Morgan Stanley
Private Wealth Management

The Novelli Group
At Morgan Stanley
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There Goes the Punch Bowl!

In our October 2021 Perspectives we spoke about mounting headwinds and the expectation of a market correction growing, as investors would at some point face a moment of *reckoning*. Alas, early January's broad market action caused us to postpone publication of this piece, as we gauged the full effect of the Fed's progressively more hawkish tone. Since January 4th's intraday high of 4818 on the S&P 500, the party's fun seems to have ended and markets have finally rolled over realizing the proverbial 'punch bowl' is gone. Through, Monday January 24, the S&P500 declined to an intra-day low of 4222, down 12% peak to trough. Consider too, those speculator's spectaculars, like cryptos (some down more than 30% and 40%), and highflying / high PE stocks, like the MEME stocks, which have tumbled back towards earth as well. One of the more widely published names from 2021 was trading near $400 per share this time last year and is now $100, off 75% from it's high! Ouch! And many other broad market indices have entered 'correction' territory trading down 10% or greater from their highs.

It's hard to endure volatility and at times it can be frightening. When things get, well, to use a sophisticated financial term, *wacko* the party usually ends poorly for the most foolish. This kind of reckoning brings some sense and sensibility back into market dynamics, something any thoughtful investor should welcome.

A Tough Year Ahead

In our opinion, this is going to be a challenging year for investors. We remain hopeful 2022 will be the year we put covid behind us as a major healthcare crisis. Central governments have authorized trillions for spending on roads, bridges, and projects, which takes time to work through the economy. Adding to this, consumers across the globe will in time resume activities extending the benefits of some further pent-up demand. So, while this expansion will be faster, hotter, and shorter than recent expansions we believe we are some time away from a recession, leaving us comfortable with equity investments for long-term thoughtful investors even given recent and likely volatility to come.

Markets will have to brace for slowing rates of growth against the Fed's tighter monetary policy conditions. Even still, we line up with Morgan Stanley's Global Investment Committee in seeing this as a mid-cycle correction. We also chuckled at comments made by Mike Wilson, Morgan Stanley's Chief US Equity Strategists, concerning slowing rates of growth. He says, "hunker down for a few more months of winter …. i.e. hibernate until winter is over."[1]

With rates rising, many typically shy away from bond investments, but we take a different point of view. While we know rising rates will be a headwind for bonds, we see their less volatile and stable performance important for funding nearer term needs and providing stability to any balanced portfolio. And if we are right about this

[1] Sunday Start, January 23, 2022, Mike Wilson, Chief US Equity Strategist.

being a bumpy year for equities, bonds could be a source of funds to buy stocks if market corrections overshoot reality, as they seemed to have done on the upside last year.

Let Us Know How We Can Help

Turning the corner to a new year often inspires many to set out new resolutions, tasks and plans for the coming year. When these ideas affect your financial journey, know our team's hope is to work collaboratively with you on helping you and yours check things off your list. Our priority is to continue to endeavor our mission of exceeding expectations by being client centered and solution oriented. We hope 2022 is one of your best years ever!

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