Seventy2 Capital

Monthly Market Commentary

JANUARY 2022

Our team has been involved in a tremendous amount of due diligence over the past few weeks on the current market environment and volatility we are experiencing. A few notes on what we are seeing and expectations:

• **VOLATILITY** is expected to be the norm in the market in the short-term. Equities, specifically growth companies, have moved significantly lower on speculation around Fed policy and the rising rate environment. This has been in response to elevated inflation data released over the last 6 months. We expect to have another year of large divergence in sector returns. We believe there is significant value in technology and healthcare companies. We believe there are many good companies trading at “sale” prices today.

• **INFLATION** reads are expected to be elevated for the first half of the year, calming down in the second half. We expect to see a steep rise in the short end of the curve, while the curve itself will flatten. 4-6 rates hikes over the next 24 months is the consensus across wall street.

• **DOMESTIC EQUITIES** we believe there are many great companies with good cash flows and solid capital structures that have been dragged down to sale prices. This is not the case for everything out there, but many companies are oversold. We are still managing on a longer-term timeframe and believe that many of our Core positions that have taken a recent hit will get through this volatility and serve as an opportunity to add to at these levels. We are not completely through the volatility, but sellers are starting to get exhausted. We do have a growth tilt in portfolios, and many of you are seeing that come through in the performance to start the year. We believe this is still the best place to be long term.

• **FIXED INCOME** the environment is incredibly challenging. We are staying on the shorter end of the curve but in higher quality. We expect longer duration fixed income to be very difficult to allocate moving forward. Credit spreads suggest high yield may not be the best option either. We believe there is value in floating rate, interest rate hedged debt, and private credit opportunities.

A few recommendations for our clients as we manage through turbulent times:

We continue to stay active in our portfolio management. This is not the time to make drastic changes to your risk tolerance or try to time the market. This is neither the first time we have gone through elevated market volatility, nor will it be the last. In the long term, volatility provides us with an opportunity to add great companies to your portfolio at discounted prices. The economic backdrop is still very promising, and markets are oversold from headline news around Fed policy. This a great time to be adding cash to portfolios. We expect markets to rebound from the volatility and see new highs in 2022. Our positioning in portfolios is long term. We own companies that we believe will drive profitability in their sectors. We screen for higher quality and good cash flows, while having a focus on innovation and building in names that will lead these sectors in the future.

As always, please reach out to your financial advisor with questions or concerns.

Thanks,

The Seventy2 Capital Team

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