

Recency Bias May Be 2022's Biggest Hazard

As many investors look ahead to what 2022 may bring, they tend to rely on recent trends to guide their expectations. Doing so in the new year might have us believe we should concentrate our risk on the FAANG stocks and NASDAQ. Recency Bias is a cognitive trait we all harbor. It essentially means we put too much emphasis on recent events to extrapolate what the future may hold. For perspective, here is 2021's return scorecard.

2021 return scorecard			
Benchmark	(%)	Equity strategies	(%)
Bitcoin	60	FAAMG	37
Crude Oil	55	Large Cap Core MF	24
S&P 500	29	Wage-Growth Sensitive (GSXUWAGE)	23
Russell 1000 Growth	28	High Stable Gross Margin (GSXUSHGM)	22
Nasdaq	28	US Reopening (GSXUPAND)	17
Russell 1000 Value	25	L/S Equity HF (HFRXEH)	12
Russell 2000	15	Retail Favorites (GSXURFAV)	9
HY credit	5	Global Macro HF (HFRXM)	(1)
IG credit	(1)	US Stay at Home (GSXUSTAY)	(3)
10 year Treasury	(4)	Non Profitable Tech (GSXUNPTC)	(21)
Gold	(4)	China ADR (GSXUCADR)	(46)

By default, it also means we underappreciate the longer-term past and, by default, changes to the economic and financial environments. The investment environment will undoubtedly change as the Fed winds down QE, and government deficits normalize. Different indexes, sectors, and factors will benefit while others lag. Navigating 2022 through the rearview mirror of 2021 may be hazardous to your wealth.

[dmc]

What To Watch Today

Economy

- 9:45 a.m. ET: **Markit US Manufacturing PMI**, December final (57.7 estimated, 57.8 prior)
- 10:00 a.m. ET: **Construction Spending**, month over month, November (0.7% estimated, 0.2% prior month)

Earnings

- No notable reports scheduled for release

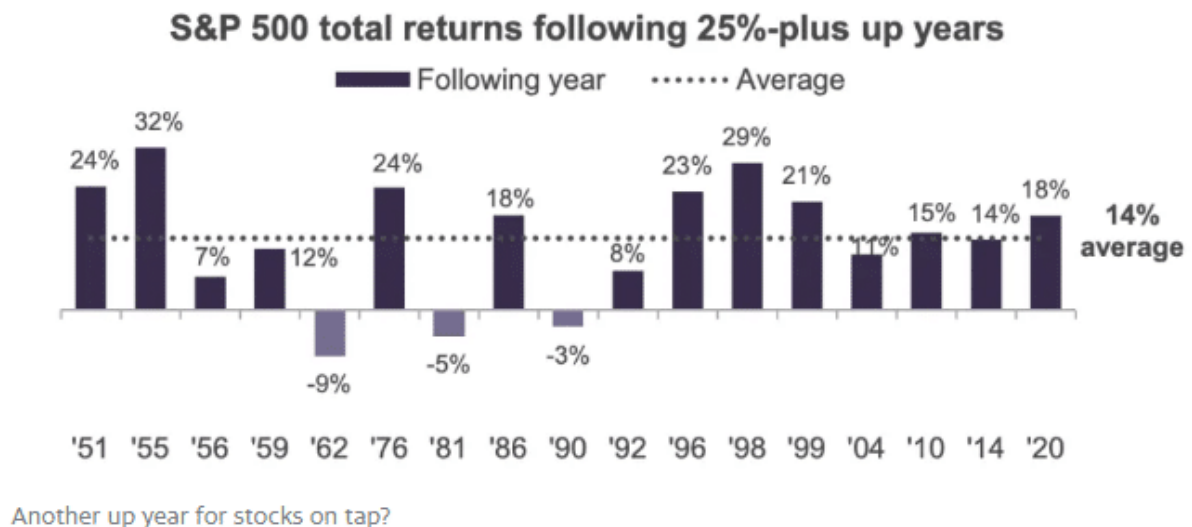
The Week Ahead

This week brings us December's employment numbers. While inflation is now the Fed's primary concern, employment data is still a vital component of its policy decisions. Last month we saw a considerable divergence between the ADP and the BLS reports. The ADP reported more than twice as many new jobs as the BLS. Currently, expectations are for over 400k new jobs in both reports. The BLS unemployment rate is expected to fall to 4%. Also on the agenda this week will be the ISM manufacturing report, and the JOLTs report for November. The Fed has been quiet for the past two weeks, but we expect them to be more vocal in the coming weeks. Lastly, earnings season kicks off, but we do not expect much until the end of next week when the larger financial companies report.

Another Bull Year Ahead

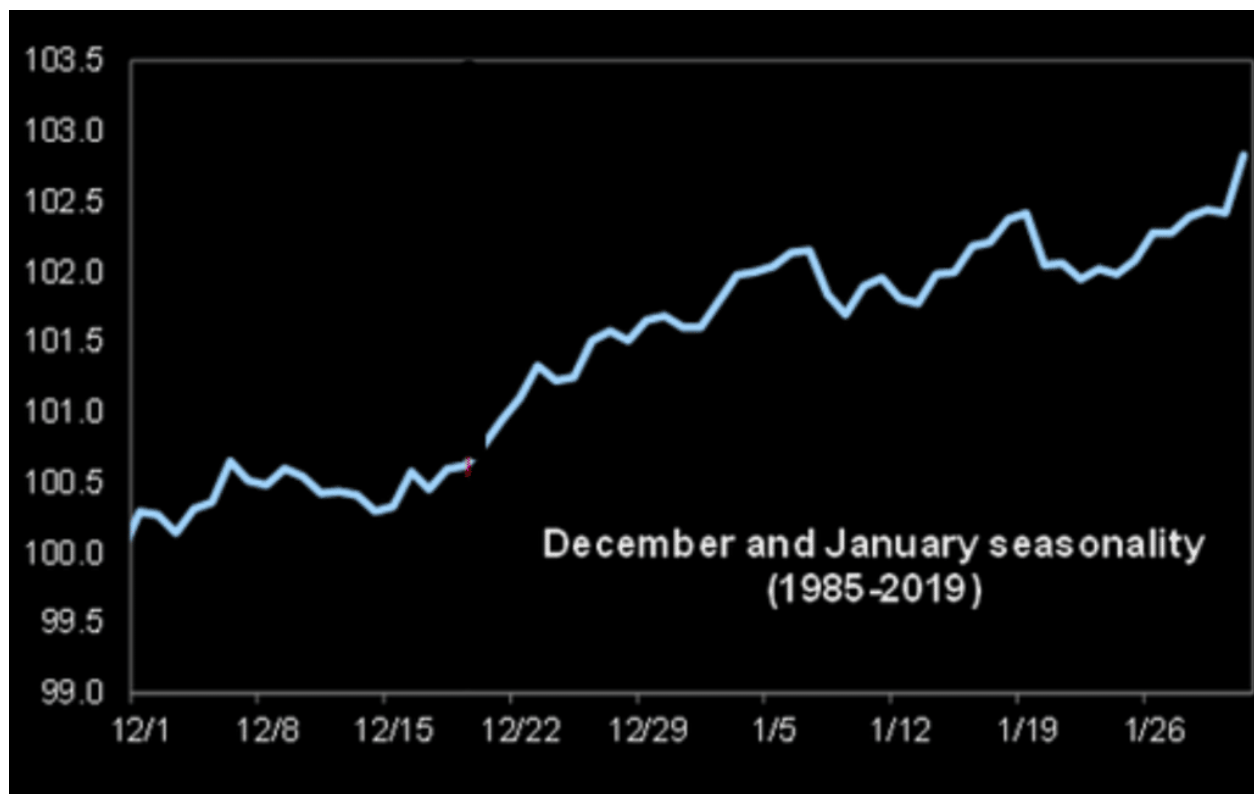
After a nearly 29% total return for the S&P 500 this year, history suggests 2022 may see more gains for investors.

Truist Advisory Services co-chief investment officer Keith Lerner found that going back to 1950, when the S&P 500 had a total return of at least 25% in a year, stocks usually rose in the following year. The outcome during that 71 year stretch: stocks advanced 82% of the time, or 14 out of 17 instances. - YahooFinance



The First 5-Days Of January

Speaking of recency bias, the early days of January, while still bullish, tends to be much less exciting than December.



While the first 5-days of January tend to positive, as mutual funds position for the new year, it doesn't necessarily guarantee the entire month will be positive. As shown below, since 1999, the month of January is about a coin-flip in terms of odds.

The Santa Claus Rally					
How The Seasonally Bullish Santa Claus Rally Period Could Foreshadow The Future					
Santa Comes To Town	Santa Goes Back To North Pole	Santa Claus Rally	S&P 500 Index Returns		
			January	Q1	Calendar Year
12/27/1999	1/4/2000	-4.0%	-5.1%	2.0%	-10.1%
12/22/2000	1/3/2001	5.7%	3.5%	-12.1%	-13.0%
12/24/2001	1/3/2002	1.8%	-1.6%	-0.1%	-23.4%
12/24/2002	1/3/2003	1.2%	-2.7%	-3.6%	26.4%
12/24/2003	1/5/2004	2.4%	1.7%	1.3%	9.0%
12/27/2004	1/4/2005	-1.8%	-2.5%	-2.6%	3.0%
12/23/2005	1/4/2006	0.4%	2.5%	3.7%	13.6%
12/22/2006	1/4/2007	0.0%	1.4%	0.2%	3.5%
12/24/2007	1/3/2008	-2.5%	-6.1%	-9.9%	-38.5%
12/24/2008	1/5/2009	7.4%	-8.6%	-11.7%	23.5%
12/24/2009	1/5/2010	1.4%	-3.7%	4.9%	12.8%
12/27/2010	1/4/2011	1.1%	2.3%	5.4%	0.0%
12/23/2011	1/4/2012	1.9%	4.4%	12.0%	13.4%
12/24/2012	1/3/2013	2.0%	5.0%	10.0%	29.6%
12/24/2013	1/3/2014	0.2%	-3.6%	1.3%	11.4%
12/24/2014	1/5/2015	-3.0%	-3.1%	0.4%	-0.7%
12/24/2015	1/5/2016	-2.3%	-5.1%	0.8%	9.5%
12/23/2016	1/4/2017	0.4%	1.8%	5.5%	19.4%
12/22/2017	1/3/2018	1.1%	5.6%	-1.2%	-6.2%
12/24/2018	1/3/2019	1.3%	7.9%	13.1%	28.9%
12/24/2019	1/3/2020	0.3%	-0.2%	-20.0%	14.4%
12/24/2020	1/5/2021	1.0%	-1.1%	5.8%	23.8%*
12/27/2021	1/4/2022	?	?	?	?

Source: LPL Research, FactSet 12/21/2021 * 23.8% return as of 12/21/2021
 All indexes are unmanaged and cannot be invested into directly. Past performance is no guarantee of future results.
 The Santa Claus Rally is the final 5 trading days of a calendar year and the first two of the following year.

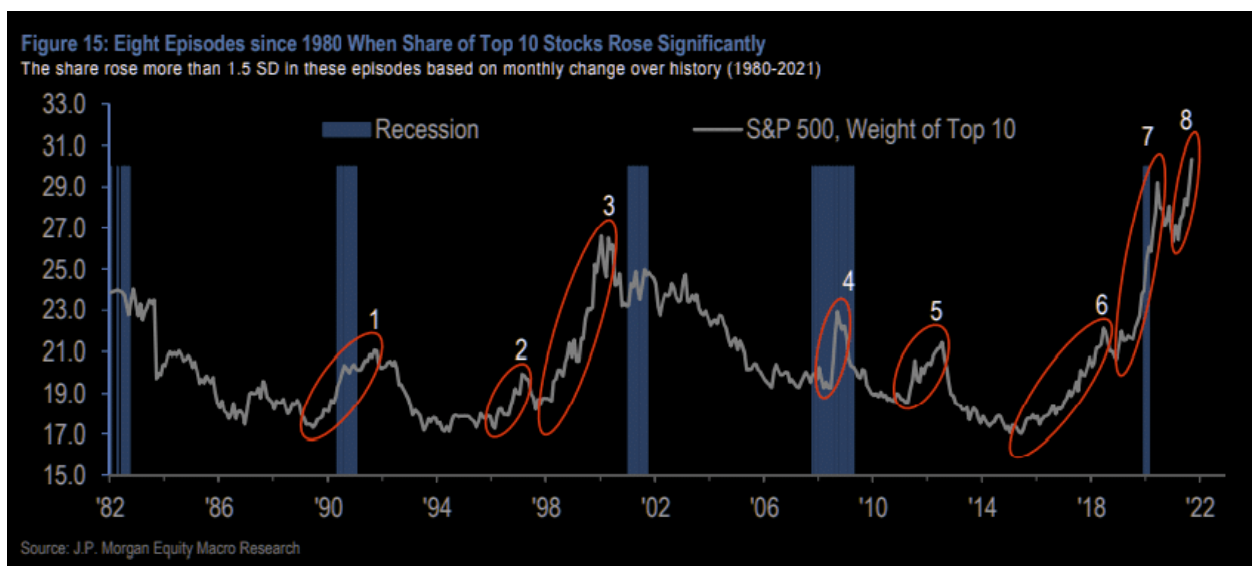
More importantly, the breadth of market remains anemic at best. As shown, both the number of stocks trading above their 50- and 200-dma remain negatively diverged from the advancing market. Secondly, the advance-decline line remains weak despite the bullish undertone. Such suggests that weakness is prevalent below the surface which creates correction risk in January.



With the market pushing into resistance, well-extended above long-term means, and overbought, the most prudent course of action heading into the new year will be a slight reduction of overweight equity positioning and a rebalancing of overall portfolio exposures.

More Recency Bias

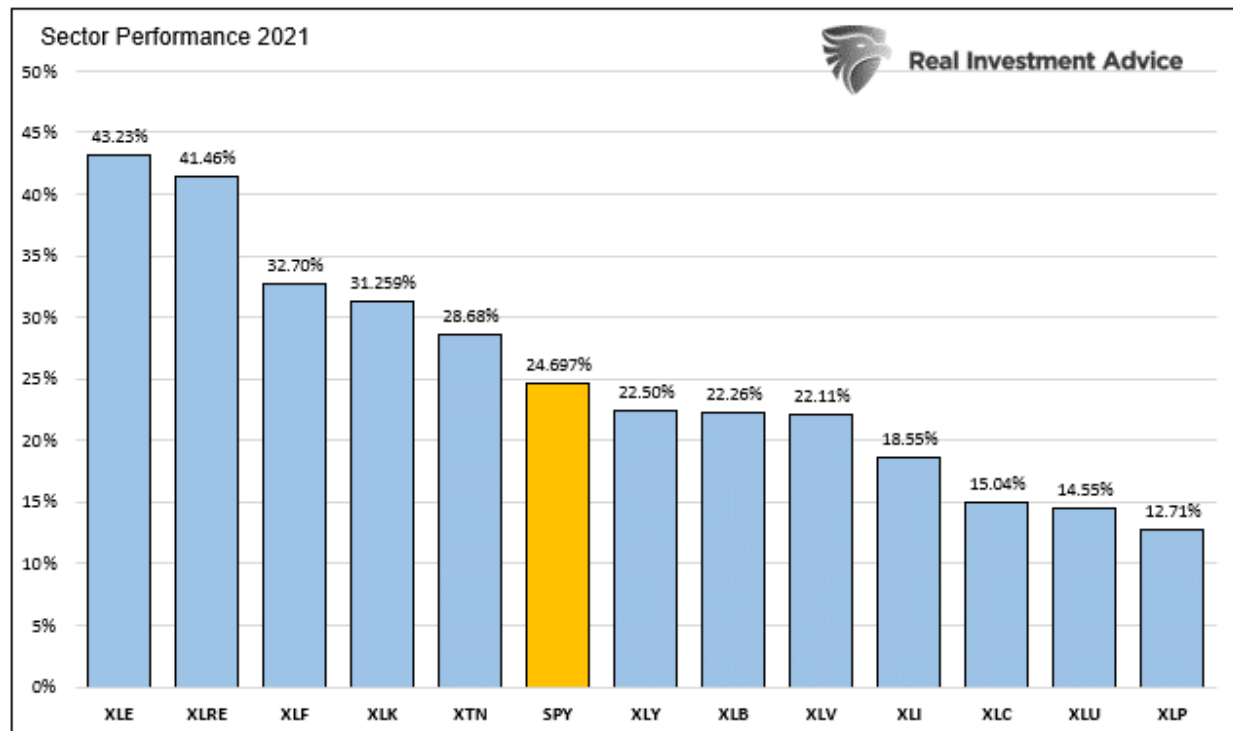
Interesting chart by JPM on how markets have performed when the top 10 shares rose significantly. Current bull has been going on for some time. This chart has a lot of implications for overall allocations and hedging. Imagine if some of the big ones start to reverse? - @TheMarketEar



Sector Performance

The graph below shows all S&P 500 sectors posted double-digit returns in 2021. After a very difficult 2020, when crude oil prices dipped below zero for a short period, the energy sector (XLE)

proved to be the best performing sector. Despite the FAANG and high-growth tech being the popular narratives for most of 2021, the technology sector finished fourth, albeit with a substantial 31% gain. Staples had a relatively poor year, but it was the best performing sector in December. Staple's 7.5% gain in December accounts for over half of its annual gain. Those looking back at 2021 may stick with last year's best performers. Those focusing on the previous month may find value in staples, healthcare, and utilities which were three of the top four performers for December despite having three of the six worst returns for the year. Recency Bias can be tricky, as December proves.



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