

April 28, 2022

Dear Valued Investor,

It has been a turbulent 2022 so far for investors. The S&P 500 Index is on track for its worst April in more than 40 years, the Nasdaq entered a bear market on April 26 with its more than 20% decline, and bonds, which typically provide ballast for diversified portfolios during periods of stock market volatility, have not protected.

Markets face a number of threats. The COVID-19 pandemic has contributed to a disappointing start to the year for the U.S. economy as evidenced by the -1.4% growth in gross domestic product (GDP) reported on April 28. COVID-19 continues to disrupt global supply chains amid intermittent lockdowns in some of China's largest cities. Russia's devastating assault on Ukraine, arguably the biggest geopolitical threat in Europe since WWII, has added to the worst inflation problem in the U.S. since the 1970s. The bond market is pricing in nine more Federal Reserve (Fed) rate hikes, after looking for only three when the year began. That's a lot for investors to digest.

But during a market correction it's easy to forget that this volatility is actually quite normal.

- The S&P 500 Index has fallen 13% peak to trough this year, below the 14% average of all years.
- During midterm election years, the average stock market correction is 17%, but stocks rebounded 32% on average in the 12 months following those midterm year lows.
- Of the last 21 times the S&P 500 has been down double-digits since 1980, stocks rallied back to end the year positive 12 times.
- During those 12 positive years, the average gain has been a stellar 17%.

We will admit a double-digit gain in 2022 is unlikely, but a U.S. consumer willing and able to spend, which makes recession unlikely in the near term, and steadily rising corporate profits still make a positive year for stocks in 2022 more likely than not, in our view.

Inflation remains a big concern, but a number of factors could put downward pressure on prices beginning this summer. On the supply side, where most of the problem lies, supply chain normalization and more job-seekers coming off the sidelines could help ease pressure on goods prices and wages. An eventual cease-fire in Ukraine could remove some of the upward pressure on commodity prices. On the demand side, higher interest rates can help cool housing. The bond market is already doing some of the Fed's work with the 10-year Treasury yield nearly doubling in four months to 2.8%. These factors could easily cut headline consumer inflation in half by year-end from the current annual pace of 8.5%.

The outlook for corporate profits remains quite positive and may help prevent stocks from pulling back much further. With about 180 S&P 500 companies having reported, double-digit earnings growth appears within reach while analysts' estimates for 2022 have continued to rise. These numbers are excellent considering slow economic growth, supply chain disruptions, and inflationary pressures.

The investing climate is quite challenging, but history suggests patience will be rewarded. Even if there may be some downside in the short term, consumer and business fundamentals remain supportive. Strong profits and lower stock prices mean more attractive valuations. Our belief is that current levels will end up being an attractive entry point.

Please contact your financial advisor with questions.

Sincerely,



Jeffrey Buchbinder, CFA
Equity Strategist

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All index data from FactSet.

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