Macro Update

June 2022

2022 has proven to be a challenging year thus far. We've seen so much already ranging from the Russia/Ukraine conflict, a Covid-19 resurgence, inflation prints at 40-year highs, Fed rate hikes and rising concerns of a recession. The sum of these factors has led to volatility not seen in over a decade, as nearly 90% of all trading days in 2022 have seen single day market swings of 1% or more in either direction. Perhaps most concerning to investors is that during Q1 the Barclays Aggregate Bond Index fell in lockstep with the S&P 500 offering no haven from the market selloff. Moving into Q2 however, the S&P 500 continued to fall touching bear market correction territory during Friday's (May 20th) trading session and closed down -17.7% (total return) vs. the Barclays Aggregate Bond Index down -9.2% (total return) year-to-date.

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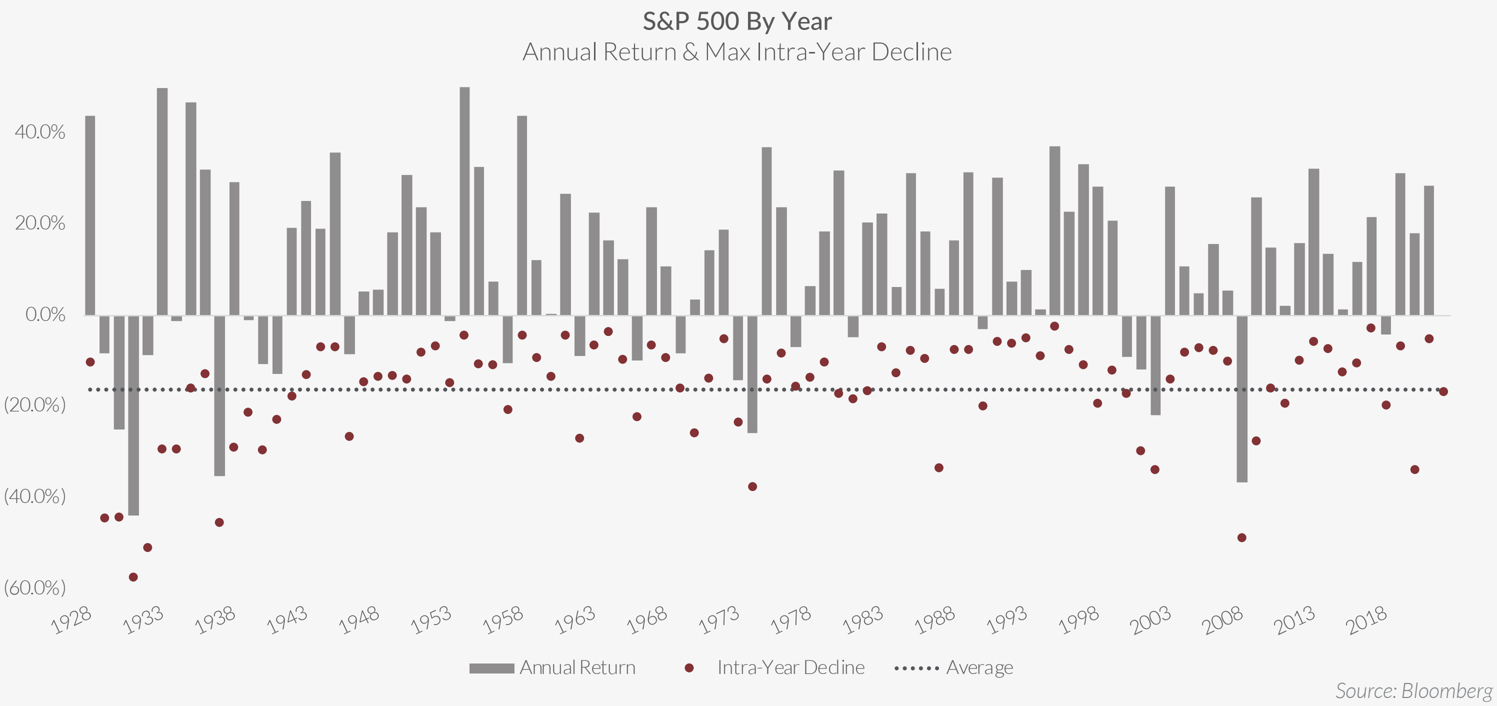
Even with recession fears mounting, we believe 2022 will stay relatively strong from an economic perspective. Despite a slightly negative GDP print in Q1 2022 (-1.4%), the Fed is doing everything it can to engineer tamer inflation, without a large economic contraction. This will be a tricky needle to thread as raising interest rates to slow inflation will also tap the breaks on the US economy. That said, the US labor market is so strong, that it may be the parachute the Fed needs to engineer a soft landing or keep a US recession in the mild camp.

There are currently 11.4 million job openings in the US and less than 6 million people unemployed. Said another way there are more than 5.5 million more job openings in the US than people to fill them. Even with higher interest rates, the sheer strength of the labor market will go a long way in maintaining economic stability in the coming year.

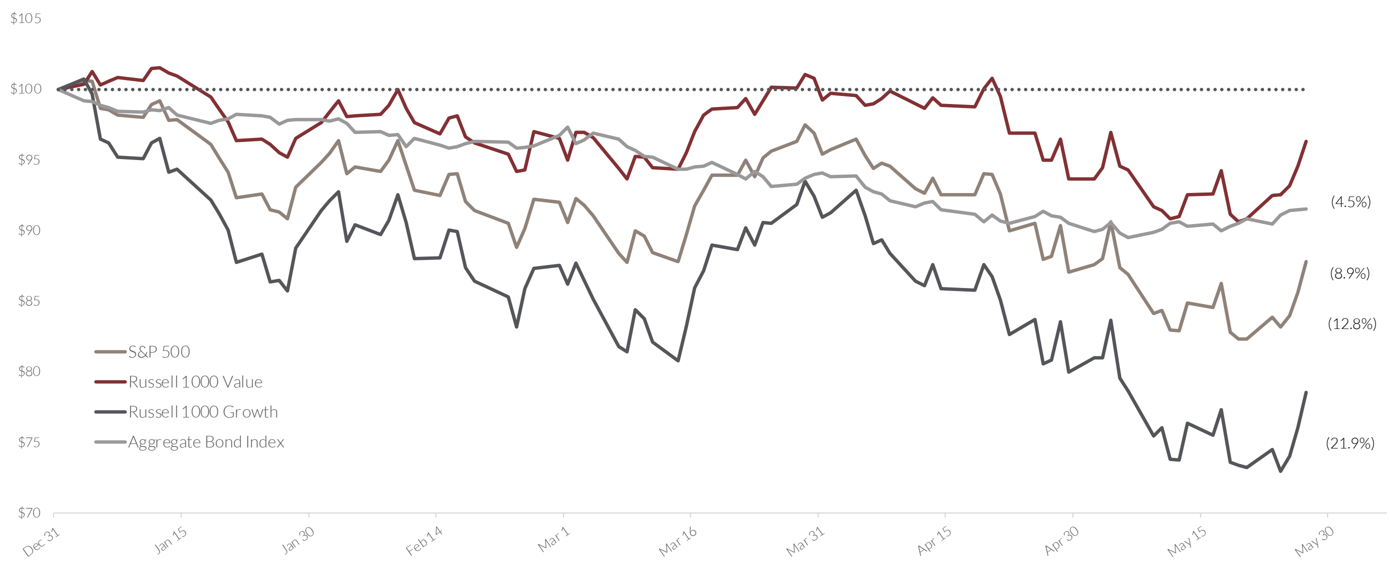
While the current volatility we are experiencing can be painful in the moment, we believe providing historical perspective can be helpful. Going back to the late 1920s (Figure 1), the average annual drawdown in a calendar year in the S&P 500 is -16.3%, which is on par with the market's current pullback. Despite this average drawdown, 69 of the past 94 years have seen positive annual returns. Said another way, the S&P 500 has registered gains in almost 75% of the past 94 years despite experiencing an average decline greater than 16% each year.

Average Annual Drawdown and Annual Returns for the S&P 500



Source: Bloomberg

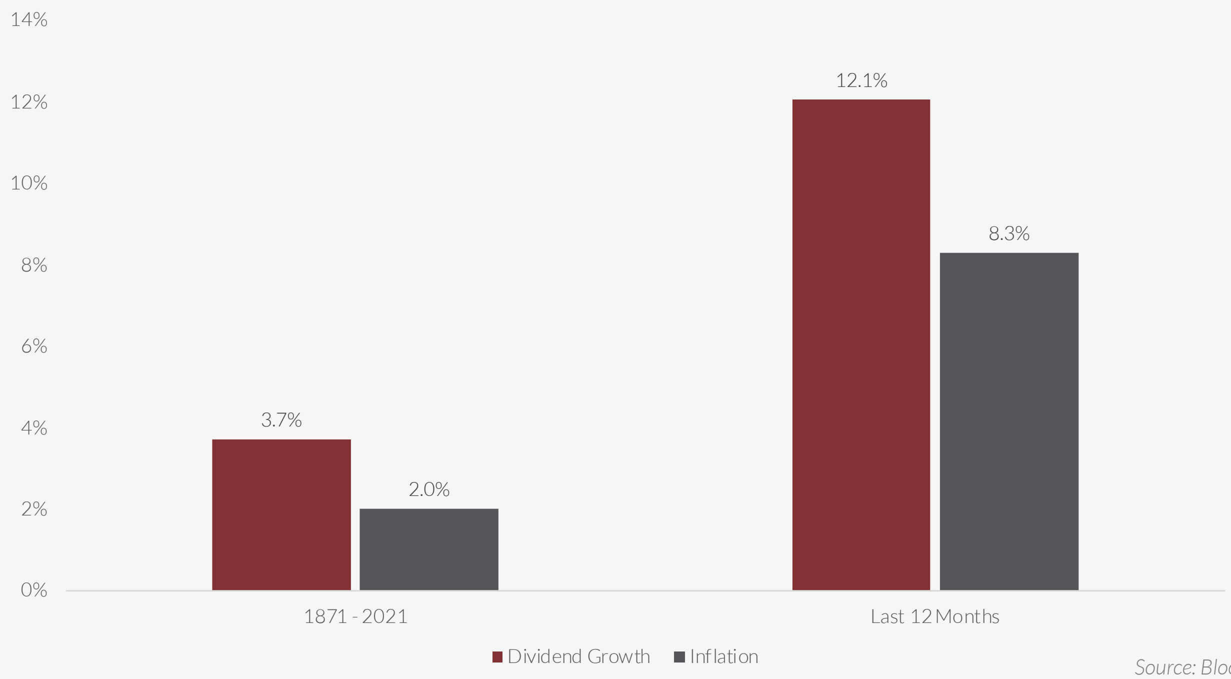
S&P 500, Value, Growth and Agg Bond Index



Source: Bloomberg

We have long been fans of value-oriented stocks due to their high-quality nature often expressed in the form of dividends. This year we emphasize an even greater conviction towards this area of the market, as value stocks have outperformed their growth counterparts year-to-date (as of May 31, 2022), with the Russell 1000 Value Index outperforming the S&P 500 by +8.3% and the Russell 1000 Growth Index by +17.4%.

Dividend Growth vs. Inflation



Source: Bloomberg; Blackrock

We have also stressed that companies that not only pay, but grow their dividends annually offer investors one of the best hedges against inflation, as dividend growth has outpaced inflation over the long term as well as the past 12 months. Over the last 12 months dividend growth has outpaced inflation on an absolute basis by 4.8%, and over the last 150 years dividend growth has outperformed inflation by 1.7% annually.

The Violence of Bear Market Recoveries

				First 30 Days	Total Recovery	
Peak Date	Trough Date	Completed Recovery Date	% Loss	% of Loss Recovered	Days	Years
12/12/61	6/26/62	11/14/62	(28.0%)	21.9%	141	0.4
2/9/66	10/7/66	9/5/67	(22.2%)	36.1%	333	0.9
11/29/68	5/26/70	6/6/72	(36.1%)	12.1%	742	2.0
1/11/73	10/3/74	7/17/80	(48.2%)	18.6%	2114	5.8
11/28/80	8/12/82	11/3/82	(27.1%)	52.0%	83	0.2
8/25/87	12/4/87	7/26/89	(33.5%)	28.4%	600	1.6
7/16/90	10/11/90	2/13/91	(19.9%)	32.7%	125	0.3
7/17/98	8/31/98	11/23/98	(19.3%)	26.0%	84	0.2
3/24/00	10/9/02	5/30/07	(49.1%)	15.7%	1694	4.6
10/9/07	3/9/09	3/28/13	(56.8%)	16.7%	1480	4.1
9/20/18	12/24/18	4/23/19	(19.8%)	49.6%	120	0.3
2/19/20	3/23/20	8/18/20	(33.9%)	48.9%	148	0.4
		Average	(32.8%)	29.9%	639	1.7
		With Recession	(38.7%)	28.1%	912	2.5
		W/O Recession	(24.6%)	32.4%	256	0.7

Red shaded denotes recession.
Source: Bloomberg; Yardeni Research

We would be remiss if we didn't address the "Bear" in the room. Negative headlines can unfortunately incite panic causing some investors to want to, "go to cash". In our opinion, trying to time a "bear bottom" is rarely a good idea due to what we have dubbed "the violence of recoveries." We looked at all 12 S&P bear markets in the last 60+ years and calculated how long it took the market to recover and get back to its previous peak. The average recovery time for all bear markets is less than 2 years, 1.7 years to be exact. Bear markets associated with recessions recover in 2.5 years, while bear markets without recessions recover on average in 0.7 years.

Diving a bit deeper, the market data reveals just how important it is to stay invested even in the midst of a bear market. Our data shows that on average, a full 30% of the market's overall recovery (which could last months or years) happens in the first 30 days. We acknowledge that a full market recovery can take a year, or two, or more in terms of time/duration. However, it important to reiterate how much of the repair occurs on a percentage basis, a staggering 30% of the entire recovery (on average) happens in just thirty days from the market bottom.

Despite a year of cross currents hurting most financial assets (stocks, bonds, REITs, etc.) the latter half of 2022 may provide some relief. Midterm election years are generally difficult for stocks, until the election season takes shape. Stocks generally perform best in midterm elections years once we hit the 4th quarter. Patience continues to be a virtue as investors, and we still believe that well balanced, multi-asset income producing portfolios are a cornerstone to helping our families work towards their retirement goals.

As always, we are honored to serve you as both a partner and resource. Please don't hesitate to reach out if we can provide further assistance, we are happy to help.