CONWAY• JARVIS LLC
Investment Outlook

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Update

Geopolitical Tensions Grab the Headlines

Inflation and the Fed retreated from the headlines as all eyes focused on Russia's military incursion into the Ukraine Thursday morning. At first glance, that aggression presents the potential to upset political and economic stability on a global scale. After taking a closer look, that appears unlikely. The stock market embraced the worst-case scenario early in Thursday's trading session as we saw the DOW join the NASDAQ and S&P 500 in correction territory as they posted their year-to-date lows in the morning. This marked the first correction of the broad market since the pandemic decline of Q1 2020. Given the hawkish pivot by the Fed and now the Russian invasion, it's not unexpected.

As the day wore on, traders and short-sellers lost momentum, giving way to those with cash in hand and an appetite for equities. The result was a massive reversal of the indexes to the upside. At one point, the NASDAQ was down 3.5% before closing *up* more than 3% for the day. Friday's follow-through to the upside confirmed what many non-media folks thought. While the consequences for those directly impacted are tragic, the US markets currently view this week's events as not impactful in the longer run. That could change if a settlement regarding the separatist controlled territories isn't forthcoming. The sanctions brought against the Russians could have consequences for *all* in the global economy. We could see a spike in energy costs, an impairment of international trade, and a further disruption of the supply chain. Add to that the threat of an emerging cyber war that could affect business and infrastructure in the US.

All of this points to the fact that we're not yet out of the woods where uncertainty reigns. In the past couple of months, traders and short-term investors have busied themselves repositioning around the Fed's actions. The result has been a repricing of some of the absurdly over-valued market leaders of the past 18 months. This week's events prompted some in the market who are short-term focused or poorly allocated to sell into what we see as a temporary drawdown. That's a recipe for impaired portfolio performance. Long-term investors, holding quality stocks in diversified portfolios, are afforded the luxury to do nothing at times like these other than take advantage of lower prices to add to their portfolios. That explains what we saw in the markets as the week came to a close.

The scarcity of alternatives to equities can't be ignored. The stock market, for now, remains the only and best source of liquidity and higher return. That will persist until bond yields begin to close the gap to the return from risk assets. We're seeing a strong earnings season now coming to a close in a still-expanding economy. It's why we accept the risk of uncertainty and remain correction-tolerant with a modestly positive outlook for stocks in 2022. We'll keep you posted on new developments in another Update next week. Stay tuned.

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