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In the Markets Now

On recent volatility

We believe in the old saying: a picture is worth a thousand words. Here, we aim to recap recent market action and provide some perspective to investors.

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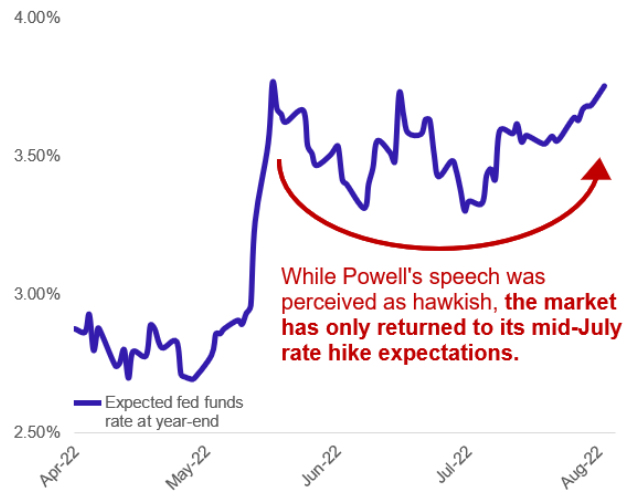
September 2022

THE SELLING PRESSURE THAT FOLLOWED JACKSON HOLE

As of writing, the S&P 500 has fallen roughly 7% over the last two weeks, including a 5% skid in the few days since Federal Reserve Chair Jerome Powell delivered a hawkish address at the Fed's Jackson Hole conference. For brevity, here are a few scattered thoughts on the renewed selling pressure.

- **Not much has changed.** The hawkishness conveyed by Chair Powell at Jackson Hole – namely his insistence that the Fed "must keep at it (raising rates to tame inflation) until the job is done" – may have spooked equity markets, but it didn't change expectations for rate hikes all that much and it certainly wasn't a change in tune from the Fed. The market's outlook for where the fed funds rate will be at year-end only barely inched higher following the speech, perhaps indicating that Powell's degree of hawkishness was already priced into those markets. Further, most other Fed governors had already spent weeks giving hawkish speeches and jawboning inflation following July's lower-than-expected inflation print (and the market's rally). Powell's speech only served to confirm the Fed's ambitions, but equity markets were obviously not positioned well for it.



- **Inflation is still too high.** It boils down to this. Even if there are plenty of signs that it is peaking (freight rates and gas prices moderating, money growth falling, etc.), the Fed will need a longer and broader body of evidence to reverse course. The recent softening in commodity prices is a necessity, but those prices are volatile. The Fed will also want to see cooling in housing and labor markets to get comfortable slowing down. There's still a way to go on those fronts.

- **Bear markets are a process.** Since World War II, the average bear market has taken roughly a year to get from all-time high to bottom. Along the way, bear market rallies are highly common – the 2000-02 bear market saw three separate rallies of ~20%+ on the way to the ultimate low. Relatedly, the V-shaped bounces seen after the 2018 and 2020 bear markets are uncommon and unlikely without policy support (which likely isn't coming any time soon). All this is to say, the recent reversal is par for the course when investing through a bear market.

- **Long-term bullish.** The S&P 500 has a 100% success rate in beating bear markets and recessions. The S&P 500 has been positive 88% of rolling five-year periods. Said another way, every purchase during past bear markets was an opportunity to buy at a discount. We're in a unique environment wrought by the world's first global pandemic, but it's not the first Fed tightening cycle nor is it our first bout of inflation. US companies and the stock market will persevere.

In the end, the day-to-day machinations of the market only matter to the extent we allow them to. Volatility and selloffs – in all of their various shapes and sizes – are just a reality to bear for the long-term stock owner. So, talk to your advisor, build a financial plan, play the long-term game, and the day-to-day volatility becomes nothing but noise.

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