Heacock & Jones
Financial Services, Inc.

Market Commentary - March 2022

Following are the year to date results of the major market indexes:

	YTD
Dow Jones Industrial Average	- 4.57%
Standard & Poor's 500	- 4.60%
NASDAQ Composite	- 9.10%
Wilshire 5000	- 5.73%
MSCI EAFE (International Index)	- 6.61%
Barclays Aggregate **Bond** Index	- 5.93%

The word "Recession" is showing up in media headlines. Even the mention of the "R" word causes investors concern. Such events are highly correlated to bear markets for stocks. Reminder that as bears attack, they stand ***high*** with paws reached higher and then lunge ***downward***. The last three bear markets resulted in declines of:

49.1% in DOT.com bubble	-	March 2000 through October 2002
56.4% in Financial crisis	-	October 2007 through March 2009
33.9% in Pandemic	-	February 2020 through March 2020

These bear markets occurred during global synchronized economic downturns. The U.S. and Europe are amid a slowdown. Meanwhile China, the second largest economy, is in an early stage of recovery, which may help the U.S. and Europe prevent outright recessions.

Two present threats facing both consumers financially and the U.S. economically are:

1. ***Inflation***. If it persists into the fall, consumers will suffer from higher consumer prices; growing at 7.9%, compared to wage income growing at 5.0%. When inflation surges, spending on residential rents, housing or vehicles cannot easily be replaced with lower cost alternatives since ***all*** rents, new and used vehicle prices are surging.
2. ***Federal Reserve***. If interest rates are raised too aggressively, the cost to borrow for mortgages, vehicles, appliances, and consumer goods will dampen spending.

By comparison, China's inflation rate is 1.0%. The Peoples Bank of China ***dropped*** their prime lending rate on January 19, 2022, from 3.8% to 3.7%, evidence of neither inflation nor increasing interest rates. Their improving economy may prevent a U.S. recession.

The Bond Index suffered its greatest 3-month decline of 5.93% in more than 25 years. The 180 million barrels of oil released from the U.S. Strategic Petroleum Reserve will curb inflation and keep long term interest rates from moving materially higher. This improves the outlook for bond prices later in 2022. As for stocks, until it becomes clear a recession will be averted, the emphasis is on income and then growth types of stocks.

Paul Heacock, CFA

"Love and compassion are necessities, not luxuries.
Without them, humanity cannot survive." — *Dalai Lama*

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