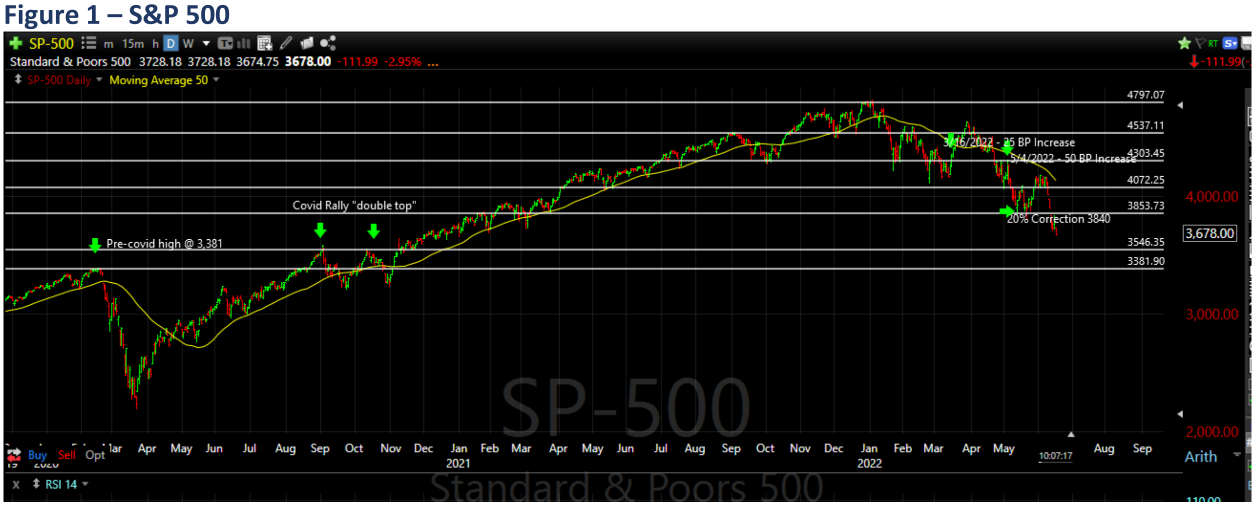
I wanted to reach out and give everyone a quick update on the status of the equity and fixed income markets. As we discussed in our first quarter 2022 newsletter, we expected this to be a year of volatility and this has certainly been the case. Not only has there been tremendous volatility in the stock market, but this has been one of the worst starts of the year for the fixed income markets as well.

Equity Markets:

As you can see from Figure 1, the S&P 500 has broken down below the key 3,840 level, which is a full 20% retracement for the previous highs. Now that the S&P 500 has declined by over 20%, we are officially in a bear market. In the past 90 years, there have been a total of 28 bear markets with an average draw down of 35.62%. The question we have received the most in the past month is "when will the market bottom?". The answer lies in the chart of the S&P 500 below. Once we broke down below 3,840, the next major support level in the 3,500 to 3,540 range. The 3,540 range represents the Covid Rally "double top" last summer. The 3,500 level indicates a full 50% trough to peak retracement. Based on attractive valuations for many components of the S&P 500, I would fully expect this to be the bottom, outside of a black swan event.

Figure 1 – S&P 500



Source: TC 2000
Data accurate as of 6/16/22

Fixed Income Markets:

As you can see below, there have also been substantial losses in the fixed income market. The S&P 500 Bond Index has struggled to find footing year to date as you can see in Figure 2. This has struck fear in fixed income investors who typically invest in bonds for their implied safety and income stream. History shows that bond markets rarely decline for several years in a row, and I would not expect our current situation to be any different. The parabolic rise in the ten-year U.S Treasury yield, moving from 1.7% in March to a current level of 3.4% has created a potential opportunity for fixed income investors. On our ICE Bondpoint terminal this morning, we were surprised to see multiple four-year Investment Grade corporate bonds yielding over 4.5%, a level we have not seen in many years.

Figure 2 – S&P 500 Bond Index: Year to date performance

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S&P 500 Bond Index

461.25 USD | 0.61% 1 Day

Overview | Data | News & Research

PERFORMANCE | USD | TOTAL RETURN

GRAPH VIEW | TABLE VIEW

LATEST CLOSE | LATEST MONTH-END | RISK

EXPORT | COMPARE | SPICE

As of Jun 22, 2022	Index Level	1 Day	MTD	QTD	YTD
S&P 500 Bond Index Total Return	461.25	0.61%	-3.12%	-7.32%	-13.88%

Source: https://www.spglobal.com/spdji/en/indices/fixed-income/sp-500-bond-index/#overview
Data accurate as of 6/23/22

Summary: In conclusion, the equity and fixed income markets have presented us with a potential opportunity. The sharp increase in interest rates will ultimately be a blessing for any investor in a search for income (a recent Fidelity report called it the “Sunrise for Fixed Income Investors”. The relatively low valuations for the S&P 500 create a compelling entry point in the 3,500 range. According to Dow Jones Market Data (below), once we enter a bear market, the average one-year return is 23.9%!

S&P 500 after closing in bear market

Entered bear market	One month later	Three months	Six months	One year
Oct. 21, 1957	3.4%	5.5%	9.7%	31.0%
May 28, 1962	−2.0%	5.9%	11.9%	26.1%
Aug. 29, 1966	2.4%	7.9%	17.6%	24.6%
Jan. 29, 1970	4.4%	−4.5%	−8.9%	11.8%
Nov. 27, 1973	2.1%	0.7%	−7.4%	−26.9%
Feb. 22, 1982	1.1%	3.0%	1.3%	30.4%
Oct. 19, 1987	6.8%	10.9%	14.7%	23.2%
March 12, 2001	0.3%	6.4%	−7.4%	−1.2%
July 10, 2002	−1.3%	−12.7%	0.8%	7.4%
July 9, 2008	4.1%	−26.9%	−28.5%	−29.1%
Feb. 23, 2009	10.7%	19.3%	38.0%	47.3%
March 12, 2020	12.5%	22.6%	34.7%	59.0%
Median	**2.9%**	**5.7%**	**5.5%**	**23.9%**

Source: Dow Jones Market Data

Get your shopping list ready with a plan to add to equities once we see the S&P 500 hold the key 3,500 to 3540 level. Have a great summer and we will talk to you soon!

Past performance is no guarantee of future results.

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