

Weekly Market Commentary January 24, 2022

The Markets

When is a barometer not a barometer?

It's widely recognized that people do not make perfect financial decisions. In fact, many investors rely on mental shortcuts when asked to make complex decisions. That may be why there are theories that correlate stock market performance to football, hemlines and sales of headache remedies.

For example, last week several articles about the U.S. stock market used the adage, "As goes January, so goes the year." The saying describes the January Barometer, which holds that the performance of the Standard & Poor's 500 Index in January has predictive value. If stocks gain in January, then the Index may gain over the full year. If stocks decline in January, then the Index may suffer losses over the full year.

According to Jeffrey Hirsch and Christopher Mistal of the *Stock Trader's Almanac*, the January Barometer has been 84.5 percent accurate since 1950. Of course, the January Barometer was invented in 1972, and when you evaluate its performance since then:

"The January Barometer, in fact, fails real-time tests at the 95 percent confidence level that statisticians often use when determining whether a pattern is genuine. Since 1972 its track record is indistinguishable from a random pattern," wrote Mark Hulbert in *MarketWatch*.

You don't have to look far to find flaws in the pattern.

In 2021, the Standard & Poor's (S&P) 500 Index fell during the month of January and gained 26.8 percent over the full year. The same thing happened in 2020. The S&P 500 declined in January and finished the year with a gain of more than 16 percent. Perhaps this phenomenon will one day be known as the "Pandemic Exception."

The real takeaway from the past two years isn't that the January Barometer is flawed, it's that the U.S. economy, companies and financial markets have proven to be quite resilient.

Last week, major U.S. stock indices moved lower on uncertainty about inflation, the pandemic and Federal Reserve policy, reported Mark DeCambre of *MarketWatch*. The Dow Jones Industrial Average declined 4.6 percent. The S&P 500 was down 5.7 percent, and the Nasdaq Composite dropped 7.6 percent, reported Ben Levisohn of *Barron's*.

Data as of 1/21/22	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 Index	-5.7%	-7.7%	14.1%	18.7%	14.2%	12.8%
Dow Jones Global ex-U.S. Index	-2.1	-1.8	-0.8	8.4	6.3	4.2
10-year Treasury Note (yield only)	1.8	N/A	1.1	2.7	2.4	2.1

Gold (per ounce)	0.8	1.0	-1.3	12.8	8.7	0.9
Bloomberg Commodity Index	1.8	6.2	31.2	9.6	3.5	-2.9

S&P 500, Dow Jones Global ex-US, Gold, Bloomberg Commodity Index returns exclude reinvested dividends (gold does not pay a dividend) and the three-, five-, and 10-year returns are annualized; and the 10-year Treasury Note is simply the yield at the close of the day on each of the historical time periods.

Sources: Yahoo! Finance; MarketWatch; djindexes.com; U.S. Treasury; London Bullion Market Association.

Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly. N/A means not applicable.

WHICH COUNTRY IS THE MOST INNOVATIVE? The silver lining of the pandemic may be found in innovation, which has flourished as companies, economies and countries have adapted to difficult circumstances.

The Global Innovation Index (GII) tracks 80 indicators that inform innovation. The indicators are grouped into seven categories:

- **Institutions:** Political, regulatory and business environments.
- **Human capital and research:** Education and research and development.
- **Infrastructure:** Information and communication technologies, general infrastructure and ecological sustainability.
- **Market sophistication:** Credit, investment, trade, diversification and market scale.
- **Business sophistication:** Knowledge workers, innovation linkages and knowledge absorption.
- **Knowledge and technology outputs:** Knowledge creation, impact and diffusion.
- **Creative outputs:** Intangible assets, creative goods and services, and online creativity.

In 2021, the top-three innovative countries by income group were:

High-income countries

- No. 1. **Switzerland**, with strength in knowledge and technology outputs, infrastructure and creative outputs.
- No. 2. **Sweden**, with strength in business sophistication, human capital and research, and knowledge and technology outputs.
- No. 3. **United States**, with strength in knowledge and technology outputs and market and business sophistication

Upper-middle income countries

- No. 1. **China**, with strength in knowledge and technology outputs and business sophistication.
- No. 2. **Bulgaria**, with strength in knowledge and technology and creative outputs.
- No. 3. **Malaysia**, with strength in knowledge and technology outputs and market sophistication.

Lower-middle income countries

- No. 1. **Vietnam**, with strength in market sophistication and creative outputs.
- No. 2. **India**, with strength in knowledge and technology outputs and market sophistication.
- No. 3. **Ukraine**, with strength in knowledge and technology outputs and human capital and research.

Low-income countries

- No. 1. **Rwanda**, with strength in institutions and business sophistication.
- No. 2. **Tajikistan**, with strength in knowledge and technology outputs and market sophistication.
- No. 3. **Malawi**, with strength in knowledge and technology outputs and market sophistication.

Switzerland, Sweden, the United States, the United Kingdom and South Korea were the most innovative countries in the world, overall. China was the only middle-income economy among the top 30 most innovative economies in the world.

Weekly Focus – Think About It

“If you have urgent current expenses to cover, then future priorities like college and retirement fall off your radar because they are simply less pressing. Scarcity of attention prevents us from seeing what's really important. The psychology of scarcity engrosses us in only our present needs.”

—Sendhil Mullainathan, University of Chicago professor and author

Best regards,

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- * Corporate bonds are considered higher risk than government bonds but normally offer a higher yield and are subject to market, interest rate and credit risk as well as additional risks based on the quality of issuer coupon rate, price, yield, maturity, and redemption features.
- * The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general. You cannot invest directly in this index.
- * All indexes referenced are unmanaged. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment.
- * The Dow Jones Global ex-U.S. Index covers approximately 95% of the market capitalization of the 45 developed and emerging countries included in the Index.
- * The 10-year Treasury Note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market.
- * Gold represents the afternoon gold price as reported by the London Bullion Market Association. The gold price is set twice daily by the London Gold Fixing Company at 10:30 and 15:00 and is expressed in U.S. dollars per fine troy ounce.
- * The Bloomberg Commodity Index is designed to be a highly liquid and diversified benchmark for the commodity futures market. The Index is composed of futures contracts on 19 physical commodities and was launched on July 14, 1998.
- * The Dow Jones Industrial Average (DJIA), commonly known as "The Dow," is an index representing 30 stock of companies maintained and reviewed by the editors of The Wall Street Journal.
- * The NASDAQ Composite is an unmanaged index of securities traded on the NASDAQ system.
- * International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors. These risks are often heightened for investments in emerging markets.
- * Yahoo! Finance is the source for any reference to the performance of an index between two specific periods.
- * Opinions expressed are subject to change without notice and are not intended as investment advice or to predict future performance.
- * Economic forecasts set forth may not develop as predicted and there can be no guarantee that strategies promoted will be successful.
- * Past performance does not guarantee future results. Investing involves risk, including loss of principal.

- * You cannot invest directly in an index.
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