The world was well into an economic recovery, and most pockets were seemingly flush with stimulus cash. The economy looked poised for growth, and the stock market continued to march higher. In January 2021, we optimistically thought we were in the final innings of the Covid pandemic...little did we know we had a few extra innings to play.

The good news is the S&P 500 returned another impressive year, up 28.71%. Investors seemed primed to dismiss news that in prior years could easily have upset markets. We started the year with a contested presidential election and an assault on the capitol…and the stock market marched higher. The Suez Canal was blocked for six days by a large ship grinding global trade to a halt…and the stock market marched higher. We had a Delta variant and an Omicron variant…and the stock market marched higher. We had supply shortages, labor shortages, historically high inflation…and the stock market marched higher!

US stock markets advanced broadly in 2021, with US Mid-Caps up 24.76%, and US Small-Caps up 26.82%. International investments lagged the US again in 2021, with developed markets up 11.26% and emerging markets down -2.54%. Interest rates remained near all-time lows throughout 2021, despite record inflation.

When the vaccines and treatments rolled out at the beginning of 2021, the thought was we would be able to return to “normal” by summer. There was what seemed like a brief period where everyone took off their masks and were able to hug friends and extended family. However, this was quickly followed by the emergence of new variants that have prolonged the pandemic.

Government responses to these variants have differed across the globe. Travel, large meetings, and celebrations have proven more difficult. It appears masks, booster shots, and zoom meetings will continue to be a part of our future. As I write this, the Omicron variant is setting record highs, however with seemingly less severe symptoms and currently lower hospitalizations. Hopefully, the epidemiologists are correct in their forecast that this wave will be over as quickly as it arrived. We will again look forward to resuming our “new normal” lives.

As for the economy in 2021, the story was all about higher prices and shortages of goods and services. The US inflation rate rose to 6.8% in 2021. This was the highest inflation reading since 1982. Gas, food and housing all cost more in the US last year. Supply chain constraints as well as labor market issues contributed to higher prices. Real estate investments rose an astounding 40.52% in 2021, driven by low interest rates and a shortage in housing.

Early high readings on inflation were thought to be "transitory" however as supply chain issues continue to get worked out, higher prices seem to be sticking around. Fed Chief Jerome Powell commented that it was "time to retire" the word transitory and has set expectations for higher interest rates in 2022 to help moderate rising prices.

International markets have continued to lag. We have maintained a steady allocation to international developed and emerging market investments, however. We are now, and have been historically, underweighted compared to the broad market indexes. At the end of last year, the FTSE Global All Cap Index Fund had an allocation of 37% to international investments as did most broad market index investment vehicles including target date retirement funds. Our target for international funds is less than 20% of your equity portfolio. We do believe international investments provide good diversification to client portfolios and we will maintain an allocation to both developed and emerging markets. But, we continue to favor US based investments.

It would be derelict to recap 2021 and not mention the somewhat concerning increase in speculative investments. Early in 2021 we saw both Gamestop and AMC stock surge and fall based on Redditt group activity with retail investors. New cryptocurrencies appeared out of seemingly nowhere and attracted billions of dollars in investment. Special Purpose Acquisition Companies (SPACS), also known as "blank check companies" had a record year with over 500 going public in 2021, more than double what we saw in 2020 and ten times 2019 levels.

Nobel prize winning economist Paul Samuelson had a famous quote "Investing should be boring. Like watching paint dry or watching grass grow. If you want excitement, go to Vegas." These speculative investments are not much different than gambling. Maintaining a disciplined investment strategy in accordance with your unique goals and objectives, and you will win the long game.

Looking forward to 2022, we reiterate our message of patience and focusing on what can be controlled. Markets have had quite a run, and while according to our analysis they don't seem necessarily overvalued, corrections can happen for various reasons. We believe higher inflation and economic strength will lead to higher interest rates. We have already started to see some slight movement higher in rates so far this year. Rising rates will maintain pressure on bond prices and provide minimal returns on fixed income. Maintaining equity allocations and having a willingness to accept market volatility can offer opportunities for higher returns over the long run.

I hope you and your families stay healthy and safe, and the only negatives in 2022 are Covid tests!

Marisa A. Bradbury, CFA, CFP®

Please remember to contact Sigma Investment Counselors if there are any changes in your financial situation or investment objectives

186 E. Main Street • Suite 200 • Northville, MI 48167 • tel (248) 223-0122 • fax (248) 223-0144 • www.sigmainvestments.com