

# MONTHLY MARKET UPDATE

January 2022



## INVESTMENT RESEARCH TEAM

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## SUMMARY

- The Fed's hawkish tone caused equity markets to pull back, especially in growth names. Equity markets have pulled back with the S&P 500 down -5.3% for January.
- The 10-year Treasury yield rose +0.27% to end the month at 1.78%.
- Consumer prices are up +7% year over year, the highest rate of increase since 1982.
- The economy grew at a record pace. The U.S. economy grew at 6.9% annual growth rate in the final months of 2021 and achieved the strongest growth over an entire calendar year since 1984
- According to FactSet, the economy is expected to grow at +4% in 2022, above its long-term trend.
- Equity valuations have come in drastically, close to historic "normal" forward P/E ratios.
- The U.S. trade deficit surged to a near-record high of \$80.2 billion in November.
- Price growth in home prices slowed a bit in November, according to the S&P CoreLogic Case-Shiller National Home Price Index.

## COMMENTARY

Federal Reserve's efforts to restrain inflation has not bode well for market volatility. Equity markets have pulled back with the S&P 500 down -5.3% in January. 2022 is now, officially, the worst-ever start in the history of the S&P 500 with the tech sector especially hit hard. Interest rates rose during January in anticipation of the Federal Reserve's actions. The 10-year Treasury yield rose +0.27% to end the month at 1.78%, back near January 2020 levels. Rising interest rates led to higher real yields, which is the yield an investor earns after accounting for inflation.

Consumer prices are up +7% year over year, the highest rate of increase since 1982. The Fed has announced they will end the bond buying program it started due to the pandemic by March and will have multiple rate hikes this year. The Federal Reserve is on track to raise its main target interest rate in mid-March, as Chair Jerome Powell pledged to be "humble and nimble" in adapting policy to a fast-changing economy. By making the cost of borrowing higher for companies, it lowers their growth projections. This decline has been especially pronounced in high growth stocks as they need to borrow more to fulfill their lofty growth. Valuations and the prices of these stocks have suffered as a result. There is also a rotation into bonds as a "flight to safety" from the stock market. They earn a little better yield now than from prior months.

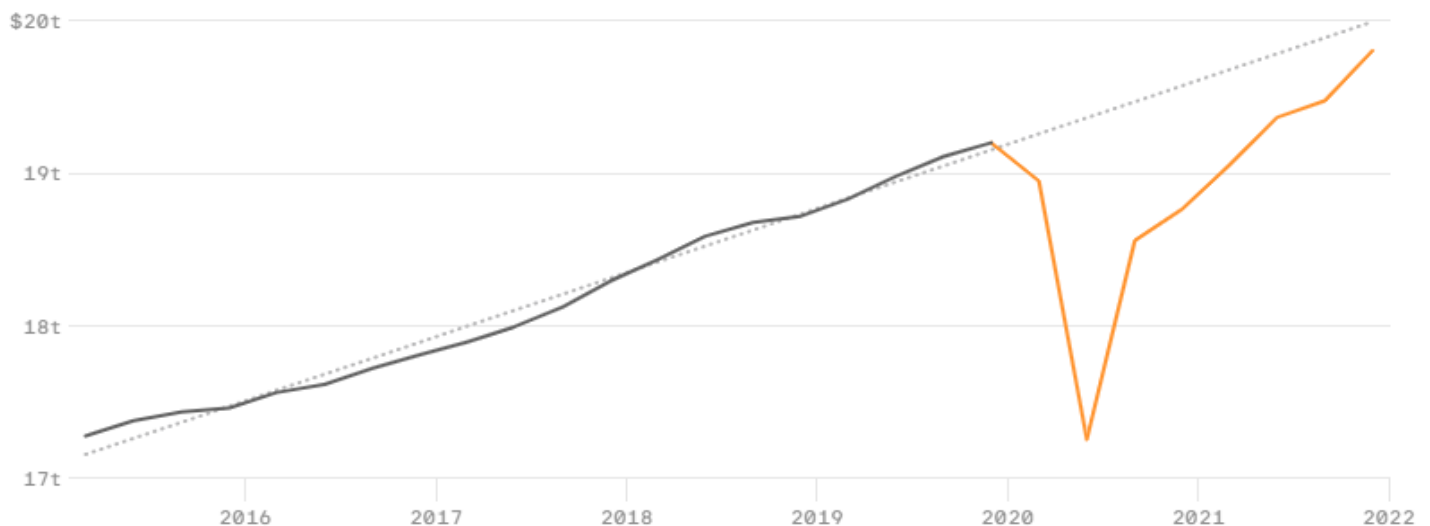
It is clear the Fed is worried about inflation. But until we diagnose what's really causing the inflation, we won't be able to treat it. There are a lot of unusual forces driving inflation up that have never been seen before like supply chain disruptions from COVID-19 and shortages. Some of these will ease in the upcoming months as companies race to bring up supply. The equity market is pricing in 5 rate hikes this year. This assumes that none of the supply chain issues subside that is causing inflation which may be unreasonable. The January jobs report will be especially important to see how fast the Fed will act.

On the brighter side, the economy grew at a record rate last year. The U.S. economy surged ahead with a 6.9% annual growth rate in the final months of 2021 and achieved the strongest growth over an entire calendar year since 1984 but U.S. GDP is still about 1% shy of its pre-pandemic trend, according to Renaissance Macro Research.

## U.S. real GDP

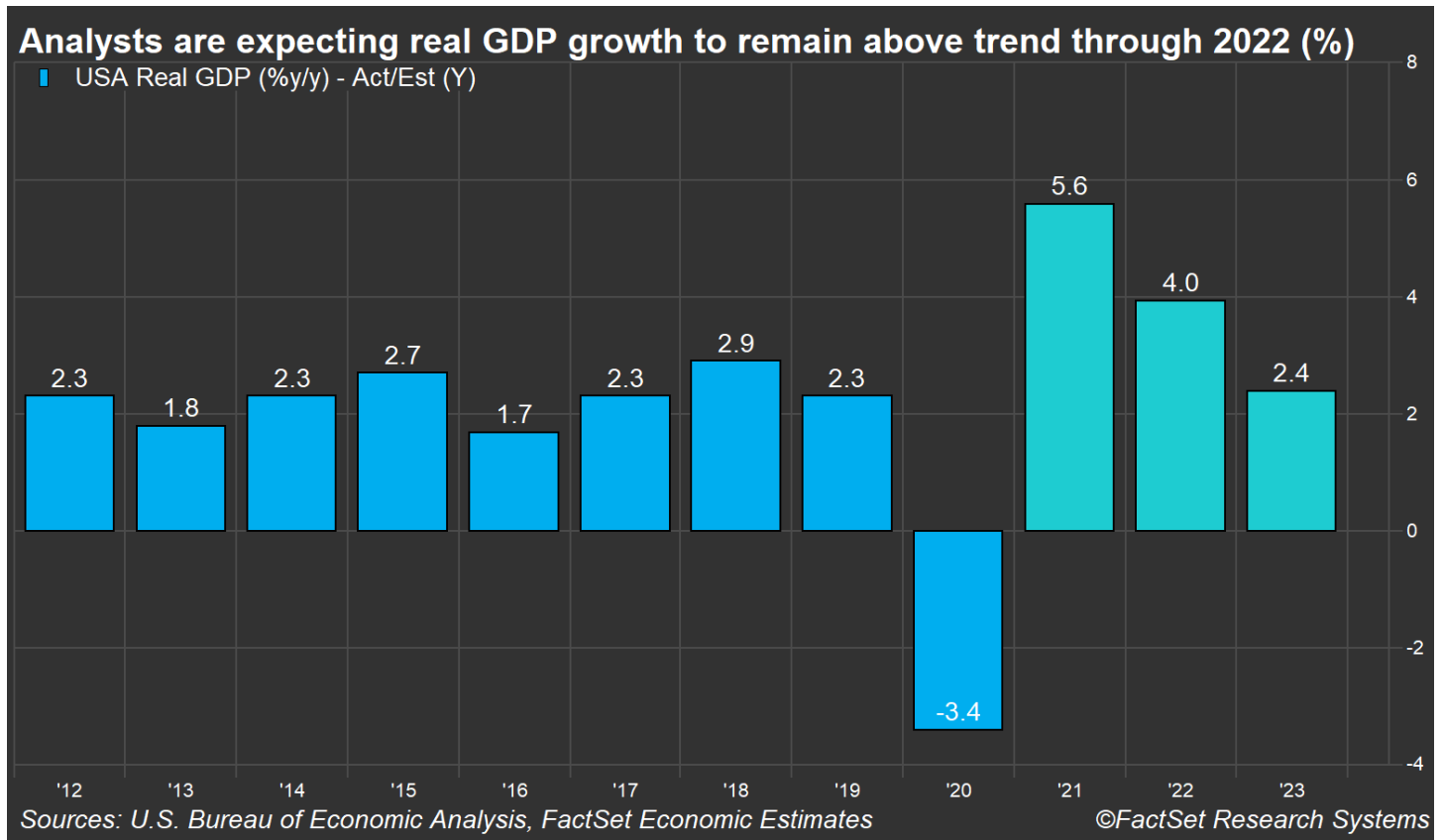
Quarterly, 2015 Q1 to 2021 Q4

— 2015-2019 — 2020-Present .... Linear regression (2015-2019)



Reproduced from Renaissance Macro Research

According to FactSet Economic Estimates, U.S. real GDP will expand by 3.1% in the first quarter; this projection has been cut significantly from the 4.2% growth forecast of November 30. The economy is expected to grow by 4.0% in 2022, above the economy's long-term trend growth rate. This largely reflects the impact of Omicron. Most expect growth to rebound once the COVID-19 variant fades.



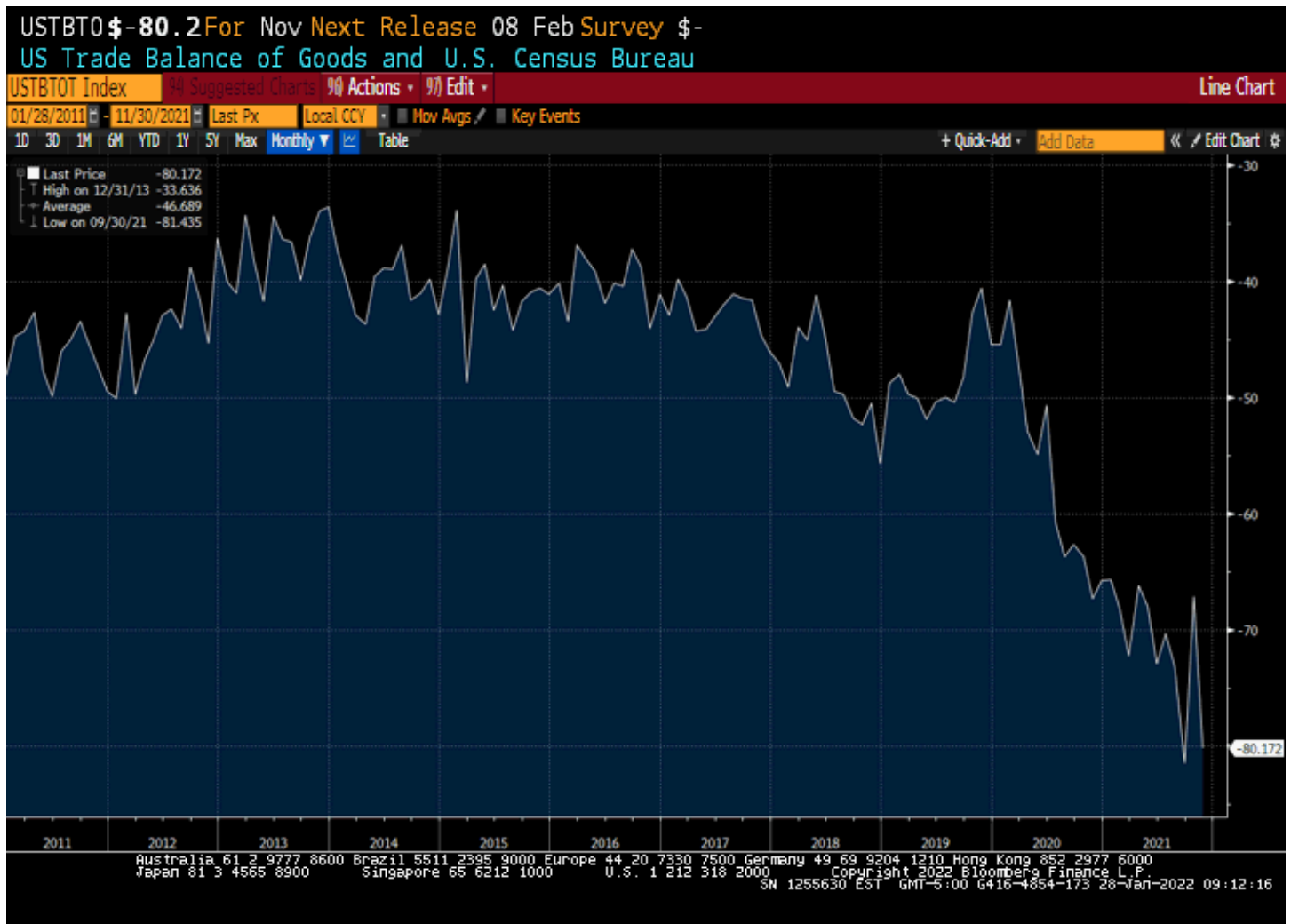
Overall market valuations have come down dramatically with stock prices. With US GDP still expected to be above its trend for the past few decades, clients may want to readjust their asset allocation to equities.

S&P 500 INDEX							
Periodicity	Flavor	F12	View	Growth	Currency	USD	
Measure	Actual	F12 Est	Growth	Y+1 Est	Growth	Y+2 Est	Growth
1) Earnings Per Share	186.67	222.66	19.28%	242.69	9.00%	268.17	10.50%
2) EPS Positive	193.37	223.33	15.49%	242.69	8.67%	268.17	10.50%
3) Cash Flow Per Share	243.31	313.93	29.02%	333.14	6.12%	392.89	17.94%
4) Dividends Per Share	60.57	68.24	12.67%	69.61	2.01%	73.44	5.50%
5) Book Value Per Share	983.74	1089.49	10.75%	1205.83	10.68%	1302.60	8.02%
6) Sales Per Share	1511.86	1644.86	8.80%	1724.75	4.86%	1799.38	4.33%
7) EBITDA Per Share	314.75	366.13	16.32%	384.63	5.05%	415.07	7.92%
8) Long Term Growth	0.00	9.51	0.00%	0.00	0.00%	0.00	0.00%
9) Net Debt Per Share	317.12	427.68	34.86%	380.15	-11.11%	301.99	-20.56%
10) Enterprise Value Per Share	4842.06	4821.19	-0.43%	4772.91	-1.00%	4684.36	-1.86%
Valuation Measure	Actual	F12 Est	Y+1 Est	Y+2 Est			
11) Price/EPS	23.18	19.43	17.83	16.13			
12) Price/EPS Positive	22.37	19.37	17.83	16.13			
13) Price/Cash Flow	17.78	13.78	12.99	11.01			
14) Dividend Yield	1.40	1.58	1.61	1.70			
15) Price/Book	4.40	3.97	3.59	3.32			
16) Price/Sales	2.86	2.63	2.51	2.40			
17) Price/EBITDA	13.75	11.82	11.25	10.42			
18) EV/EBITDA	15.38	13.22	12.59	11.67			
19) Net Debt/EBITDA	1.01	0.87	0.82	0.76			

Source: Bloomberg

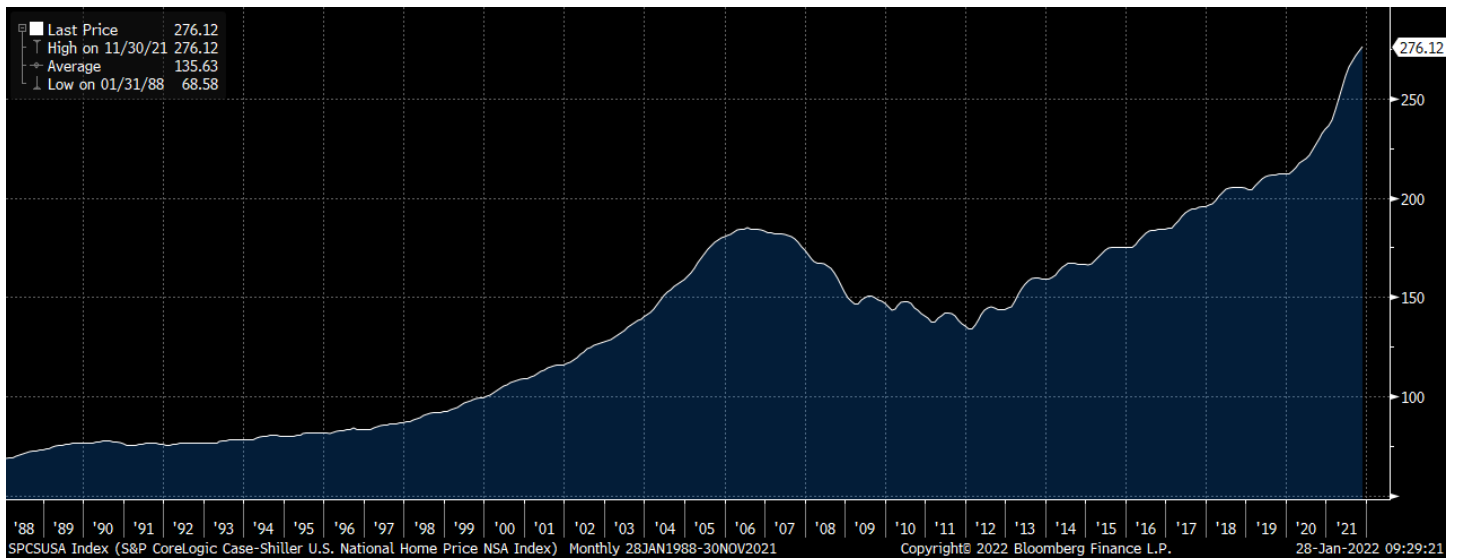
With the S&P 500 trading at 17.5x next year's earnings, we are closer to historical norms of 16-17x. Most analyst value stocks on their next year projected earnings. According to FactSet, the S&P 500 is expected to report (year over-year) earnings growth of 21.8% for the fourth quarter.

The U.S. trade deficit surged to a near-record high of \$80.2 billion in November as exports slowed while imports jumped sharply. High trade deficits are enabling Americans to get the things they need in the pandemic. The flip side is the higher U.S. government debt that helped fund the surge in spending, much of it now held by overseas investors.



Source: Bloomberg

Price growth in home prices slowed in November, according to the closely watched S&P CoreLogic Case-Shiller National Home Price Index. November 2021 prices were 18.8% higher than in November 2020, a slowdown compared to October's 19% year-over-year growth. Demand continues to outpace the supply of homes despite prices. Inflation also makes real estate more desirable as an asset class.



Source: Bloomberg

We at Avestar Capital are intently researching and watching markets. We know the increased volatility may be unnerving, but we are constantly in touch with our managers and adjusting our portfolios as necessary.

Your Financial Advisor or Relationship Manager can assist you at any time for all your needs. Please feel free to use Avestar's Investment Team as a resource for your portfolios or general market updates. Your relationship manager can set up time to speak with the team.

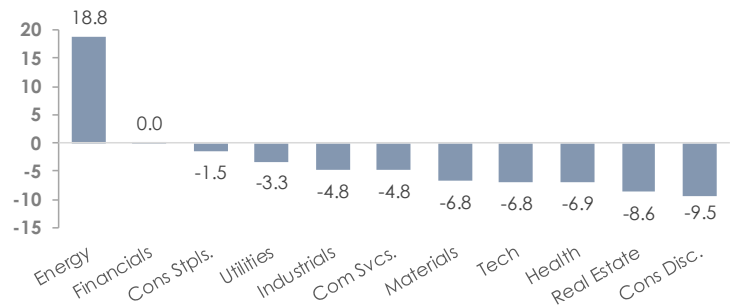
## THIS MONTH IN NUMBERS

**FIGURE 4**  
**U.S. Style Returns (January in %)**

	Value	Blend	Growth
Large	-2.4	-5.3	-8.7
Mid	-4.4	-7.4	-12.9
Small	-5.8	-9.5	-13.4

Data Reflects Most Recently Available As of 1/31/2022

**FIGURE 5**  
**U.S. Sector Returns (January in %)**



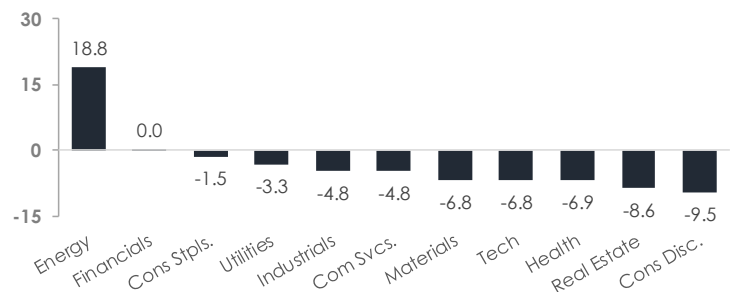
Data Reflects Most Recently Available As of 1/31/2022

**FIGURE 6**  
**U.S. Style Returns (YTD in %)**

	Value	Blend	Growth
Large	-2.4	-5.3	-8.7
Mid	-4.4	-7.4	-12.9
Small	-5.8	-9.5	-13.4

Data Reflects Most Recently Available As of 1/31/2022

**FIGURE 7**  
**U.S. Sector Returns (YTD in %)**



Data Reflects Most Recently Available As of 1/31/2022

**FIGURE 8**  
**Market Data Center**

Stocks	Level	1 month	3 months	YTD	1 year	3 years	Dividend Yield	NTM P/E	P/B
S&P 500	4,516	-5.3%	-1.7%	-5.3%	23.1%	73.0%	1.29%	19.3x	4.4x
Dow Jones	35,132	-3.3%	-1.5%	-3.3%	19.1%	47.4%	1.69%	17.8x	4.6x
Russell 2000	5,041	-9.5%	-11.5%	-9.5%	-1.1%	39.2%	1.07%	20.4x	2.2x
Russell 1000 Growth	1,858	-8.7%	-6.2%	-8.7%	17.3%	99.2%	0.56%	26.2x	11.8x
Russell 1000 Value	997	-2.4%	0.1%	-2.4%	23.1%	44.6%	1.68%	15.3x	2.5x
MSCI EAFE	1,312	-3.6%	-3.9%	-3.6%	8.4%	31.0%	3.50%	14.4x	1.8x
MSCI EM	68,773	0.0%	-2.6%	0.0%	-6.6%	20.2%	2.06%	12.0x	1.8x
NASDAQ	14,240	-8.7%	-5.8%	-8.7%	16.0%	118.9%	0.48%	25.4x	7.8x

Fixed Income	Yield	1 month	3 months	YTD	1 year	3 years
U.S. Aggregate	1.81%	-2.0%	-2.1%	-2.0%	-3.0%	11.1%
U.S. Corporates	2.39%	-3.6%	-3.7%	-3.6%	-3.5%	18.9%
Municipals (10 yr)	1.85%	-2.4%	-1.7%	-2.4%	-1.7%	10.4%
High Yield	4.13%	-2.7%	-1.6%	-2.7%	1.4%	13.8%

Commodities	Level	1 month	YTD
Oil (WTI)	88.32	17.4%	17.4%
Gasoline	2.41	8.5%	8.5%
Natural Gas	4.92	38.4%	38.4%
Propane	1.17	12.4%	12.4%
Ethanol	2.00	-18.7%	-18.7%
Gold	1,798	-1.7%	-1.7%
Silver	22.47	-3.8%	-3.8%
Copper	4.32	-3.1%	-3.1%
Steel	1,166	-18.7%	-18.7%
Corn	6.26	5.6%	5.6%
Soybeans	14.60	11.2%	11.2%

Key Rates	1/31/2022	12/31/2021	10/31/2021	7/31/2021	1/31/2021	1/31/2019
2 yr Treasury	1.16%	0.73%	0.49%	0.18%	0.12%	2.45%
10 yr Treasury	1.78%	1.51%	1.55%	1.23%	1.09%	2.63%
30 yr Treasury	2.10%	1.90%	1.94%	1.89%	1.85%	3.00%
30 yr Mortgage	3.74%	3.27%	3.14%	2.98%	2.88%	4.37%
Prime Rate	3.25%	3.25%	3.25%	3.25%	3.25%	5.50%

Data Reflects Most Recently Available As of 1/31/2022

Source: MarketDesk Research

## DISCLOSURES

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