

Thoughts on Recent Market Volatility

Volatility is nothing new. It is a part of investing. Since hitting a peak on January 3rd, the S&P 500 is down 14.2% as of this writing. Investors are paid high returns over the long run because they occasionally experience losses in the short run. Since 1928, the average drawdown from peak to trough in a given year in the US stock market is 16.3%. Also, since 1928, the following are some important statistics for investors to remember:

- 5%+ corrections occur on average 3.3 times per year
- 10%+ corrections occur on average every 15 months
- 20%+ corrections (bear market) occur on average once every 7 years
- 30%+ corrections (crash) occur on average every 12 years

Volatility is fueled by uncertainty. Given that current headlines span the war in Ukraine, inflation, and Covid, there is currently much uncertainty. Nobody knows how long this downdraft will last nor when the market will bottom. We are currently 129 days since the peak which, historically, is right in line with the average 10%+ S&P 500 correction dating back to World War II. The following chart highlights these historical 10%+ corrections along with their length and magnitude.

This Looks Like Your Average Correction (So Far)			
S&P 500 Index Corrections (WWII - Current)			
Start Date	End Date	S&P 500 Change	Length of Time (Days)
2/5/1946	2/26/1946	(10.2%)	21
6/12/1950	7/17/1950	(14.0%)	35
1/5/1953	9/14/1953	(14.8%)	252
9/23/1955	10/11/1955	(10.6%)	18
8/3/1959	10/25/1960	(13.9%)	449
9/25/1967	3/5/1968	(10.1%)	162
4/28/1971	11/23/1971	(13.9%)	209
11/7/1974	12/6/1974	(13.6%)	29
7/15/1975	9/16/1975	(14.1%)	63
9/21/1976	3/6/1978	(19.4%)	531
10/5/1979	11/7/1979	(10.2%)	33
2/13/1980	3/27/1980	(17.1%)	43
10/10/1983	7/24/1984	(14.4%)	288
10/9/1989	1/30/1990	(10.2%)	113
7/16/1990	10/11/1990	(19.9%)	87
10/7/1997	10/27/1997	(10.8%)	20
7/17/1998	8/31/1998	(19.3%)	45
7/16/1999	10/15/1999	(12.1%)	91
11/27/2002	3/11/2003	(14.7%)	104
4/23/2010	7/2/2010	(16.0%)	70
4/29/2011	10/3/2011	(19.4%)	157
5/21/2015	2/11/2016	(14.2%)	266
1/26/2018	2/8/2018	(10.2%)	13
9/20/2018	12/24/2018	(19.8%)	95
1/2/2022	5/9/2022	(16.8%)	127*
	Average	(14.3%)	133
	Median	(14.1%)	89

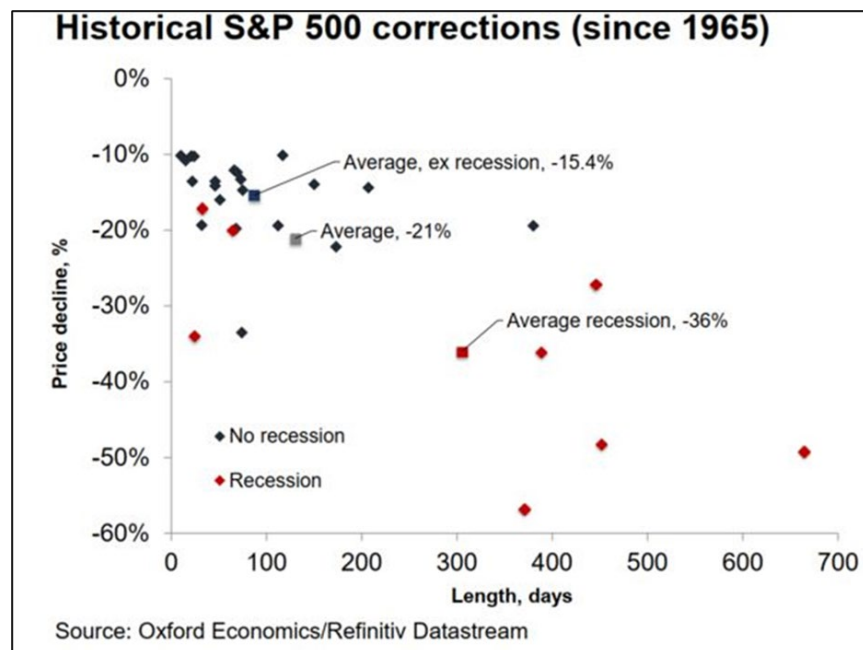
Source: LPL Research, FactSet 05/11/2022 * We don't know when the current correction will end.
 All indexes are unmanaged and cannot be invested into directly. Past performance is no guarantee of future results.
 Performance back to 1950 incorporates the performance of predecessor index, the S&P 90.

Historically, bear markets are rare without an accompanying recession. A recession is defined as a significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in real GDP, real income, employment, industrial production, and wholesale-retail sales. The history of recessions in the United States shows that they are a natural, though painful, part of the business cycle. The National Bureau of Economic Research determines when a recession starts and ends. The Bureau of Economic Analysis measures the gross domestic product (GDP) that defines recessions. There have been 19 noteworthy recessions throughout US history 11 of which have occurred post World War II.

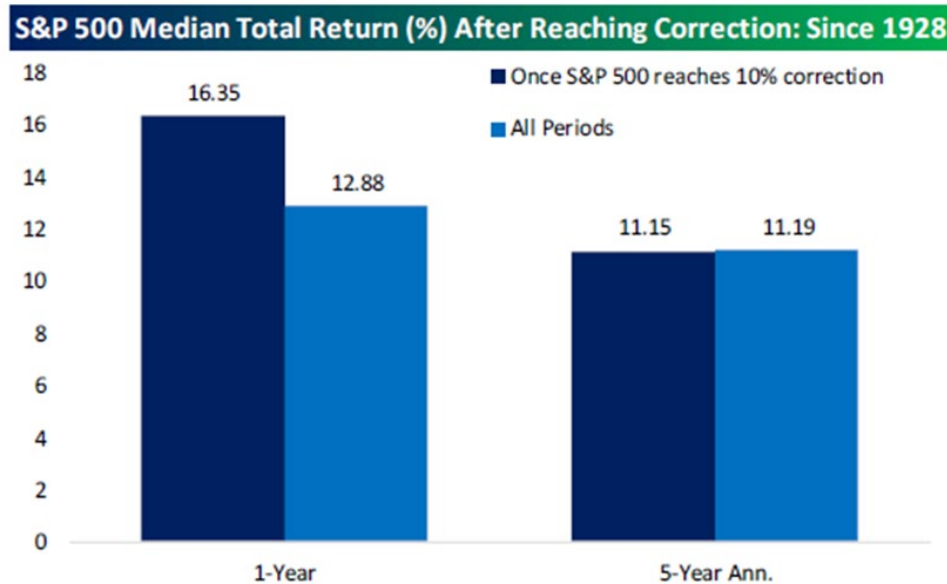
Yet, currently, we are not seeing evidence of a looming recession. Consider the following observations:

- While it will take time for inflation to return to acceptable levels, there are signs that inflation is beginning to come down as evidenced by recent declines in used car and shipping prices. Additionally, housing and rental should drop as new inventory comes on-line.
- The consumer, which is the largest driver of the US economy, continues to spend as retail sales are robust. Additionally, there is \$3 trillion of excess consumer savings sitting on the sidelines.
- Rising unemployment can be a signal of a coming recession. But unemployment continues to fall and employment has almost reached pre-pandemic levels.
- A decline in manufacturing has preceded all recessions since World War II. But manufacturing is booming despite supply chain issues.
- Supply chains are showing signs of improvement and labor inflation appears to have peaked (average hourly earnings slowed from 7.2% in the second half of 2021 to 3.8%).
- More than 70% of companies beat earnings and revenue estimates and more companies are raising guidance than lowering guidance. Profit margins have been stable and remain on the cusp of all-time highs.
- Semiconductors (often considered a leading indicator for the broad economy) have shown strong relative strength. 90% of semiconductor manufacturers have beat earnings and revenue estimates.

The following chart shows historical S&P 500 corrections of 10%+ broken out by occurrences with and without accompanying recessions. Note that almost without exception, the corrections not accompanied by a recession are shorter and less severe.



We were due for a correction after an exceptionally benign year of volatility in 2021. This one is odd in that bonds sold off in unison with equities, notching their worst start to the year in history. It is important to maintain perspective, however; the S&P 500 was up 104% in just 21 months through January 4th when we hit all-time highs. The Federal Reserve's effort to tighten financial conditions e.g. future interest rate increases and planned quantitative tightening coupled with the ongoing Russia-Ukraine conflict has us expecting a choppy rest of the year from a market perspective; however, we are still maintaining a constructive view on equities. To finish, the following chart shows the S&P 500's median 1-year and 5-year return after reaching a correction:



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Opal Wealth Advisors / 2 Jericho Plaza / Suite 208 / Jericho, NY 11753 / t. 516.388.7980 / f. 516.388.7968 / opalwealthadvisors.com