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ASK THE **ADVISERS**

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Rough Start

January was a rough month for stocks. Although 10% corrections are quite common, we haven’t had one since March of 2020. That correction created a unique buying opportunity aided by massive and unprecedented support by the Federal Reserve. However, the Fed has announced that its recent support for the economy and the stock market, to help curb inflation, is about to end.

The Fed is set to begin lifting its target interest-rate range from near zero as soon as March. In anticipation, the ten-year treasury rose .28% to 1.78% so far this year. At one point, the S&P was down over 10% in January until an end of the month rally reduced losses to around 6%.

The Nasdaq was down over 9% with over 25% of its stocks down over 20% for the month, which was the index’s worst month since January of 2008. Value stocks, which tend to trade for lower multiples than growth stocks, fared much better.

According to Patrick Palfrey, co-head of quantitative research at Credit Suisse, through late January the S&P 500 stocks with low price/earnings ratios had outperformed those with high P/E ratios by 11.5 percentage points since the beginning of January. However, that gap closed somewhat on the last two trading days of the month.

How does this poor January stock performance bode for the rest of the year? The S&P 500 has fallen 3% or more in January in six different years over the past 20 years, three of which were more than 5% declines.

In three of those years, the index was back in positive territory for the year by the end of February. In 2016 it took until March, and in 2009 it took until May. Only in 2008 did the index fail to turn positive. Midterm years tend to be volatile. According to LPL Financial, these years have an average drawdown of 17.1% peak-to-trough decline. But a year later the S&P 500 has gained 32% from the low. For buy and hold investors, it’s just business as usual.

Source: Barron’s

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