FEBRUARY 2022

# MORAN MONTHLY DIGEST

## Insights From Our Founder

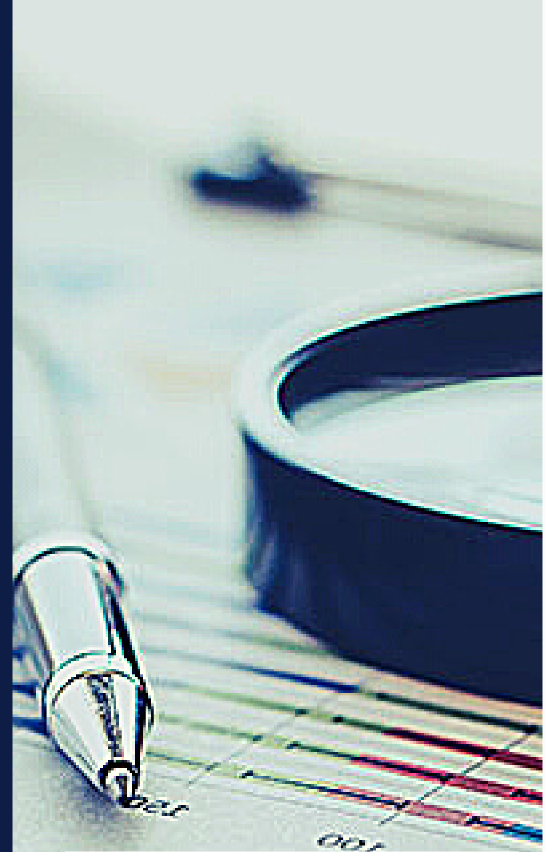
January was a bumpy ride for investors as the market digested inflation concerns and potential actions by the Federal Reserve. In February, it appears that market volatility has moderately settled even while an interest rate hike is anticipated by late March. With the underlying U.S. Economy strong and earnings growth expected to stay on track, we believe 2022 will have returns in line with long-term averages of 8-10%. We continue to see a shift from high growth names into more value-oriented stocks, particularly considering where we are in the market cycle. We still favor equities over bonds, as fixed income faces challenges in a rising interest rate environment.

Thomas M. Moran AIF®
Founder, Chief Executive Officer, Senior PIM Portfolio Manager

In the coming months, we will continue to gear up for our transition to being a Registered Investment Advisor. We will use BNY Mellon | Pershing to custody our clients' assets going forward and will no longer be affiliated with Wells Fargo Advisors Financial Network. We are still anticipating our transition to begin mid-second quarter of 2022. No action is required for you at this time, but we will be in touch with more information very soon. We are very excited about this transition! Please reach out to your advisor or client service associate if you have any questions or concerns.

As season is winding down, we have one more opportunity in March for you to join our client luncheon series at the Ritz Carlton Beach Resort in Naples. Please see page 4 of the newsletter for how to RSVP. As always, please contact our office if you have any questions or if we may be of help in any way. It is our privilege to be of service to you and your family.

Cheers,
Tom



### WHAT'S INSIDE

# MONTHLY MARKET COMMENTARY

## WHAT HAPPENED IN JANUARY?

January came in like a lion...and went out like...a lion! Historically, January is one of the better months of the year for equity markets as positive cash flow enters the market. Big institutions and pension plans rebalance portfolios, individuals invest year-end bonuses, and a new year always brings market optimism. This year, within the month of January, we saw the S&P 500 and the NASDAQ hit correction territories with respective pullbacks of 10% and 15%. The last month-end trading days rescued a challenging January with the S&P 500 closing down 5% for the month and the NASDAQ finishing down 10%. This was the largest January decline since 2009 in the grips of the Great Recession! It is critically important to note, however, that we get corrections all the time. In fact, the average intra-year correction is down 14% over the last 40 years. Let us explore what is different and what changed in 30 days to make the market so volatile.

## ARE WE FINALLY COMING TO GRIPS WITH THE I-WORD....INFLATION?

By now, it is impossible to watch or read the news without hearing about supply chain problems, trucker shortages, empty shelves and difficulty finding workers. This has manifested in much higher inflation than contemplated just a few months ago. Most of us by now have had first-hand experience with the higher prices in the grocery store and gas stations, the longer wait times for deliveries and degradation of services due to understaffing. The consumer price index (CPI) came in at 7.5% in January, up from 7.0% in December. This is the highest level of CPI since the 1970s. This abrupt development seemed to have been ignored in December as the equity market roared higher into year end and the bond market yawned.

## WHY THE SUDDEN CHANGE IN MARKET DIRECTION?

The flip of the calendar year jolted market participants awake to the idea that inflation is real, it is high and now it's time to get serious about it. This was driven home by several Federal Reserve Board members independently speaking about the inflation dilemma at various public engagements. All attention quickly turned to interest rates and the imminent Federal Reserve hiking cycle. Not only are interest rate hikes inevitable, but there could potentially be more of them and they will likely be larger than we had thought only 30 days ago. This "new" thinking caused the 2-year and 10-year Treasury bond rates to jump meaningfully.

# MONTHLY MARKET COMMENTARY, CONT.

The move in the 10-year from 1.40% to 1.95% in just a few weeks' time does not sound like a lot, but that represents a 39% increase since January 1, 2022. The result was the difference between the 10-year and 2-year rate, often referred to as the "yield curve", narrowed considerably. Why is this important? **The shape of the yield curve is perhaps the best and strongest leading economic indicator.** If the yield curve becomes inverted, that is, the 10-year yield sinks below the 2-year rate, it is a classic sign that a recession is approaching. Since 1955, the yield curve has flattened about 80 basis points per year during the first year of a tightening cycle. This puts the yield curve on track to invert sometime in 2023. This is in line with the timeline we are predicting for a possible recession in 2024, and recessions are kryptonite for the stock market.

## HOW TO BEST POSITION?

To be clear, we aren't trying to be negative or create fear. We still believe 2022 will be a good year for the equity market. Over the last 100 years, the average return for the stock market has been 8-10%. We expect returns somewhere closer to the long-term average this year. While we believe inflation will eventually come down as the Fed hikes interest rates, it may remain higher than desired and may linger longer than expected. Despite this, our economy remains strong. GDP for 2022 is expected to be north of 4% and corporate profits are on track to grow double digits. Even with rising rates, the market can still perform decently. We are expecting more volatility and market mood swings than we have experienced in the past few years. Especially as we approach 2023 and 2024, we could see a recession creep in with the removal of fiscal and monetary stimulus. So, where should you consider being invested for this? Likely not bonds! Don't forget, when rates rise, prices of bonds fall. In equities, we favor value over growth stocks, higher dividend yields and pockets of opportunity like small cap value. As most developed international benchmarks skew more toward value and have higher yields, that could be a decent place to be as well. As always, we recommend that you reach out to your advisor to discuss your personal situation and any changes that may be prudent in this fast changing environment.

Charles E. Chesebrough, Jr. CFA®
Senior Vice President

# WHAT'S NEW AT MORAN WEALTH MANAGEMENT

## CLIENT REMINDER!

### April 18 tax filing deadline for most

The filing deadline to submit 2021 tax returns or an extension to file and pay tax owed is Monday, April 18, 2022, for most taxpayers. By law, Washington, D.C., holidays impact tax deadlines for everyone in the same way federal holidays do. The due date is April 18, instead of April 15, because of the Emancipation Day holiday in the District of Columbia for everyone except taxpayers who live in Maine or Massachusetts. Taxpayers in Maine or Massachusetts have until April 19, 2022, to file their returns due to the Patriots' Day holiday in those states. Taxpayers requesting an extension will have until Monday, October 17, 2022, to file.

### Contribution Limits

If you’re still working, review the 2021 IRA contribution and deduction limits to make sure you are taking full advantage of the opportunity to save for your retirement. You can make 2021 IRA contributions until April 15, 2022.

## WHERE WE GIVE

At the core of our philosophy is the belief that responsible stewardship of wealth includes giving back to the community. At Moran Wealth Management, it is our privilege to support some incredible charities and non-profit organizations through both event sponsorships and volunteer efforts.

Learn more about some of our beneficiaries and their missions.

## Featured Charity:

## Head Neck Cancer Fund

# MORAN WEALTH MANAGEMENT
## CENTER FOR FINANCIAL EDUCATION

***LAST CHANCE!***

**Final Private Client Luncheon of 2022**

**Ritz Carlton Beach Resort**

280 Vanderbilt Beach Road, Naples, FL 34108

12pm - 2pm ET

Thursday, March 10, 2022

Please call 239-920-4431 to RSVP


## CONTACT INFORMATION

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