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Perspective on Second Quarter 2022 Economic & Market Events

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The first half of 2022 has been difficult, even for the most seasoned of investors. When looking back, from the March 2020 lows until January 2022, investors were treated to a 21-month bull market that saw equity markets more than double. Since then, the S&P 500 has dropped 20.6%, its worst first six months of a year since 1970. The Dow Jones Industrial Average's 15.3% first-half drop is its worst since 1962, while declines of 29.5% from the NASDAQ Composite and 23.9% from the Russell 2000 are both indexes' worst first halves on record. The Bloomberg U.S. Aggregate, a broad index of fixed-income securities, fell 10.7% since the start of 2022. That's also its worst first half on record, based on data going back to 1975. [1]

On June 13, when the S&P 500 closed near 22% below its record high on January 3, it officially put the S&P 500 into a bear market. A "bear market" is defined as a decline of 20% of an index's recent high. This marks the first bear market for this index in over two years, the last one triggered by the selloff in early 2020 due to the pandemic-driven lockdowns that stunted economic activity. Even with this downturn, the S&P 500 is still up more than 80% from the 2020 low. [2]

What makes this decline feel somewhat worse is that rather than supporting the overall portfolio in troubled times, bond prices fell as well. The Barclays Aggregate, a measure of the total bond market, fell about 10% in the first half of the year, even as stocks also declined. This is uncommon. Since 1926, there have only been two calendar years (1931 and 1969, with a near-miss in 2018) in which stocks and bonds both went down. [3]

The S&P 500 ended the quarter down 16.4% while the DJIA was only down 11.3%. Those declines are understandable considering inflation reached a 40-year high, the Federal Reserve raised interest rates at the fastest pace in decades, China, the world's second-largest economy, effectively shut down and the Russia-Ukraine war raged on.

In this current economic environment, discussions of a recession are at the forefront of financial news headlines and investors are concerned that inflation and higher interest rates will lead to a recession. However, the comments around the intensity and span of a possible recession run the gambit. News continues to be released that may help quieten or ease these recession jitters in the coming months. The last recession the U.S. experienced was recent but short, only lasting from February 2020 to April 2020. The U.S. economy is currently growing despite rising rates, rising energy prices and supply chain issues;. Additionally, the U.S. Department of Labor statistics show unemployment at 3.6% since May, the lowest since the pandemic, and consumers spending is still strong despite inflation. Equity markets are still well above pandemic-drive declines. [4]

While the volatility and market declines of the first six months of 2022 have been unsettling and painful, the S&P 500 now sits at much more historically attractive valuation levels. At current prices, a lot of potential “bad news” has at least been partially priced into the market, opening the possibility of positive surprises as we move forward in 2022.

There have been many reports in the financial media pointing out the declines of 2022. The day following the end of the second quarter, the Wall Street Journal ran the headline, “Markets Post Worst First Half of Year in Decades.” The statistic is correct. The specific year was 1970, so over 50 years ago. What the headline did not reveal was that after suffering a 21% loss in the first half of 1970, markets abruptly reversed and gained over 26% in the second half, managing a slight gain for the calendar year. More recently, in 2020, the S&P 500 dropped 4% in the first half and soared 21% in the latter half of the year. Market pullbacks and corrections are necessary to sustain a healthy market and with that, over time, the market has experienced positive growth. [5]

Having concerns when volatility affects your portfolio is normal. This is why we emphasize the importance of a plan tailored for your long-term financial goals. How you respond to a bear market could depend on where you are in your life cycle. If you are 10 years away from retirement, keep putting money into the market. If you are already in retirement avoid taking distributions from your portfolio if at all possible in a down market. As your financial professional, we want to help you sort through the confusion and help you keep your portfolio structured to best fit you and your situation. Please don’t hesitate to contact us with any questions or concerns you have and as always, thank you for allowing us to assist you.

CITATIONS:
1. Academy of Preferred Financial Advisors, July 2022
2. S&P 500, August 1, 2022
3. https://www.callan.com/blog-archive/stock-and-bond-declines/
4. https://tradingeconomics.com/united-states/unemployment-rate, July 2022
5. https://www.bloomberg.com/news/articles/2022-06-30/brutal-first-half-for-s-p-500-has-little-bearing-on-the-future