# BIONDO PERSPECTIVES

FIRST QUARTER REVIEW

## Volatility Returns in 2022

**Joseph P. Biondo**

After a historically calm 2021, volatility returned in full force during the first quarter of 2022. Driven by surging inflation, the Federal Reserve raising interest rates, and the Russian invasion of the Ukraine, global markets largely reacted with lower prices. During the quarter, inflation readings surged to 40-year highs. In response, the Federal Reserve Board promised to raise interest rates faster than previously believed. Also, the full-scale military invasion by Russia in Ukraine marked the first major military conflict in Europe in decades.

As 2022 began, inflation readings registered multi-decade highs, confirming that the price pressures that began in 2021 were accelerating. That prompted multiple Federal Reserve officials to signal that interest rate hikes would be faster and more significant than markets previously thought. The Federal Reserve followed by raising the target range for the Federal Funds rate by 0.25%, to 0.25-0.50%. Investors should be reminded that the mandate of the Fed is two-fold – an economy that provides for maximum employment and an inflation target of 2% or lower.

The prospect of interest rate hikes weighed most heavily on sectors with the highest valuations, specifically growth-oriented technology stocks. The steep declines in the sector exacerbated market volatility in January. The S&P 500 Index ended January with the worst monthly return since the onset of the COVID-19 pandemic in March 2020.

The increase in inflation is driven primarily by supply chain bottlenecks, surging energy prices, and strong consumer demand. As inflation readings have continued to rise, the Fed may be forced to tighten monetary policy in response. The latest Federal Open Market Committee (FOMC) projections show inflation ending 2022 at +4.1% before falling to +2.6% in 2023.

The Fed has now firmly admitted that inflation is a problem, and will tighten policy in an attempt to bring it under control. The Fed has started to raise rates and will begin its balance sheet reduction in the coming months. They continue to believe, however, that a "soft landing" can be achieved for the economy. **A soft landing means that the economy can avoid recession despite the increase in interest rates.** At the most recent meeting, Fed Chair Jerome Powell cited the occurrence of such soft landings in 1965, 1984 and 1994.

During February, the market's primary concern shifted from monetary policy to geopolitics, as Russia amassed troops on the Ukrainian border, prompting warnings from the United States and other Western countries of an imminent invasion. On February 24, these warnings of a Russian invasion of Ukraine were fulfilled, as Russia invaded in the early morning hours. **The conflict sent essential commodity prices, such as oil, wheat, corn and natural gas, surging as commodity producers and end users feared production disruptions and reduced supply.** Markets dropped in response to the invasion, as investors realized that these pressures only added to prior concerns about inflation.

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While hopes faded for a quick resolution, the developed world united in opposition to Russia, imposing crushing economic sanctions on the Russian economy. While these sanctions are clearly aimed at Russia, there is impact expected in Europe and other Western economies as well, since we live in an ever-connected global economy.

### First Quarter Market Returns

The major US equity markets all declined in the first quarter of 2022, with the S&P 500 down -4.60%, the Dow Jones Industrial Average declining by -4.10%, and the growth heavy Nasdaq 100 down -8.91% for the full quarter. From a performance perspective, investors rotated away from higher valuation growth stocks and into sectors more exposed to the traditional economy, which typically trade at lower valuations, a continuance of the trend which began in late 2021.


### Current Outlook

As the second quarter begins, markets face the most uncertainty since the pandemic began, with the same headwinds of inflation, monetary policy and geopolitical tensions.

As mentioned earlier, inflation remains at a near 40-year high, with the prices of major commodities rising in response to the Russia-Ukraine war. There is unlikely to be much short-term relief from these pressures. Until we see inflation peak, the Federal Reserve is likely to aggressively raise rates, which over time can become an economic drag.

We also expect further detail from the Fed on its balance sheet reduction plan, which will explain how the Fed plans to unload the assets it purchased in the latest Quantitative Easing program, enacted in response to the pandemic. If the details of this reduction are more aggressive or if the Fed hikes rates faster than current market expectations, further declines in assets are probable.

**While there are clearly risks to investment portfolios, it is also important to note that the US economy is very strong and labor markets remain robust.** Even though interest rates are climbing, they are still well below that point at which most market participants fear may hobble economic growth. While valuations remain above historic norms, they are well off their highs of 2021, and offer much more attractive long term entry points for investors willing to look past the current storm.

The labor market is in good shape, as evidenced by the near record number of job openings, while the unemployment rate is back to pre-pandemic levels of 3.6%. Consumer spending and balance sheets are both solid due to stimulus payments, job gains and wage growth. Consumer spending data is critical, as it drives roughly 70% of the US GDP. At the most recent Fed meeting, Powell noted "the probability of recession within the next year is not particularly elevated," citing strength in the economy even in the face of a less accommodative Fed.

In periods such as the present, it is important for investors to remember a few key things. First, the economy and the equity market are not the same. While economic events can and do impact markets, it is typically well in advance. Thus, making investment decisions on what is currently occurring in the economy rarely yields positive results. Second, volatility is not risk and is often the long-term investor's best friend. **Therefore, investors with a horizon of greater than a few years should embrace volatility, as it often provides opportunity.** Lastly, behind every stock lies a tangible, operating business and the performance of the underlying business will be the ultimate driver of that stock's performance. While it may seem comfortable in the short run to reduce or eliminate a stock that is declining, in the long run, it seldom pays to sell shares of a high-quality, operating business that is well run by capable management teams.

While we came into 2022 expecting volatility – particularly in the first half of the year – this is a great time to review your financial plan and adjust expectations. This should involve a full review of your overall asset allocation and risk tolerance. As always, we strongly encourage you to take advantage of all that our Firm's resources can bring to bear for you, which should help you to face the uncertain future with confidence.

As always, please feel free to reach out to our team so that we can review your specific personal situation and ensure that your portfolio reflects all variables. We appreciate the opportunity to serve you and your financial needs, and appreciate the continued trust and confidence that you have placed in us as your financial partners.

**Joseph P. Biondo**
*CEO, CIO, Portfolio Manager*

Sources: Index returns – Bloomberg; Interest rates, inflation projections – Federal Reserve; Monetary policy, US economy – Wall Street Journal; Commodity prices – Seeking alpha; Unemployment rate – Department of Labor

The information set forth regarding investments was obtained from sources that we believe reliable but we do not guarantee its accuracy or completeness. Neither the information nor opinion expressed constitutes a solicitation by us of the purchase or sale of any securities. Past performance does not guarantee future results.

## Biondo Investment Advisors' CEO recognized alongside peers nationwide

Joseph P. Biondo, CEO, CIO and Portfolio Manager, has been named to Forbes' prestigious Best-in-State Advisors list. Joseph was ranked #29 in Pennsylvania. Congratulations on this well-deserved achievement!

We are proud of his recognition and take this opportunity to thank our clients - without them this would not be possible.


The Forbes ranking Best-In-State Wealth Advisors, developed by SHOOK Research, is based on an algorithm of qualitative criteria, gained through telephone, virtual and in-person due diligence interviews, and quantitative data (as of 6/30/21).

## It's All About You: Know Yourself to Define Your Path

Defining your path to a personalized investment strategy and sticking to it begins with self-reflection. There are many things in life that pay dividends; knowing yourself is one of them. I'm not just referring to dividends in the form of payments from company profits made to shareholders, but rather the positive results of decisions you have made in life. Understanding who you are and what you value sets the stage for identifying your goals and defining a path toward achieving them, even when current events and market volatility challenge you to stay the course.

Our emotions can create apprehension and uncertainty in our decision-making and occasionally lead us to question our choices. We've all experienced times when emotional volatility may have disrupted our focus, clouded our judgement, or even stifled our cognitive abilities when we needed them most. Losing control in a debate, hastily leaving a job without thinking through the consequences, or making impulsive purchases are just a few examples of emotional reactions, as opposed to thoughtful actions. **Through experience, we come to realize that a bias toward rational thinking can be tremendously beneficial to our financial, personal and professional lives, while gracing our decision-making with more positive results over time.**

Reflect on some of the choices you've made in life that resulted in highly favorable outcomes, not just financially, but to your health and well-being, in relationships, and in your career. You may find at the heart of each of those choices lied some reflection on what you valued, what you aspired to do and be, and how your goals were aligned with your personal beliefs. Avoiding emotional investing calls for a similar approach to decision-making, through careful consideration of your tolerance for risk, your investment goals and purpose, and a strategy that aligns with both. Fortunately, we can take some very practical actions to diffuse impulsivity and give ourselves opportunities to reinforce a more thorough, controlled decision-making process, such as:

- Practicing strategies to manage emotions, that might include avoiding daily evaluation of your investments and being more cognizant of responses to media hype.

- Consulting with your financial advisor, to gain a better understanding of what you are planning to achieve.

- Understanding that while your goals help to define your path, your purpose motivates you to stay the course and get you where you want to be.

- Working closely with your financial advisor, to determine an investment strategy that's most suitable for you.

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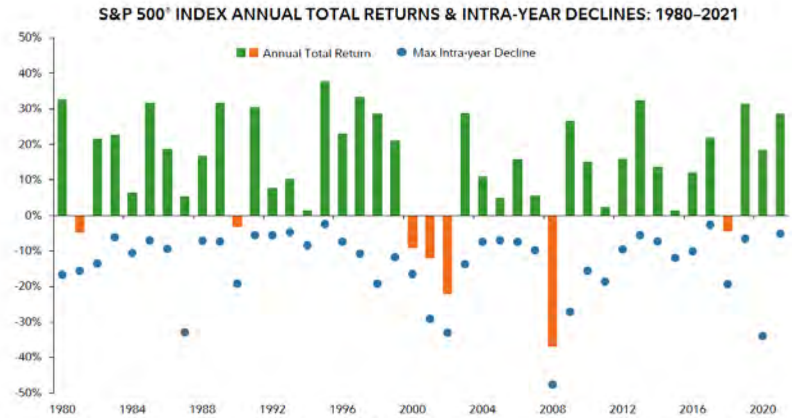
Take note of the intra-year declines (blue dots) in the chart below, and the positive and negative total annual returns for the S&P 500 Index at the end of each respective of year. Now think about the emotional volatility that is likely to result from those ups and downs, particularly around maximum intra-year declines and year-end returns.

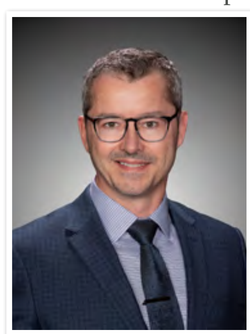



**Past performance is no guarantee of future results.** It is not possible to invest directly in an index. Returns are based on index price appreciation and dividends. Intra-year drops refer to the largest index drop from a peak to a trough during the year. For illustrative purposes only. See appendix for index definition. Data as of 12/31/21. Source: Standard & Poor's, Bloomberg Finance L.P.

Investors that monitor their accounts frequently while diving into the abyss of emotionally charged media coverage, on everything from the financial markets to world events, may find it difficult to subdue their emotions when making investment decisions. **While the correlation between market and emotional volatility can be strong, history tells us that staying invested and taking a broader, long-term view can be your best choice.** As you can see, the number of years the S&P 500 index yielded a negative return in the past forty years is far outweighed by the positive returns in that span.

While this is only one metric through which to evaluate market performance, it does give us a fairly clear picture of the market volatility, wide ranging investor sentiment, and an overall positive, cumulative yield across a forty-year span. It emphasizes the importance of time in the market versus timing the market. Like many other important decisions made in life, managing emotions as they relate to your investment strategy can be just as important as the strategy itself.

At Biondo Investment Advisors, building strong client relationships is one of the most fundamental aspects of our work. Through assessments, ongoing communication and the utilization of intuitive technologies, we work closely with each individual to define their investment goals and determine what they value most. We look forward to continuing that journey with you and welcome the opportunity to discuss our services with your friends, family and colleagues as well. They may reach out to me, or any member of the Biondo Investment Advisors team, to establish their personal investment path.



**Luke Barbalich, MBA**
*Wealth Advisor*

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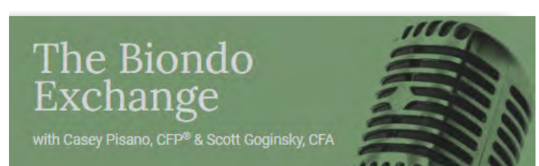


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