CETERA®
INVESTMENT
MANAGEMENT

COMMENTARY

January 7, 2022

More Hawkish Fed Worries Investors

- Investors fret about Fed's hawkish pivot in December FOMC meeting minutes.
- The technology sector bore the brunt of the selloff.
- Our 2022 themes continue to be a slowing economy, more hawkish Fed, and rising market volatility.

The new year was off to a strong start as cyclical sectors and value equities drove markets higher. On Wednesday, however, equities reversed this positive momentum and moved sharply lower following the release of the December FOMC meeting minutes that seemed to confirm the Federal Reserve's recent hawkish tone. As we wrote in our 2022 Market Outlook, we continue to believe the Fed's hawkish pivot will weigh on investors and contribute to an uptick in overall volatility.

Despite the positive start to 2022, investors were a bit cautious heading into 2022 due to high valuations, poor market breadth, surging bond yields, and the omicron variant potentially weighing on the global economy. In addition, the Fed began reducing monetary stimulus which added to headwinds. Though investors had already expected rate hikes this year, the Fed's December meeting notes revealed that most officials agreed that surging inflation and a rapidly recovering labor market could warrant both a sooner-than-expected interest rate hike and a reduction in its balance sheet at a faster pace than anticipated. Further adding to the Fed's hawkish tilt, St. Louis Fed President James Bullard, a voting member on the Fed's interest rate policy committee, said he expects the first interest rate increase to be as soon as March to control inflation. All this Fed news has increased the probability of at least two rate hikes by June from just 26% a month ago to now 62%.

Given the fact that raising interest rates and reducing its balance sheet are ways for the Fed to tighten monetary policy, which could act as a potential speedbump to the current recovery, it was not surprising that equity markets struggled with the technology sector seeing the largest declines. Generally, technology stocks are impacted by interest rates because they tend to have higher stock price valuations that are calculated based on projected future earnings. Higher yields create higher discount rates for valuing those future earnings streams and thus the stocks become less valuable. Technology stock valuations have been lofty in this low yield environment, hitting levels not seen since the dot-com bubble.

In 2022, our primary investment themes are slowing economic growth, a more hawkish Fed, and an increase in market volatility. While the economy progresses through the current recovery, expect to see slowing economic growth rates as the easy year-over-year comparisons roll off. Though this is a normal transition in any recovery, given the extremes of this cycle, comparisons may deteriorate more swiftly than anticipated. Despite the slowing economy from 2021 levels, the Fed is attempting to navigate a more inflationary environment driven by a tight labor market and supply issues lasting longer than expected. It will be important to monitor the Fed closely in 2022 and beyond. To help you, as a reminder we built the Fed Monitor, which is a resource that tracks 12 key economic indicators and helps you gauge whether the Fed will be more conservative or more aggressive in their monetary policy.

With market risks rising, we continue to anticipate more volatility in the near term. Any disruption to current expectations could be a headwind for stocks, and with stock market valuations priced to perfection, this could amplify any volatility. We may see a stock market correction at some point this year, but we still don't expect a big sell-off as we saw in early 2020. We maintain that diversification is the key in this market. In these times, your financial professional can help you stay focused on your long-term risk and return goals and help you with your personalized investment objectives

---

This report is created by Cetera Investment Management LLC. For more insights and information from the team, follow @CeteraIM on Twitter.

Cetera®

About Cetera® Investment Management

Cetera Investment Management LLC is an SEC registered investment adviser owned by Cetera Financial Group®. Cetera Investment Management provides market perspectives, portfolio guidance, model management, and other investment advice to its affiliated broker-dealers, dually registered broker-dealers and registered investment advisers.

About Cetera Financial Group

"Cetera Financial Group" refers to the network of independent retail firms encompassing, among others, Cetera Advisors LLC, Cetera Advisor Networks LLC, Cetera Investment Services LLC (marketed as Cetera Financial Institutions or Cetera Investors), Cetera Financial Specialists LLC, and First Allied Securities, Inc. All firms are members FINRA / SIPC. Located at 655 W. Broadway, 11th Floor, San Diego, CA 92101.

Disclosures

Individuals affiliated with Cetera firms are either Registered Representatives who offer only brokerage services and receive transaction-based compensation (commissions), Investment Adviser Representatives who offer only investment advisory services and receive fees based on assets, or both Registered Representatives and Investment Adviser Representatives, who can offer both types of services.

The material contained in this document was authored by and is the property of Cetera Investment Management LLC. Cetera Investment Management provides investment management and advisory services to a number of programs sponsored by affiliated and non-affiliated registered investment advisers. Your registered representative or investment adviser representative is not registered with Cetera Investment Management and did not take part in the creation of this material. He or she may not be able to offer Cetera Investment Management portfolio management services.

Nothing in this presentation should be construed as offering or disseminating specific investment, tax, or legal advice to any individual without the benefit of direct and specific consultation with an investment adviser representative authorized to offer Cetera Investment Management services. Information contained herein shall not constitute an offer or a solicitation of any services. Past performance is not a guarantee of future results.

For more information about Cetera Investment Management, please reference the Cetera Investment Management LLC Form ADV disclosure brochure and the disclosure brochure for the registered investment adviser your adviser is registered with. Please consult with your adviser for his or her specific firm registrations and programs available.

No independent analysis has been performed and the material should not be construed as investment advice. Investment decisions should not be based on this material since the information contained here is a singular update, and prudent investment decisions require the analysis of a much broader collection of facts and context. All information is believed to be from reliable sources; however, we make no representation as to its completeness or accuracy. The opinions expressed are as of the date published and may change without notice. Any forward-looking statements are based on assumptions, may not materialize, and are subject to revision.

All economic and performance information is historical and not indicative of future results. The market indices discussed are not actively managed. Investors cannot directly invest in unmanaged indices. Please consult your financial advisor for more information.

Additional risks are associated with international investing, such as currency fluctuations, political and economic instability, and differences in accounting standards.

A diversified portfolio does not assure a profit or protect against loss in a declining market.