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Market volatility is spiking once again as we close out September and we know it is a concern to many investors. In advance of our regular written communication following month and quarter end periods we wanted to write a short summary on the financial markets and our response to the heightened level of uncertainty.

The mid-June rally which brought stocks halfway back from the low point in the year has reversed and dimmed the prospects of a positive return in the major market indexes in 2022. Calendar year framing makes for easy comparisons but discounts economic fundamentals which have no regard for specific dates. A fluid perspective is vital in periods in order to develop a long-term view about an asset class like equities which have no finite maturity dates. From the pandemic low in March 2020, the stock market has offered up a generous return and one well in excess of expectations immediately following the recognition of a global pandemic. This recent example of expectations versus reality reinforces one important principal of investing in equities – attempts to time major market moves decreases the probabilities of meeting long term goals. History has shown in dramatic fashion how missing a handful of the best days in the markets impact years of returns. Recognition of this pattern drives us to move in gradual steps during major moves and to be mindful of how our expectations align (or don't) with the consensus view.

The unwavering focus of the major financial markets this year have been actions by the Federal Reserve to raise short term interest rates. Since 1977, the Fed has followed two mandates which guide monetary policy, full employment and an inflation target of 2%. Obviously, it is the latter of the dual mandates which have impacted both stocks and bonds in 2022. We had previously prepared client portfolios against the risk of rising rates by keeping bond maturities short prior to the rapid rise in rates. This tactic has been quite successful as longer dated bonds have declined much more from the cycle peak in prices than at any point in the past four decades. Equity allocations have been maintained at or below target levels and well diversified across all major market segments helping to cushion the decline in this portfolio allocation.

The overarching concern gripping both markets today is the rising risk of a recession due to the Fed's resolve to lower inflation even at the expense of a sharp drop in economic activity. We can not disagree with the consensus view of the economy, as business and market cycles, while never welcome, should also be expected from time to time. Market expectations in the coming weeks and months will likely continue to shift meaningfully and rapidly, as the economic fallout from actions by the Fed become more well defined. These turbulent periods are when having a strategic goal and ongoing communication add the most value in client relationships.

BCT Wealth Advisors along with Wilbanks Smith & Thomas want you to know we are closely watching the markets for new risks and opportunities. If you have any questions or concerns, please reach out to us.