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Good Morning,

We have had some turbulence in the market over the past couple weeks. The bond market briefly seized up, with interest rates rising sharply. This, in turn, shook the stock market, taking it down from the highs by about 4 percent for the S&P 500 and almost 8 percent for the Nasdaq. Financial news networks are hyping the volatility, but is it time to worry?

First, let's look at the reasons for the pullback. One is that faster growth, with the economy reopening and federal stimulus driving demand higher, will drive inflation up. That would force the Fed, so the story goes, to raise rates to control the pending inflation, which would make stocks worth less. The market, as it usually does, is getting ahead of the story, driving interest rates up and stocks down—now, not later. But there are holes in this theory. There are no real signs of significant sustained inflation right now. While there will likely be some short-term inflation as we hit the one-year mark on the pandemic, longer term it should be contained and that would keep rates down, thus supporting stock prices.

The second hole in the market story is the Fed's reaction. Even if we do get inflation in the short term, the central bank has been very clear it plans to look through that and not raise rates. If we do get moderately higher inflation over the medium term, the Fed still plans to hold tight. The fear of much higher rates simply doesn't have a solid foundation. Perhaps the biggest hole in the story, however, is that the increase in rates is a bad thing. Rates typically go up as an economy enters recovery. In other words, this is a good sign for the economy—not a bad one. And if the economy is doing well, so will the market. There may be some turbulence as the shift to recovery occurs (as we are seeing), but over time things get better.

The sports world was shocked last week to learn Tiger Woods was seriously injured in a car crash. It's too early to know if he will ever play competitive golf again, and we wish him a speedy recovery. Financially, Tiger will be just fine as he has earned $121 million from playing golf on the PGA tour, and another $1.5 billion from endorsements, appearances and course design work.

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http://www.commonwealth.com/RepSiteContent/weekly_comm/commentary_redirect.htm

As always, if you would like to discuss this or anything regarding current market conditions or your portfolio, feel free to contact me at any time.

Have a great week!

Wade

Wade A. Sarkis, CFP®, AIF®
Managing Partner
Canandaigua Financial Group
45 Ontario Street
Canandaigua, NY 14424
(585) 396-2720