NORTHSTAR FINANCIAL PARTNERS

Letter from Dan

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I am happy to tell you that you can now watch or read my mid-quarter letter at your convenience! We are glad to give you the choice of your preference!

Wow. Talk about volatile market conditions. Chances are, when your end of January statements come, they will show a loss since the beginning of the year. This was not unexpected and could be considered healthy for the markets.

As of last Friday February 4, the Dow Jones Industrial Average is down year-to-date 4.09%, S&P 500 down 6.17% and the tech heavy NASDAQ down 10.96%. Ugly start, right? A few of those days were a roller coaster ride, with big swings up and down. We always want to put it in perspective- how far back do we need to go, to find the indexes at the same level? For the Dow, December 20, 2021. S&P 500, October 18, 2021. NASDAQ, a little farther, 6/18/2021. So, tech stocks took the bigger hit, but they are still up 9.3% since December 31, 2020. The markets moved higher faster than we thought last year and are now correcting in January, when sellers can push their capital gains into the current year. So, while it is unsettling, not concerning at this point.

To repeat, we do not think that the stock market is going to continue moving up at the torrid pace set over the last 3 years. We do not think that the markets are crashing either- just need to work through the many changes happening right now.

Themes to watch:

Fed action to control inflation: Chairman Powell and the Fed have moved up the schedule to raise short term interest rates to tame inflation. The first hike is predicted for mid-March, with possibly three more coming this year. This will slow the economy, but overall is a good action.

Supply chain recovery: Still catching up, but progress being made. Shortages also slow the economy, but resupply will help to kickstart things when demand equals supply.

Labor markets are still looking for more workers: This will encourage even more technology to replace low paid jobs. May cause a long-term issue for those less educated or low skilled. Immigrants can help to fill these positions- we do not hear much about border control these days.

Russia / Ukraine has the media attention right now: Both Russia and the West are trying to position themselves to appear as tough minded, so not to lose face at home. Hopefully President Putin will get the attention he wants, without going to war. If there is war, there would be a negative reaction on Wall Street. Oil prices may surge on a Russian invasion. February is a key month, as the ground freezes there and it is easier for tanks to maneuver. Hopefully tensions will ease soon.

Housing: Still a shortage of homes on the market. Most homes are only listed for a few days before offers are made. Interest rates are still relatively low and demand is high, so this should continue to be a bright spot for us.

Government action: We do not expect much out of the US Senate for the next 4-6 weeks. Did you hear of the New Mexico Democratic Senator that had a stroke last week? There won't be any measures put up for a vote until he is ready to return to work. Thankfully, it sounds like he will make a full recovery. Big revenue surpluses at state government levels- will be interesting to see how that is handled.

Long term interest rates: The 10 year Treasury rate has increased .30% since the beginning of the year, keeping us in a lower interest rate risk position in our portfolios. We predict that long term rates will continue to drift higher, but not in a straight line. Bonds should be easier to own 12 months from now, but best not to abandon them in the meantime.

So, what comes next? We have had some clients buy stocks (best time to buy is when it is scary), but most people are just hanging tight. We avoid selling stocks now, unless really necessary for withdrawals. In a way, it reminds us of the last part of 2018, when the markets were worried about China and tariffs. The S&P 500 dropped 11% in December 2018 and 17% overall in the 4th quarter of 2018. A drop in the stock market to allow investors to choose to buy in at a better price, to begin the next leg up. While there is no guarantee that this will happen this time around, there just are not that many storm clouds on the horizon.

(Purposely no mention of COVID- we need to learn to make it a part of our everyday lives and move forward.)

Thanks again- we look forward to spring coming soon ahead!

Dan