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Perspective on Third Quarter 2022 Economic & Market Events

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As difficult as it is, unfortunately, markets go up and go down. Having had above average returns for over a decade, the roller coaster ride of 2022 has tested even the most seasoned of investors. This year, inflation has hit the consumer directly through higher gas and food prices. While personal income has increased, real income after inflation has declined, which leaves less discretionary income for individuals to spend. In addition, financial conditions have tightened (less credit availability) with the Federal Reserve (Fed) starting its path to increase short-term interest rates and decrease its balance sheet. In response, by the end of the third quarter, the S&P 500 index tumbled more than 22% from its record high, and bonds have lost around 14% since January. In addition to inflation, the news media continues to flood our inboxes and airwaves about things like recession, oil prices, international conflicts and political unrest. With that type of backdrop, there is no doubt that investors can be caught up in the here and now. Having said this, the most successful investors still acknowledge that investing success can be most consistently achieved with a long-term perspective. [1]

Despite the significant downturn in the financial markets this year, there are reasons to be optimistic about the future. For example, although the Fed has slowed economic growth with its interest rate increases, thereby reducing stock and bond prices, these increases have led to rising interest rates for new fixed-income securities. This means that investors can now earn a better yield buying bonds, which are trading at a lower valuation than they have experienced in a long time. In addition, due to this year's stock market decline, stocks are more fairly valued than they have been in years. Economic growth will likely pick up again when the Fed suspends raising interest rates, leading to increased consumer and business spending and ultimately better corporate earnings growth. Finally, new technological innovations such as electric vehicles and artificial intelligence will likely help the economy and stock market to grow over the coming years. In short, while the short-term trend for stocks may be down this year, markets are expected to recover and continue an upward trend in the long term.

Can anyone predict the next 5, 10, or 50 years for investors? The answer is clearly, no. However, while past market results do not forecast future performance, it is helpful to look at history. During the 50 years from 1970-2019, there were seven recessions, 10 bear markets and four distinct market crashes with losses in excess of 30% for the U.S. stock market. If you go back even further to the previous 50 years from 1920 to 1969, there were 11 recessions, 15 bear markets, and eight distinct market crashes with losses in excess of 30% for the U.S. stock market. In other words, bear markets are a very normal and reoccurring part of the investment experience. Since 1930, the market has been bearish for about 20.6 years. Conversely, this means that stocks have been favorable the other 72 years! [2]

Many investors are speculating on how long this bear market will continue. While no one can decisively predict when it will end, the good news is that it should, eventually end. The average bear market since the modern S&P 500's inception in the 1920s lasted an average of 19 months and saw a 38% price decrease. [3]

More recently, from March 2009 to March 2020, we experienced the longest bull market in history. According to calculations on the website www.officialdata.org, if you invested $10,000 right before the bull market began in 2009, by 2020, that $10,000 would have grown to about $55,817, or a hefty 458% return (15.41% per year) on investment. [4]

Those investors who chose to ride out even some of the longest bear markets were rewarded with significant returns. For example, from March 1937 to April 1942, the U.S. experienced an almost 62-month bear market that saw a decline of 60%. However, the bull market gain after this bear market was 325%. [5]

In the meantime, if you are adding cash into your accounts, you are buying investments at market lows versus market highs. In the retail world, this would be buying products on sale. If you need to take your required minimum distribution and you don't need it for cash flow, you have the option to take out more shares for the same amount of money which could reduce your taxes in the future. If a Roth conversion is part of your tax strategy, in a down market you are able to convert shares at a lower price, paying taxes on the smaller value, and then as the market recovers, all the growth will be retained in a tax-free account. If you have a taxable account, you might be able to harvest those unrealized losses and save them for a future date when you have large gains on an investment. While down markets are difficult to endure, these strategies take advantage of lower account values and investment losses that may provide long term tax savings, depending on your individual circumstances.

It can be very easy to lose perspective during times of uncertainty. We all struggle with seeing the bigger picture. It is important to remember that few events in our world will affect our total plan permanently so we continue to encourage folks to stay the course and stay focused on the long term. As always, please feel free to connect with us with any concerns or questions you may have.

CITATIONS:
1. WSJ.com, September 30, 2022
2. Academy of Preferred Financial Advisors, Oct.2022
3. cnb.com; 6/13/22
4. www.officialdata.org
5. S&P Dow Jones Indices