

Darren's take on things February 2022

For the month of January, the tech heavy NASDAQ was down 19% peak to trough while the S&P500 finished down 5% to start off the year. This may be the start of the hangover after the low interest rate party appears to have ended and has provided a wakeup call and jolt of long overdue and expected volatility to the markets. This is actually an ideal environment for our *Income Accelerator* investment strategy which I am happy discuss at length.

This also begs the question, can the stock market go up when interest rates rise? Time will tell, but let's use the prior 8 interest rate increase cycles dating back 50 years as a guide.

Dates	Fed Funds Rate		S&P 500
	Starting Rate	Ending Rate	
1971 - 1974	3.75%	13.00%	-7.52%
1976 - 1981	5.50%	20.00%	68.38%
1983 - 1984	9.50%	11.50%	8.05%
1985 - 1988	6.00%	9.75%	52.42%
1994 - 1995	3.25%	6.00%	4.45%
1999 - 2000	5.00%	6.50%	10.48%
2004 - 2006	1.25%	5.25%	17.74%
2015 - 2018	0.00%	2.50%	28.37%
2022 - ?	0.00%	?	?

Source: <https://awealthofcommonsense.com/how-do-stocks-perform-when-the-fed-raises-rates>

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What was the average total return for the S&P500 during these past interest rate hike cycles?

A **positive 23%** over the approximately 2 to 3 year rate increase cycle, or about a **7.5% annual return**.

Stocks can appreciate when rates rise, but this is only part of the story because you're not seeing the volatility in between those returns. For example, 1973-74 was rough - Vietnam, Watergate, Arab Oil Embargo, hyperinflation - stocks fell 50% before recovering!

Rates are rising because of inflation and that is bad, but also because the economy is recovering, which is good. This is a time of unprecedented opportunity as we are in the midst of a technological revolution, there are Trillions of dollars on the sidelines anxiously waiting to be spent and finally the world has not seen this level of pent up demand since WW II ended.

John Templeton once said *"Bull markets climb a wall of worry"* There is plenty to worry about like debt and inflation and crisis like a civil war to navigate, many similarities today to the 1970's. There is also plenty of reason for optimism. It won't be easy, expect a bumpy ride so buckle your seat belts!

Sincerely,



Darren J Luck, CIM®, Senior Wealth Advisor, Portfolio Manager

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