JOHLFS financial group

MARKET WATCH UPDATE

TODAY'S TOPICS

- Fed's Announcement, Oil, and Russia
- Market Support Levels
- What we are watching for you

OVERVIEW

US Equities are up Monday as investors continue to focus on Russia, inflation, and the U.S. Federal Reserve's March FOMC meeting, which wraps on Wednesday, March 16th. Crude oil fell -8% to $101/barrel Monday morning while the Dow Jones climbed 1% on news Russia and Ukraine negotiators had given their most upbeat assessments after weekend negotiations. Also helping sentiment this week is news that the U.S. and China are set to hold their first high level in-person talks since Russia's invasion.

- Stocks climbed last Tuesday on a news report that Ukraine would promise not to pursue NATO membership. Stocks then rallied further on Wednesday as oil prices tumbled but were unable to follow-through on Thursday and then faded further into Friday's close.
- Last week **inflation again rose 7.9% in February** matching January's surge after a jump in gasoline, food, and housing. It was the highest reading since early 1982, reflecting ongoing supply challenges in the face of continuing strong demand and the increase in commodity prices.
- **Market valuations are more attractive.** Although the recent market pullback has been an uncomfortable ride, a silver lining is the accompanying improvement in the S&P 500's P/E ratio. The index's forward P/E is down to 18x forward earnings currently after hovering near 21x at year's end and around 21-22x for most of last year. At 18x the forward P/E is roughly in line with pre-pandemic levels and the long-term average in low interest rate environments.

MARKET SUPPORT LEVELS

As shown in the chart below, areas of support to watch for the market are at 4,223 followed by 4,115.

Recall these are key technical levels we look for the market to either hold on to or fall below. We similarly watch "resistance levels" when the market is rising. Common support levels can be the 50- and 200-day moving averages as well as other technical levels such as previous market highs or lows.

WHAT WE ARE WATCHING

- The widely anticipated March FOMC meeting announcement comes this Wednesday where a 0.25% rate hike is baked into the cake. Investors will watch closely for any further color on how the Fed plans to tighten for the rest of the year, especially in the wake of Russia's invasion of Ukraine and continued high inflation readings in the U.S. It is navigating an unusually complicated environment of a tight labor market, supply disruptions and lately, the war in Ukraine.
- Crude Oil continues its wild intraday swings in prices with WTI hitting $130/barrel at one-point last week. Monday morning prices were down to around $100/barrel on news of upbeat negotiations between Russia and Ukraine although we won't hold our breathes for a short-term resolution here. The market will remain fixed on crude's short-term movements this week.

TIPS FOR ENDURING MARKET DOWNTURNS

Remaining calm during market turmoil is not easy, especially when headlines are dominated by negative language such as collapse, fear, and panic. It is a natural human instinct to act emotionally during stressful markets periods and thereby abandon the adage, "*Buy low, sell high*". Panic selling though may only create more turmoil for a portfolio.

Before acting, it's important to go back to the basics and again ask ourselves some of the important fundamental investing questions:

1. Have your long-term goals changed? Finding the right blend of both rational vs. emotional thinking for investment decisions:

It can be easier said than done but waiting out a market downturn may be your best course of action. Remember, index corrections and bear-markets are a normal part of the business cycle and investing in general. That is why it is so important to think rationally before acting when the markets change. Wealth and money accumulation are naturally a basic emotional human instinct, and it is one of the major reasons we hire a financial advisor who can help us think more rationally in periods of market stress.

2. What are my liquidity needs and has my risk-tolerance changed? Cash vs. Bonds vs. Stocks

During times of market selling, it may seem as though stocks are one of the more liquid assets you own but remember that stocks generally serve investors best when they are used to meet long-term, not short-term, needs. Bond investments should be used intermediate-and short-term investment horizons with low cash weights used for immediate needs. Overreacting to a stock market decline could bring losses that you will regret when the market rebounds, as it will. *It history is any guide.*

3. Revisiting your true risk-tolerance. Am I following an investment strategy that is suited to any market environment?

When we first start working with a financial professional it's common to develop a risk profile to help establish whether your natural temperament regarding investing is conservative, moderate, or aggressive. Difficult markets help you find out what your true temperament is. If volatile markets bring too many sleepless nights, then you may need to dial your overall portfolio back to a more conservative stance (e.g. more fixed income).

LONG TERM MINDSET

It is easy to let the current state of the market influence your investment strategy. In a ***bull market***, you may want to load up on stocks. In a ***bear market***, you may be tempted to sell every stock you own. But those types of reactions may not serve your long-term goal of accumulating enough assets to educate your children or finance a retirement that could last two decades or more.

Choosing to stay invested and not react to market conditions is a proactive decision. The intentional choice of 'no action' is very different from inaction or complacency. Decisions do not always have an actionable component. Food for thought: What if an investor panicked and sold during the Covid volatility in the spring of 2020? Remember that volatility and corrections are necessary for new growth to regenerate. Let's be patient and remember our long term objectives.

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