To a Better Second Half of the Year!

The first half of 2022 has not been good for the markets. The US stock market - as exemplified by the widely followed S&P 500 Index - decreased by 23.5% from its all-time high on January 4th to its 2022 year-low reached on June 16th (as of this writing). We should add that the Canadian stock market has fared a bit better. Any decrease of 20% or more is classified as a 'bear' market. A decrease of 10% to 20% is classified as a 'correction'. In addition to a decline in the stock market, the normally steady 'fixed income' market has also declined since moves in the fixed income market are typically inversely related to moves in market interest rates. So it is safe to say that most investment portfolios are down are down in the first half of 2022, regardless of their Investor Profile.

There is a multitude of reasons why the stock market decreased. I will highlight these ones:

- Some sectors of the stock market had become over-valued (e.g. most of the tech sector).
- In 2020 and 2021, interest rates went down to historically low levels, in order to help the economy deal with the COVID lockdowns and restrictions. Since then, market and central bank interest rates have since then been increasing back to more normal levels.
- The strong government fiscal measures used to support the economy during COVID have been coming to an end.
- Inflation has become a problem - for many different reasons, some of which are difficult to correct in the short term. This, in turn, has forced central banks to quickly increase their rates. Consequently, the market is scared that 'slamming the brakes by the central banks might make us go through the windshield!!!' i.e. we will end up with a man-made recession.
- The war in Ukraine is causing supply issues for natural resources and food + in my view, makes us more pessimistic.
- When markets go down, the media likes to highlight the most pessimistic forecasts. This, in my opinion, means a number of analysts/experts might clamor for more attention by providing even more negative forecasts. Optimistic forecasts are often either scoffed at or, at best, ignored. This vicious circle of 'Let me get more attention by providing the most pessimistic forecast / the media giving more coverage to the most pessimistic forecast' seems to elevate fear levels and contribute to further declines.

All of the above deal with the past and the present. Let me now provide a somewhat brighter and more forward-looking view of the markets which , as always, are bound to turn around at some point and resume their long-term upward.

Here are some positives to consider:

- The stock market is a forward-looking mechanism. If and when we are in an official recession - which is defined as two quarters (so six months) of negative real (i.e. after inflation) economic growth - the stock market will already be looking further out into the horizon into the eventual economic recovery.
- I believe the markets are already factoring in the 'known' negatives and most of the 'possible' negatives. So what if we ended up with pleasant surprises over the next six months? e.g. some kind of resolution of the Ukrainian war; a declining inflation rate - which would make central banks reverse their current hawkish monetary policy; governments could introduce policies that decreased prices (e.g. eliminating some trade tariffs); US mid-term elections and/or their results could be viewed favorably by the market.
- Pessimism amongst the general investing public is extremely high. This is sometimes called 'negative investor sentiment'. It is typically a good contrarian indicator.
- Pessimism amongst institutional money managers is also quite high, as evidenced by their lower-than-average exposure to equities. This is sometimes called 'light positioning'. This might be another good contrarian indicator.
- The US stock market's stock market valuation is back in line with its historical average levels. Some say it is even getting cheap.
- Given the drop in the markets, investing in equities and fixed income should ordinarily now be viewed as less risky.

As always, we are keeping a very close eye on the markets on behalf of our clients. If you have any questions or concerns, please do not hesitate to contact us. If personal circumstances have caused you to believe your long-term investment objectives, risk tolerance, or time horizon should be re-visited, we also encourage you to contact us.

Have a great summer,

Wade Brown

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Insights/Opinions from Experts

In this section, I typically offer a few very recent quotes/insights/observations from a number of respected market experts that hopefully provide useful perspective during these very uncertain times. This time around, I will keep it short and highlight the timely insight of one of our own market experts. Less is more!

After providing listeners with a 2022 year target of 4,700 for the S&P 500 - which is very close to its January 4th all-time high level and quite higher than its current approximate level of 3760 - Lori Calvasina from RBC said: *"Our target assumes we are going to find a bottom in the market soon…when we come out on the other side of these types of declines, the rebound tends to be fierce coming back ..The market has started to price in a recession ….The market is grappling with what kind of recession (we get) if we get one…..Some of the sentiment gauges ......are already reflecting the worst of what is about to come….We have already begun to pull forward a lot of the pain that is coming on the fundamental side…."*
Source: Lori Calvasina, RBC Capital Markets – Head of US Equity Strategy, CNBC Fast Money, June 21, 2022