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Q2 2022 Investment Insight

Inflation, rising interest rates, bear markets, possible recession - these are the topics of recent headlines. The cost to fill up my pickup truck (thirty-four-gallon tank) at the gas pump today is enough to bring on a poor mood in the happiest of people. Higher prices across the economy are having a real impact on millions of people in our country and around the world. It is no wonder that consumer sentiment is at an all-time low as people wonder if the current situation will just continue to get worse.

But will the situation just get worse? In the short-term, it is certainly possible. A longer time horizon, however, almost certainly favors the patient investor. The chart below reflects the rise and fall of consumer sentiment. As you can see, we are deep in the trough of a very big wave down. We have seen these low points in the past with nine significant declines in sentiment going back to the early 1970s. The important point to notice about the chart is that we always catch the next wave up to a new peak. The chart also shows us investment returns for the different peaks and troughs. If you invested at the eight sentiment peaks shown in the chart when everything in the world felt pretty good and people were worried about very little, your investment return in the S&P 500 Index over the subsequent twelve months would only be 4.1% on average. However, if you invested at the low point of the eight troughs shown, your investment return in the S&P 500 over the next twelve months would have averaged a very nice 24.9%.

Consumer confidence and the stock market

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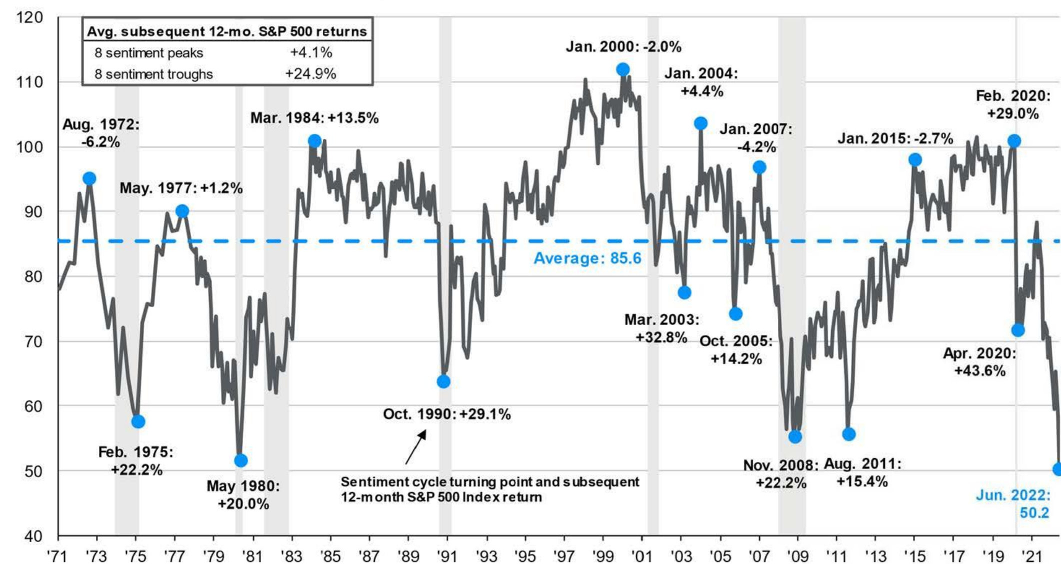
Economy



Source: FactSet, Standard & Poor's, University of Michigan, J.P. Morgan Asset Management.
Peak is defined as the highest index value before a series of lower lows, while a trough is defined as the lowest index value before a series of higher highs. Subsequent 12-month S&P 500 returns are price returns only, which excludes dividends. Past performance is not a reliable indicator of current and future results.
Guide to the Markets – U.S. Data are as of June 23, 2022.

J.P.Morgan
ASSET MANAGEMENT

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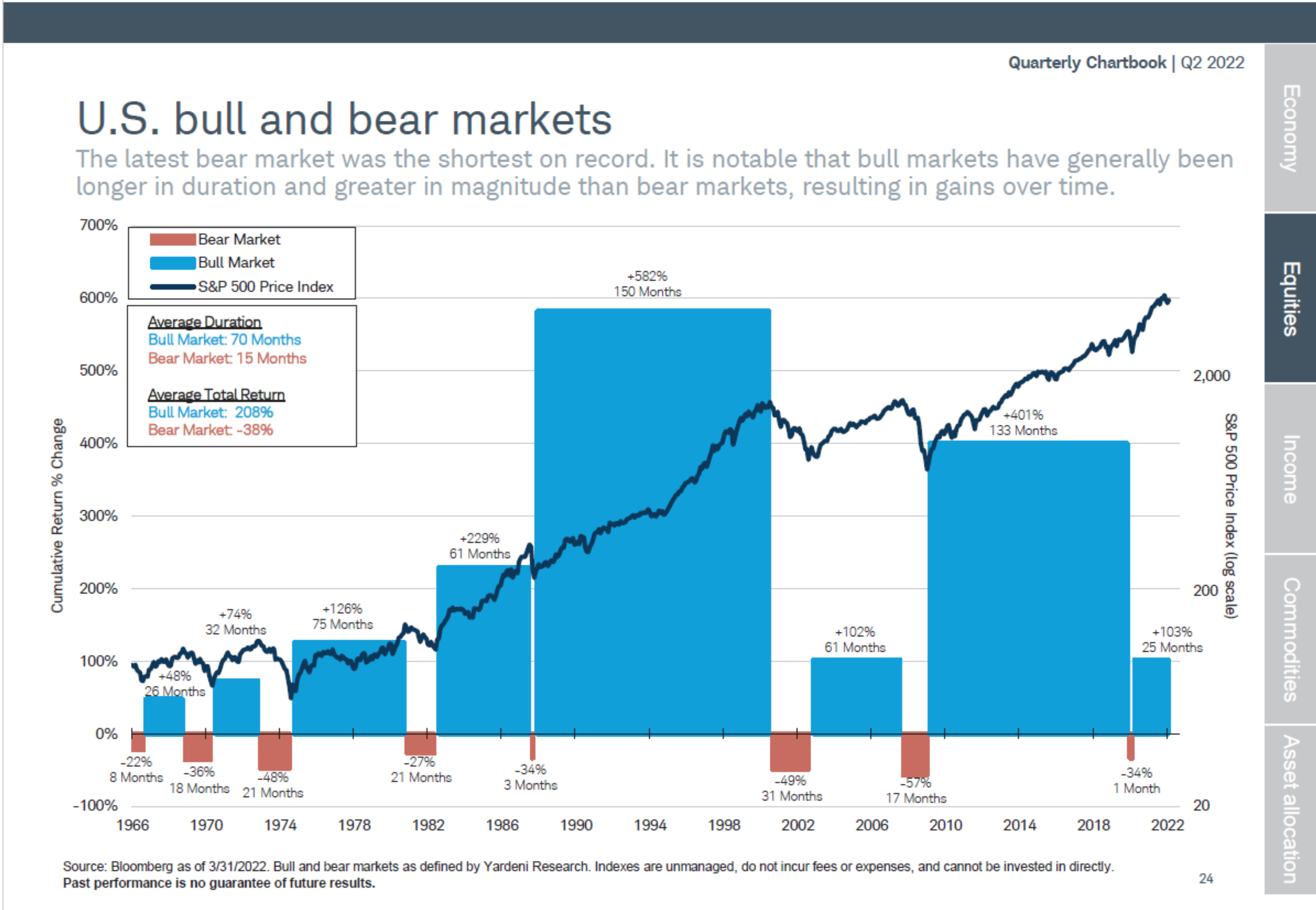
The U.S. stock market as measured by the S&P 500 Index entered Bear Market territory in June, meaning that stock values had fallen by at least 20% from their previous high. The current Bear Market contributes to the gloom reflected in the Consumer Sentiment Index in the previous chart. But here again there is room for a brighter outlook for those who maintain a steady and disciplined approach to their portfolios. Bear Markets tend to be short relative to their opposite Bull Market runs. The following chart from Charles Schwab illustrates this nicely, showing that Bear Markets have averaged only fifteen months while Bull Markets have averaged seventy months between 1966 and 2022.



A final point that we have made many times over the years that warrants repeating is that market recoveries are often as unexpected as the market declines that precede them. Recoveries from Bear Markets are front-loaded, and they often begin before the economic data indicates that they should. While an official recession has not been declared in 2022, it is instructive to look at prior recessions and stock market returns to appreciate this point. The following chart is reproduced based on data from the June 27, 2022 JP Morgan "Eye on the Markets" newsletter. We see that stock market (S&P 500 Index) declines bottomed out anywhere from 61 days to 182 days before the economy did (measured by Gross Domestic Product, or GDP). By the time GDP started rising again signaling the economic recovery, the stock market had already risen substantially (see the far-right column). In other words, by the time the

economy showed signs that would lead to rising consumer confidence (our first chart above), the stock market was already well on its way to higher returns/recovery.

The opportunity cost of waiting for economic recovery before investing

Equity market bottom	GDP bottom	Days in between	Equity market return by the time that GDP bottomed	Equity market return by the time GDP started rising again
3/31/2020	6/30/2020	91	20%	30%
2/28/2009	6/30/2009	122	25%	44%
10/31/1990	3/31/1991	151	23%	22%
7/31/1982	9/30/1982	61	12%	31%
9/30/1974	3/31/1975	182	31%	50%
12/31/1957	3/31/1958	90	5%	13%

Source: Bloomberg, JPMAM. 2022.

Our years of experience with clients supports the point that investors who allow sentiment to overrule sound planning and try to trade their portfolios to avoid the pain of a market decline often miss the early, significant market recovery that can occur quickly and unexpectedly. In our experience, those who try to trade in this manner often have a material negative impact on their long-term portfolio returns. Experiencing the Bear Markets represented by the red bars in the second chart above is frightening. However, the patient investor who plans appropriately and stays invested for the recovery (the blue bars) makes these market downturns much less significant and impactful to their long-term success.

Call us if you are concerned or have questions. Let's put a new financial plan in place if you don't have one yet. Or let's update an old plan. Or let's just visit about what's on your mind. Let us help you be patient and disciplined through these markets so that you are positioned well to take advantage of the recovery when it comes.

The views of this commentary are not intended to be a forecast of future events, a guarantee of future results, or investment advice. We do not undertake to advise you of any changes in the views expressed herein. Investors should not use this information as the sole basis for investment decisions. The performance of an index is not an exact representation of any particular investment, as you cannot invest directly in an index. Past performance is no guarantee of future results. Any statistics have been obtained from sources believed to be reliable, but the accuracy and completeness of the information cannot be guaranteed.