October 2022

There is a Silver Lining

As of this writing, equity index levels are down slightly after crossing the negative 20% threshold of a bear market in late June. This truth obfuscates the reality of the last three months - a broad 18% rally from the June lows and a subsequent 16% decline to a new cycle low. The best analogy might very well be the duck sitting in the water. Calm and cool above the surface but paddling like mad to stay still. Most individual stocks, as well as bonds, commodities, and foreign exchange markets, have experienced a considerable amount of volatility and now reflect a less certain environment than existed three months ago.

The litany of woes continues to include inflation, Russia's war with Ukraine, rising interest rates, and slowing global growth. The only significant offsets to these issues are strong domestic employment and increasing wages. This has led to a resilient consumer, which is currently frustrating the Fed's ability to curb inflation. The current bear market is already nine months long, and the prospects for an imminent bullish turn appear limited as inflation has yet to show signs of moderating, and the Fed remains intent on further raising interest rates to crush inflation. We remain optimistic over the intermediate and long term but have positioned equity and fixed income portfolios over the past several years to weather this storm.

Equity Bear Market Statistics Through History (S&P 500)

Bear Market Start	Bear Market End	Time (months)	Max Loss	Recovery 12-Months After	Recovery 24-Months After
January 2022	?	9	-25%*	?	?
February 2020	March 2020	1	-34%	78%	105%
October 2007	March 2009	17	-57%	69%	95%
March 2000	October 2002	30	-49%	34%	44%
August 1987	December 1987	3	-33%	21%	57%
November 1980	August 1982	20	-27%	58%	61%
January 1973	October 1974	20	-48%	38%	67%
November 1968	May 1970	17	-36%	44%	60%
February 1966	October 1966	7	-22%	33%	42%
December 1961	June 1962	6	-28%	33%	56%
August 1956	October 1957	14	-22%	31%	44%
Average		**14**	**-36%**	**44%**	**63%**

Source: Bloomberg

*Max loss through 9/30/22

To date, the declines have primarily been driven by valuation compression. However, we are now starting to see falling earnings estimates. The combination of significantly higher global interest rates, rising