



SEPTEMBER 2022 INVESTMENT STRATEGY OUTLOOK

Bear Market Chart Blast

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Investment Strategy Outlook – Fall 2022

There is no shortage of ways one could describe the current investment environment, but we will allow the great Stanley Druckenmiller to opine on it for us:

This is my 45th consecutive year as a Chief Investment Officer. In 45 years I've never seen a constellation or frankly studied one where there's no historical analogue. Right now I probably have more humility in terms of my views going forward than I've ever had. 6/11/2022

We have long said that if nothing else, as investors, we are humble and disciplined. We have compiled this chartbook in striving to accomplish a few goals. First, we want to acknowledge the bearish case for asset prices, attempt to offer some additional perspective regarding how much longer this bear market could last, and what we might need to see in order to begin to build a sustainable bottom for risk assets.

Second, we also want to highlight some of the data points which the (few) bulls are currently formulating their thesis around.

Finally, and most importantly, we want to offer actionable recommendations for how we believe investors should currently be proceeding in a non emotional, disciplined fashion. In this regard, we have focused most of the slides on historical bear markets and the possibilities of the ensuing bull market rather than the immediate “bull” or “bear” case for equity markets.

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The less constructive outlook for risk assets is well known and probably fairly intuitive at this point. Despite the fact that the bearish viewpoint is becoming more consensus, we do believe there is plenty of merit to the thesis and that investors should take these narratives seriously. Although we are not using charts to do so, we want to highlight some of the things that worry us the most about the current market setup.

1. The valuation “math” points to lower levels for the S&P 500. To be fair, “valuation math” didn’t matter much in markets from 2016 - 2021. But the QE regime has ended and 2022 has reminded investors that valuations matter again, with the most highly valued stocks / assets experiencing the worst drawdowns. Although current price to earnings multiples are now in line with longer term historical averages, bear markets usually bottom with valuations below average, and that is especially true in higher inflationary environments.
2. Despite the bear market in global equity markets, US equities have not become any more attractive relative to bonds. TINA (there is not alternative to equities) was an important element of the bullish proposition in years past, and this simply no longer exists. We will likely need to see a rise in the equity risk premium (risk premium for equities vs. bonds) before this bear market has fully run its course.
3. Corporate earnings are just beginning to be revised lower, and equity markets usually don’t bottom until earnings are closer to the end of their downward revision process. We will get more clarity on this front when Q3 earnings season starts in a few weeks. But 2023 earnings are likely being overstated (current analyst estimates for 2023 S&P 500 EPS are \$243) and will need to come lower. The question is how much lower they will go, especially in relation to 2022 S&P 500 EPS of around \$225 per share.

We have not heard many investors give too much attention to the fact that S&P 500 earnings grew at a rate which was far above sustainable since COVID (2020 S&P 500 EPS were \$137 +/-, 2022 S&P 500 EPS will be \$225 +/-). 100 years of data shows that the trend growth rate for S&P 500 earnings per share is around 6.5% per year. When using a 6.5% long term trend growth rate, our work shows that 2023 S&P 500 EPS should be around \$200 - \$210 per share. This is not ideal for investors in the short term given this is 15% below current analyst estimates for 2023 EPS. However, it does offer investors some confidence when we extend our time horizon and realize that EPS growth has always reverted to its long-term trend rate of growth, regardless of stimulus fueled binges which artificially inflate EPS above their trend growth rates or recessions which temporarily suppress EPS below trend growth rates. Under this assumption, S&P 500 EPS should be well above \$300 per share by the end of this decade, which should be a very positive dynamic for US equity markets relative to today's prices.

2022 Investment Strategy Outlook – Fall 2022

4. Downtrends are becoming more entrenched across global equity markets, yet we haven't seen many traditional signs of panic such as a spike in the VIX or a spike in put / call ratios. We want to see at least a couple of days where the fear in markets is palpable before we have more confidence that markets are beginning a bottoming process. Markets bottom once investors panic.
5. The Fed is consistently continuing their rhetoric about fighting inflation at all costs. The Federal Reserve's primary method to fight inflation is to kill demand by making money more expensive and tightening financial conditions. Generally speaking, financial conditions tighten when interest rates go up and asset prices (home prices & stock prices) go down. Thus, when asset prices rallied during July and August, financial conditions loosened and this was counterproductive to what the Federal Reserve is trying to accomplish in combating inflation. We don't believe the Federal Reserve deliberately wants to crash equity markets by any means. But we do strongly believe that the Fed doesn't want to see asset prices appreciate in any meaningful way until they have persistent evidence that inflation is making meaningful progress towards their stated 2% target.

"Don't fight the Fed" is probably undefeated in its wisdom, and investors are going to need the headwinds of increasingly hawkish central bank policy, relentlessly higher global interest rates, and a persistently stronger US dollar to dissipate before any rally for risk assets can become anything more than a temporary countertrend bounce.

The major problem as we see it, is that central bankers have lost confidence in their own forecasting abilities and seem to increasingly lack perspective and clarity. The Fed told us in September 2021 that they might hike interest rates once in 2022. Instead, we are experiencing one of the most aggressive periods of monetary policy tightening in history. In addition, the Federal Reserve was still expanding its balance sheet in March 2022, even though they acknowledged that inflation had become a serious issue in November 2021. Even "better" is the fact that a portion of the bond purchases that they were conducting as late as March 2022 were mortgage bonds, despite the fact that we were experiencing one of the strongest housing markets in the history of the United States, to the point where it was becoming detrimental to the average person. Now, 6 – 7 months later, the Fed is openly trying to cool (crash) the housing market in order to "bring down inflation."

As of Monday 9/26/22, the Dow Jones Industrial Average is back below its pre COVID highwater mark. The entire post COVID bull market is gone for the Dow Jones. Central bankers and Politicians have been conducting one giant experiment and it is beginning to cause some legitimate discomfort. Unfortunately, the most severe pain still lies ahead for some people since the Fed has told us that they want the unemployment rate to "tick" higher. And that will be the real travesty, people are going to lose their jobs because policy makers have been so off the mark and are now trying to correct their own mistakes by deliberately putting some people out of work in order to cool demand.

If there is one silver lining to this massive experiment gone bad, it is that anyone who understands basic economics no longer thinks that MMT (helicopter money) is a good idea anymore.

Investment Strategy Outlook – Fall 2022

The number of investors who maintain a bullish posturing for the next few months seem to be few and far between, even though most Wall Street banks began the year recommending an overweight positioning to equities and risk assets. We are beginning to take the opposite view relative to what seems to be the mainstream, ultra bearish narrative. Although we are maintaining relatively cautious positioning, we want to acknowledge that investors are beginning to be presented with opportunities which don't occur with tremendous frequency. We believe it will serve investors well to keep data points below at the top of mind as the bearish voices in the media continue to get louder:

1. Sentiment is flat out bearish, and historically so by some measures. The Bank of America Fund Manager Survey currently shows that fund managers are holding more cash today than they have at any point since the 2001 / 2002 bear market (other peaks in cash occurred around the market bottoms of 2008, 2011, 2018, 2020, etc.). In addition, over 60% of participants were bearish in the AAI Bull / Bear survey last week. This has only occurred four other times since the inception of the survey in 1987, all of which led to very strong returns over the ensuing 12 months. The other dates when more than 60% of participants were bearish were 8/31/90, 10/19/90, 10/9/08, 3/5/09 *(source: Ryan Detrick & Carson Group LLC)*.
2. We are finally beginning to see some signs that investor positioning is beginning to follow sentiment into very bearish territory. According to Jason Goepfert & JC Parents, "retail traders spent \$18 billion buying put option protection last week, a record. They're holding \$46 billion worth of index futures net short, a record."
3. The NASDAQ 100 recently registered its 14th "no bid" day since 1990. On 9/13/22, 0 / 100 stocks in the NASDAQ 100 advanced. The NASDAQ 100 was higher 12 months later in 100% of the previous 13 instances, with incredibly strong average and median gains *(source Tom Lee & FSInsight)*.

Investment Strategy Outlook – Fall 2022

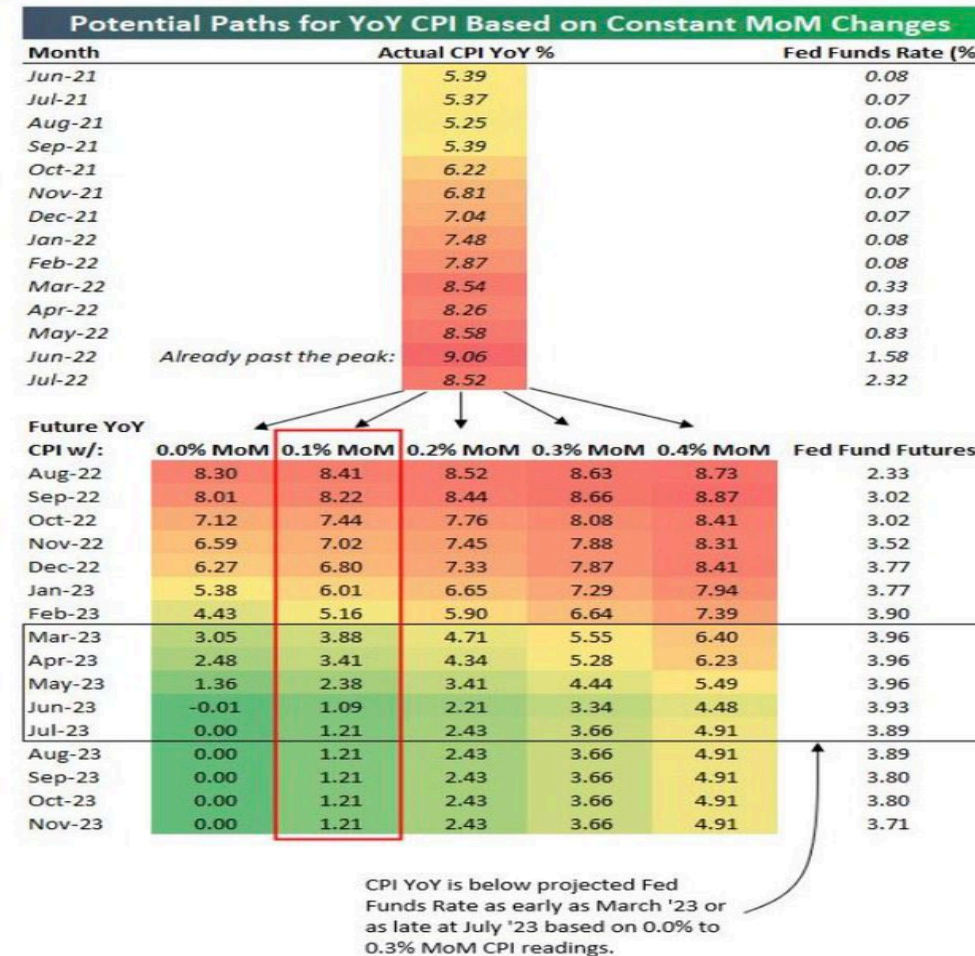
4. Investing is always a game of probabilities, never certainties. All equity investors are aware of the favorable probabilities over long-term time horizons, although bear markets can make the longer-term return statistics difficult to believe in the moment. Less than 5% of stocks in the S&P 500 closed above their respective 50 day moving average on Friday 9/23/22 and Monday 9/26/22. Two consecutive closes in a row with less than 5% of stocks in the S&P 500 closing above their 50 day moving average has happened on 85 other occasions since 1985 (84/85 occasions happened in 1987, 2002, 2008, 2011 or 2020). The S&P 500 finished higher 100% of the time, 1 year later, in the previous 85 instances since 1985. This is despite some severe drawdowns (2008 signals especially) between the date of the signal and the positive return achievements 1 year later (source: Jonathan Harrier, CMT: @jonathanharrier).

When < 5% of \$SPX stocks are above their 50-ma two days in a row				
Backtest: Prior times when fewer than 5% of S&P 500 stocks were above their 50-day MA for two consecutive days (N=85 since Nov-85)				
S&P 500 Index Performance Following Events				
<u>Summary of Events</u>	<u>3 months</u>	<u>6 months</u>	<u>9 months</u>	<u>1 year</u>
Average Final Return	5.3%	9.3%	15.5%	23.6%
% Positive at End	66%	76%	89%	100%
Average Drawdown	-9.2%	-11.6%	-11.6%	-11.6%
Avg Days to Drawdown	23	41	41	41
Average Max Gain	13.2%	17.1%	19.8%	25.9%
Avg Days to Max Gain	39	75	120	236
Backtests and Event Studies by Jonathan Harrier, CMT @jonathanharrier				
Source data: MarketCharts.com				
This is not investment advice. For general information/education only.				

(source: Jonathan Harrier, CMT: @jonathanharrier).

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5. There is a valid case to be made that inflation is receding. Achieving the Fed's 2% inflation target might be another story. But if inflation begins to meaningfully subside from its white-hot readings of the last several months, asset prices could interpret this favorably relative to current expectations. "Good" or "bad" isn't what moves markets. "Better" or "worse" relative to expectations is the key factor, and peak central bank hawkishness could be closer than investors currently believe. Inflation is all but guaranteed to stay elevated through 2022, but it doesn't seem like many market participants currently believe that inflation could be below 4% by next spring.



Source: @macroalf

S&P 500 Bear Markets

We will begin by at least flirting with the question of “where and when” the market may ultimately find a durable bottom.

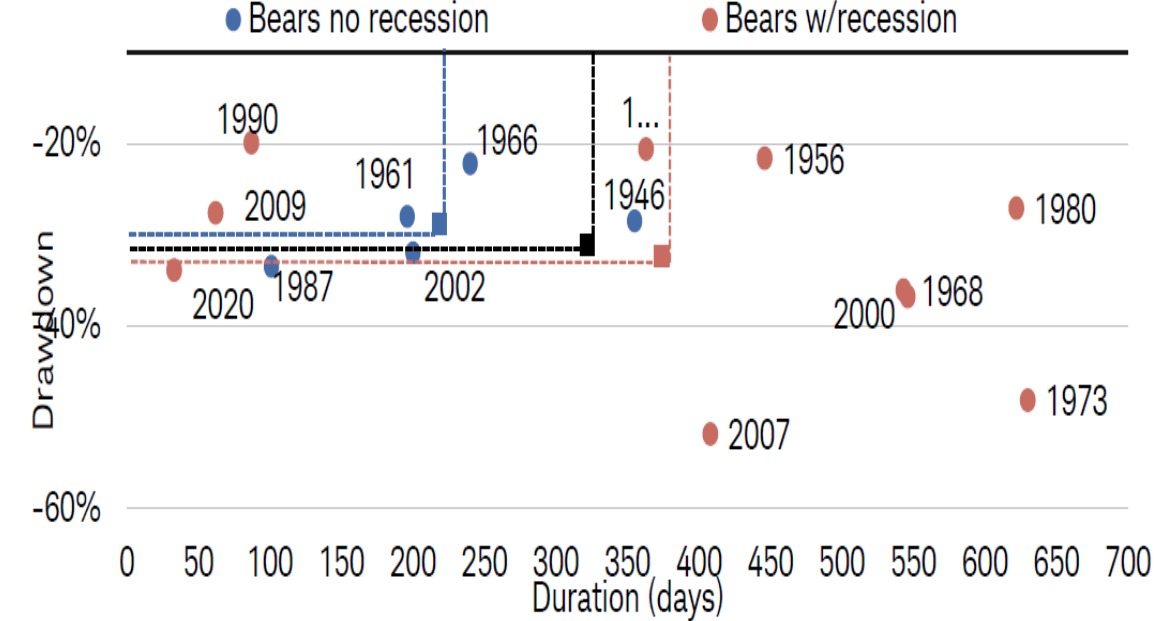
Charles Schwab and Liz Ann Sonders have found that the average bear market without a recession declines by about -29% over the course of roughly 7 months.

This is in comparison to the average recessionary bear market which goes down by roughly -32% and takes over a full year to find its respective bottom.

The next few slides look at this same data but arrive at slightly different analytical conclusions due to different time frames and definitions of bear markets.

Although the precise figures vary, the research provides extremely consistent directional results.

S&P 500 "bear" market declines: duration vs. % drawdown



S&P 500		
Scenario	Average % change	Average duration of bear market
Bears no recession	-28.8%	218
Bears w/recession	-32.4%	374
All bears	-31.2%	322

Source: Charles Schwab, Bloomberg, National Bureau of Economic Research. 1946-6/30/2022. Excludes current 1/3/2022 bear market. Bear market defined as 19.9% or greater drop in S&P 500. *3/24/2000-10/9/2002 is generally considered one long bear market (-49.1%), but there were two 20% rallies within that span. 10/9/2007-3/9/2009 is generally considered one long bear market (-56.8%), but there was one 20% rally within that span. Indexes are unmanaged, do not incur management fees, costs and expenses and cannot be invested in directly. **Past performance is no guarantee of future results.**

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Source: Charles SCHWAB & Liz Ann Sonders

**“Typical” Bear Markets Last About A Year
And Go Down Around -30%**

Ryan Detrick & LPL Financial arrive at the conclusion that average and median bear market declines are -29.6% and -27.1% respectively. This data doesn’t differentiate from recessionary vs. non recessionary bear markets.

The next two slides elaborate by breaking this data down one step further and making the distinction between recessions and bear markets outside of a recession.

Bear Markets Last About A Year

S&P 500 Index Bear (And Near Bear) Markets (WWII - Current)

Start Date	End Date	S&P 500 Change	Months
5/29/1946	5/19/1947	(28.5%)	11.7
6/15/1948	6/13/1949	(20.6%)	11.9
8/2/1956	10/22/1957	(21.6%)	14.7
12/12/1961	6/26/1962	(28.0%)	6.4
2/9/1966	10/7/1966	(22.2%)	7.9
11/29/1968	5/26/1970	(36.1%)	17.9
1/11/1973	10/3/1974	(48.2%)	20.7
9/21/1976	3/6/1978	(19.4%)	17.5
11/28/1980	8/12/1982	(27.1%)	20.4
8/25/1987	12/4/1987	(33.5%)	3.3
7/16/1990	10/11/1990	(19.9%)	2.9
7/17/1998	8/31/1998	(19.3%)	1.5
3/24/2000	10/9/2002	(49.1%)	30.5
10/9/2007	3/9/2009	(56.8%)	17.0
4/29/2011	10/3/2011	(19.4%)	5.2
9/20/2018	12/24/2018	(19.8%)	3.1
2/19/2020	3/23/2020	(33.9%)	1.1
Average		(29.6%)	11.4
Median		(27.1%)	11.7

Source: LPL Research, FactSet 05/03/2022

All indexes are unmanaged and cannot be invested into directly. Past performance is no guarantee of future results.

The modern design of the S&P 500 stock index was first launched in 1957.

Performance back to 1950 incorporates the performance of predecessor index, the S&P 90.

Source: Ryan Detrick & LPL Financial

Bear Markets Without A Recession Are Usually Shorter Than Recession Bear Markets

LPL has found that the average bear market without a recession goes down by roughly -24% over the course of 7 months. This is almost the exact result of the 2022 bear market – which as of the current YTD lows on 9/26/22 was down just shy of -24% over the course of 9 months.

Bear Markets Are Better Without A Recession

S&P 500 Index Bear (And Near Bear) Markets (WWII - Current)

Start Date	End Date	S&P 500 Change	Months	Recession?
5/29/1946	5/19/1947	(28.5%)	11.7	No
12/12/1961	6/26/1962	(28.0%)	6.4	No
2/9/1966	10/7/1966	(22.2%)	7.9	No
9/21/1976	3/6/1978	(19.4%)	17.5	No
8/25/1987	12/4/1987	(33.5%)	3.3	No
7/17/1998	8/31/1998	(19.3%)	1.5	No
4/29/2011	10/3/2011	(19.4%)	5.2	No
9/20/2018	12/24/2018	(19.8%)	3.1	No
Average		(23.8%)	7.1	
Median		(21.0%)	5.8	

Source: LPL Research, FactSet 05/13/2022

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Source: Ryan Detrick & LPL Financial

In Addition To Cutting Deeper, Recessionary Bear Markets Also Last Longer On Average

LPL's conclusions regarding the average decline during a recessionary bear market are almost identical to the data that Charles Schwab published.

However, their data set indicates that recessionary bear markets tend to last even longer than 1 year, in the range of 15 – 17 months.

Our largest conclusion from this data is that we could be finished with 65% - 75% of the price declines even if we go into a recession, and the eventual decline is approximately “average.”

Bear Markets Are Worse With A Recession

S&P 500 Index Bear Markets (WWII - Current)

Start Date	End Date	S&P 500 Change	Months	Recession?
6/15/1948	6/13/1949	(20.6%)	11.9	Yes
8/2/1956	10/22/1957	(21.6%)	14.7	Yes
11/29/1968	5/26/1970	(36.1%)	17.9	Yes
1/11/1973	10/3/1974	(48.2%)	20.7	Yes
11/28/1980	8/12/1982	(27.1%)	20.4	Yes
7/16/1990	10/11/1990	(19.9%)	2.9	Yes
3/24/2000	10/9/2002	(49.1%)	30.5	Yes
10/9/2007	3/9/2009	(56.8%)	17.0	Yes
2/19/2020	3/23/2020	(33.9%)	1.1	Yes
Average		(34.8%)	15.2	
Median		(33.9%)	17.0	

Source: LPL Research, FactSet 05/13/2022

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The modern design of the S&P 500 stock index was first launched in 1957.

Performance back to 1950 incorporates the performance of predecessor index, the S&P 90.

Source: Ryan Detrick & LPL Financial

It Usually Takes Longer To Go From The Market Top To Down -20% Than It Takes To Go From Down -20% To The Eventual Market Bottom

Continuing, Ben Carlson has found that the average bear market lasts for about a year, similar to the data from Charles Schwab. There are two additional takeaways that are important observations from this chart:

First, the current bear market reached down -20% faster than average. Nowhere near the speed of the 1987 or 2020 market crashes, but around 70 days faster than usual.

Second, the eventual market bottom comes roughly 4.5 months after the S&P 500 hits the down -20% mark, which would mean this bear market would end in late October, in an average scenario.

Peak	Trough	% Decline	Days to Down 20%	Days from Down 20% to Bottom
5/29/1946	10/9/1946	-26.6%	103	30
6/15/1948	6/13/1949	-20.6%	363	1
7/15/1957	10/22/1957	-20.7%	98	1
12/12/1961	6/26/1962	-28.0%	167	29
2/9/1966	10/7/1966	-22.2%	201	39
11/29/1968	5/26/1970	-36.1%	426	117
1/11/1973	10/3/1974	-48.2%	320	310
11/28/1980	8/12/1982	-27.1%	451	171
8/25/1987	12/4/1987	-33.5%	55	46
3/24/2000	10/9/2002	-49.1%	353	576
10/9/2007	3/9/2009	-56.8%	274	243
2/19/2020	3/23/2020	-33.9%	22	11
Averages		-32.7%	236	131

Source: Ben Carlson, CFA & awealthofcommonsense.com

How Much Longer Can A Bear Market Go

LPL compiled the exact same data as Ben Carlson but starting in 1957 instead of 1946. One of our reflections from this data is that the median bear market only lasts around 2.5 months after the S&P 500 hits down -20% (vs. 4.5 to 5 months for the average bear market).

There is one additional extremely important observation that should be noted from these last two charts. Post WWII bear market data is skewed to the downside by three large outliers consisting of the bear markets from 1973-1974, 2000-2002 & 2007-2009. Outside of those bear markets, there is no precedent for bear markets to go down by much more than -35% +/-, which is basically in line with the least friendly descriptions of an “average” bear market.

Nonetheless, the three extremely harsh bear markets remind us that there is potential for a bear market to go down meaningfully more than average. Will 2022 be the 4th VERY severe bear market of the last 80 years or will it be something more “normal”?

How Soon After A Bear Market Starts Do Stocks Bottom? It Depends.

S&P 500 Index Performance From The Start Of A Bear Until The End Of The Bear (1950 - Current)

Date The Bear Market Started	Date The Bear Market Ended	Calendar Days To Bottom	S&P 500 Index Return
10/21/1957	10/22/1957	1	-0.4%
5/28/1962	6/26/1962	29	-5.7%
8/29/1966	10/7/1966	39	-1.8%
1/29/1970	5/26/1970	117	-19.1%
11/27/1973	10/3/1974	310	-34.9%
2/22/1982	8/12/1982	171	-8.2%
10/19/1987	12/4/1987	46	-0.4%
3/12/2001	10/9/2002	576	-34.2%
7/9/2008	3/9/2009	243	-45.6%
3/12/2020	3/23/2020	11	-9.8%
Average		154.3	-16.0%
Median		81.5	-9.0%

Source: LPL Research, FactSet 05/20/22

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Performance back to 1950 incorporates the performance of predecessor index, the S&P 90.

Source: Ryan Detrick & LPL Financial

Forward Returns After The S&P 500 Hits Down -20%

This chart again speaks to the harshness of the 1973, 2001 & 2008 bear markets. In two out of three instances the S&P 500 was down meaningfully a year after it first hit down -20%.

Conversely, this data set offers some terrific news regarding forward returns following most (other) bear markets.

On average, the S&P 500 is up 15% one year after the market hits official bear market territory of down -20%. The median forward return is even more impressive, up 24% one year later.

As a side note – 2020 will likely be one of the least natural economic / market occurrences we ever experience both to the downside (fastest bear market ever) and upside (markets on steroids from stimulus). A recession may be the price the economy has to pay from the blatant policy errors which were made over the last couple of years in order to “normalize” various imbalances which arose across the economy and capital markets.

Stocks Do Well After They Go Into A Bear Market

S&P 500 Index Performance After Going Into A Bear Market (1950 - Current)

Date Bear Market Starts	Trading Days To Enter Bear Market	S&P 500 Index Returns		
		3 Months	6 Months	12 Months
10/21/1957	305	5.2%	9.3%	31.0%
5/28/1962	115	7.3%	11.2%	26.1%
8/29/1966	139	7.9%	17.6%	24.6%
1/29/1970	288	-4.9%	-8.9%	10.7%
11/27/1973	221	0.7%	-9.2%	-28.1%
2/22/1982	310	3.0%	1.3%	32.1%
10/19/1987	38	10.9%	14.7%	22.9%
3/12/2001	242	6.3%	-7.4%	-1.2%
7/9/2008	188	-20.0%	-27.2%	-29.1%
3/12/2020	16	21.0%	34.6%	59.0%
Average		3.8%	3.6%	14.8%
Median		5.8%	5.3%	23.8%
Higher		8	6	7
Count		10	10	10
% Higher		80.0%	60.0%	70.0%

Source: LPL Research, FactSet 05/20/22

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Source: Ryan Detrick & LPL Financial

The Amount of Time It Takes To Recapture All Time Highs

On average the S&P 500 has taken about 1.5 years to recapture all time highs after the bear market has ended. However, this figure shifts to a little over 2 years when the decline is more than -22%.

This offers perspective in setting our expectations but also speaks to the importance of rebalancing portfolios in order to accelerate these time frames. These time frames are slightly more favorable than noted when considering dividends / from a total return perspective.

Bear Market Recoveries

S&P 500 Index Length To Recover From A Bear Or Near Bear Market

Month of Peak	Month of Low	Length of Bear (Months)	% Decline	Length of Recovery (Months)
8/2/1956	10/22/1957	15	-21.6%	11
12/12/1961	6/26/1962	6	-28.0%	14
2/9/1966	10/7/1966	8	-22.2%	7
11/29/1968	5/26/1970	18	-36.1%	21
1/11/1973	10/3/1974	21	-48.2%	69
9/21/1976	3/6/1978	17	-19.4%	17
11/28/1980	8/12/1982	20	-27.1%	3
8/25/1987	12/4/1987	3	-33.5%	20
7/16/1990	10/11/1990	3	-19.9%	4
7/17/1998	8/31/1998	1	-19.3%	3
3/24/2000	10/9/2002	31	-49.1%	56
10/9/2007	3/9/2009	17	-56.8%	49
4/29/2011	10/3/2011	5	-19.4%	4
9/20/2018	12/24/2018	3	-19.8%	4
2/19/2020	3/23/2020	1	-33.9%	5
All Bear Markets		11	-30.3%	19
If Bear Is Worse Than -22%		14	-37.2%	27
If Bear Is Better Than -22%		7	-19.9%	7

Source: LPL Research, CFRA FactSet 05/20/22

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The modern design of the S&P 500 Index was first launched in 1957. Performance before then incorporates the performance of its predecessor index, the S&P 90.

Source: Ryan Detrick & LPL Financial

S&P 500 Mid Term Election Year Corrections & Rebounds

At the beginning of the year, we noted that mid term election years have more severe drawdowns than years 1, 3 & 4 of the presidential election cycle on average.

This data from BofA Global Research shows that since 1930 the average drawdown in a mid term election year is -21%.

The average subsequent gain from the correction low into year end during a midterm election year is +17%.

This is the 18th midterm election year since 1942. Of the previous 17, there were only 2 times that the correction low occurred before June 1st of the given calendar year.

Table 4: S&P 500 (SPX Index) mid-term election year corrections – 1928-present; years with recessions shaded

Mid-term election years correct by 21.25% on average. Moves from the year low going into yearend are 17.63% on average

Party	Term	Year	Peak YoY CPI	Change in YoY		Date S&P 500 high	Date S&P 500 low	% S&P 500 drop	Trading days	Move from low into yearend
				CPI						
Republican	First	1930	0.6	5		4/10/1930	12/16/1930	-44.29%	171	6.23%
Democrat	First	1934	5.6	-4.9		2/6/1934	7/26/1934	-29.27%	117	13.64%
Democrat	Second	1938	0.7	12.5		1/11/1938	3/31/1938	-28.87%	56	54.59%
Democrat	Second	1942	13.2	4.9		1/5/1942	4/28/1942	-17.82%	78	30.79%
Democrat	First	1946	18.1	-12.2		5/29/1946	10/9/1946	-26.65%	92	8.36%
Democrat	Second	1950	5.9	-4.6		6/12/1950	7/17/1950	-14.02%	24	22.48%
Democrat	First	1962	1.3	2.5		3/15/1962	6/26/1962	-26.44%	121	20.60%
Democrat	First	1966	3.8	2.4		2/9/1966	10/7/1966	-22.18%	167	9.74%
Republican	First	1970	6.2	6.1		1/5/1970	5/26/1970	-25.86%	99	32.99%
Republican	Second	1974	12.3	-3.3		1/3/1974	10/3/1974	-37.60%	190	10.08%
Democrat	First	1978	9	-0.6		9/12/1978	11/14/1978	-13.55%	45	3.91%
Republican	First	1982	8.4	-4.5		1/4/1982	8/12/1982	-16.56%	154	37.32%
Republican	Second	1986	3.9	2.4		9/4/1986	9/29/1986	-9.42%	17	5.33%
Republican	First	1990	6.3	-3.3		7/16/1990	10/11/1990	-19.92%	62	11.76%
Democrat	First	1994	3	-1.3		2/2/1994	4/4/1994	-8.94%	41	4.64%
Democrat	Second	1998	1.7	0.7		7/17/1998	8/31/1998	-19.34%	31	28.41%
Republican	First	2002	2.4	1.9		1/4/2002	10/9/2002	-33.75%	192	13.30%
Republican	Second	2006	4.3	-1.7		5/5/2006	6/13/2006	-7.70%	26	15.90%
Democrat	First	2010	2.6	-0.5		4/23/2010	7/2/2010	-15.99%	49	22.99%
Democrat	Second	2014	2.1	0.8		9/18/2014	10/15/2014	-7.40%	19	10.55%
Republican	First	2018	2.9	5.7		9/20/2018	12/24/2018	-19.78%	65	6.62%
Democrat	First	2022	8.6	1.5 YTD		1/3/2022	6/16/2022	-23.55%	114	
Average								-21.25%	88	17.63%
Median								-19.85%	72	13.30%

Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

Source: Stephen Suttmeier, CMT & BofA Global Research

S&P 500 Returns For:

1/1 – 6/30 Mid Term Election Year
7/1 – 12/31 Mid Term Election Year
1/1 – 6/30 Year 3 of Presidential Cycle

Data going back to 1930 shows us that average returns from July 1st of a mid term election year to June 30th of the following year are 13.82%.

In addition, S&P 500 returns are positive 81% of the time from July 1st of a mid term election year to June 30th of the following year, going back to 1930.

When looking at this data more closely we find that this 12 month period had a slightly negative return of -1.55% during 2002 – 2003. If we were to exclude this mildly negative timeframe, the S&P 500 hasn't registered a negative return from July 1st of a midterm election year to June 30th of the following year since 1946.

The question for 2022 / 2023 will be if this holds true once again or if COVID "broke" all the cycles, by which the markets used to operate by.

Table 6: S&P 500 (SPX Index) semi-annual returns during mid-term election years – 1928 - present

Mid-term corrections tend to become positive in the second half of the year, but returns in the first half of year 3 tend to increase to 10.45% on average.

Party	Term	Midterm Year	1H Midterm Year return	2H Midterm Year return	1H Year 3 return	2H Midterm through 1H Year 3 return
Republican	First	1930	-4.62%	-25.02%	-3.32%	-27.52%
Democrat	First	1934	-1.60%	-3.16%	7.79%	4.38%
Democrat	Second	1938	9.57%	13.67%	-17.35%	-6.06%
Democrat	Second	1942	-4.49%	17.71%	26.41%	48.80%
Democrat	First	1946	6.16%	-16.98%	-0.59%	-17.47%
Democrat	Second	1950	5.36%	15.49%	2.59%	18.49%
Democrat	First	1962	-23.48%	15.25%	9.94%	26.70%
Democrat	First	1966	-8.32%	-5.20%	12.83%	6.96%
Republican	First	1970	-21.01%	26.72%	8.19%	37.10%
Republican	Second	1974	-11.84%	-20.28%	38.84%	10.69%
Democrat	First	1978	0.45%	0.61%	7.08%	7.73%
Republican	First	1982	-10.56%	28.31%	19.53%	53.37%
Republican	Second	1986	18.72%	-3.46%	25.53%	21.19%
Republican	First	1990	1.31%	-7.76%	12.40%	3.67%
Democrat	First	1994	-4.76%	3.38%	18.61%	22.62%
Democrat	Second	1998	16.84%	8.41%	11.67%	21.07%
Republican	First	2002	-13.79%	-11.11%	10.76%	-1.55%
Republican	Second	2006	1.76%	11.66%	6.00%	18.36%
Democrat	First	2010	-7.57%	22.02%	5.01%	28.13%
Democrat	Second	2014	6.05%	5.03%	0.20%	5.25%
Republican	First	2018	1.67%	-7.78%	17.35%	8.22%
Democrat	First	2022				
Average			-2.10%	3.21%	10.45%	13.82%
Median			-1.60%	3.38%	9.94%	10.69%
% of time up			47.62%	57.14%	85.71%	80.95%

Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

Source: Stephen Suttmeier, CMT & BofA Global Research

1 Year Forward Returns From The Mid Term Correction Low Tend To Be Extremely Strong

Both Ryan Detrick from LPL Financial and Dan Clifton from Strategas Research Partners have reminded us that stock market gains can be extremely strong following mid term election year corrections.

When cherry picking the date where the bottom of a correction occurs during a mid term election year, the 1 year forward returns are 33% on average.

It should be noted that some of the corrections / bear markets are deeper when a recession occurred vs. the other years (1970, 1974, 1982, 1990, 2002).

Midterm Years See A Large Pullback, But Returns A Year Later Are Great

S&P 500 Index Pullbacks During A Midterm Year

Year	Date of Low	S&P 500 Index Return	
		Intra-Year Pullback	Return Year Later
1950	7/17/1950	-14.0%	30.9%
1954	8/31/1954	-4.4%	43.9%
1958	2/25/1958	-4.4%	36.3%
1962	6/26/1962	-26.4%	32.7%
1966	10/7/1966	-22.2%	33.2%
1970	5/26/1970	-25.9%	44.5%
1974	10/3/1974	-37.6%	34.6%
1978	11/14/1978	-13.6%	11.3%
1982	8/12/1982	-16.6%	57.7%
1986	9/29/1986	-9.4%	40.6%
1990	10/11/1990	-19.9%	28.8%
1994	4/4/1994	-8.9%	14.3%
1998	8/31/1998	-19.3%	37.9%
2002	10/9/2002	-33.8%	33.7%
2006	6/13/2006	-7.7%	24.5%
2010	7/2/2010	-16.0%	31.0%
2014	10/15/2014	-7.4%	8.7%
2018	12/24/2018	-19.8%	37.1%
2022	3/7/2022	-12.4%	?
Average		-17.1%	32.3%
Median		-16.3%	33.5%

Source: LPL Research, FactSet 03/07/2022

All indexes are unmanaged and cannot be invested into directly. Past performance is no guarantee of future results.

The modern design of the S&P 500 Index was first launched in 1957. Performance before then incorporates the performance of its predecessor index, the S&P 90.

Source: Ryan Detrick & LPL Financial

**Regardless Of Where & When The Eventual
Market Bottom Occurs, Investors Will Be
Well Served by Extending Their Time Horizon
Beyond The Current Volatility**

According to the data compiled by Michael Hartnett and BofA Global Research if this bear market ends up being “average” in terms of depth and duration, then this bear market will bottom around 3000 on the S&P 500 in October 2022. This is the “bad news”, as it would clearly be a more painful drawdown than many investors are currently fearing.

Conversely, if an “average” bull market ensued following the end of this bear market, investors would be massively rewarded in the years to come. And a few years down the road, most investors main concern will likely transition into “if they bought enough during the 2022 / 2023 bear market.”

Tale of the Tape: S&P 500 entered a bear market on June 13, the 20th bear market in the past 140 years; average peak to trough bear decline = 37.3%, average duration 289 days; history is no guide to future performance but if it were, today's bear market would end on Oct 19, 2022 (35-year anniversary of Black Monday) with S&P 500 at 3000; good news. Avg bull market duration is 64 months with 198% return, so next bull sees SPX at 8900 by Feb'28.

Source: BofA Global Research & Michael Hartnett

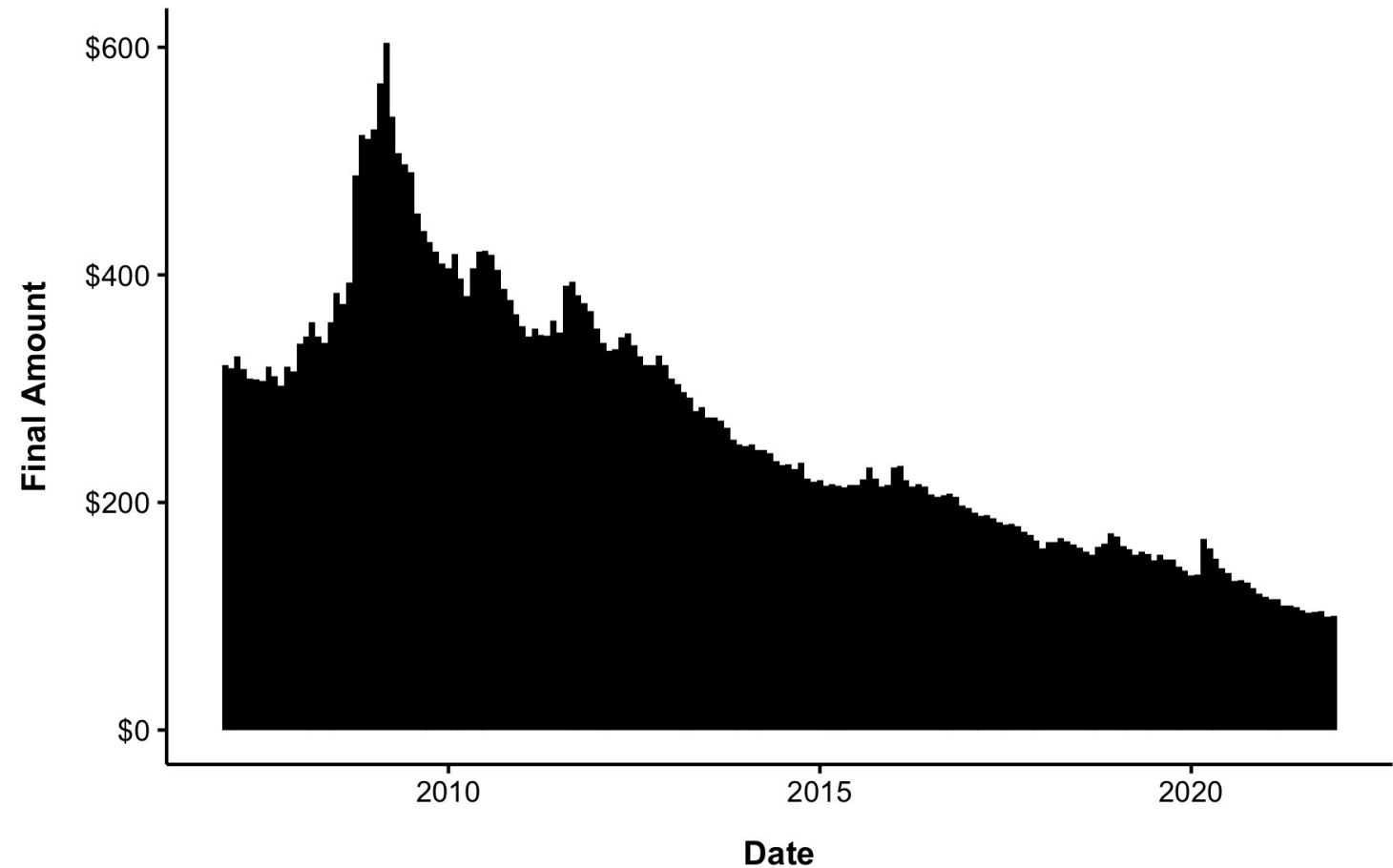
Final Growth of Each DCA Payment Into S&P 500

Dollars Invested Into The S&P 500 In October 2007 Occurred At Lower Levels Than At Any Other Occasion Since March 2013

Perspective is everything when interpreting history, and that is certainly the case with this chart. Most people's initial observation will be consistent and reinforce something we already know – late 2008 & 2009 ended up being a generational buying opportunity, with the benefit of hindsight.

Our second observation is less intuitive or obvious, however. And this is the fact that capital invested into the S&P 500 at the October 2007 market top was invested into the S&P 500 at lower prices than at another other point since March 2013. This is despite investing precisely at the market top before the worst bear market in the last 80 years.

Of course this doesn't consider the opportunity cost of having the capital tied up during this time frame. Nor the emotional toll of a horrific bear market. But its still worth noting from an academic / mathematical perspective.



Source: <http://www.econ.yale.edu/~shiller/data.htm>
 Note: Real return includes reinvested dividends.

Source: Ben Carlson, CFA & awealthofcommonsense.com

Don't Forget What's On The Other Side Of A Recession

This might be the most important chart we show in this entire deck. We will keep the commentary brief and point out that on average, the S&P 500 more than doubles 5 years after the end of a recession. Markets usually bottom before the recession is over, thus returns are even stronger when measuring from the given market bottom rather than from the end of the recession.



S&P 500 PERFORMANCE POST-RECESSION

Recession	Duration	GDP	Plus 1 Year	Plus 3	Plus 5
Feb 1945 - Oct 1945	8 Months	-12.70%	-7.30%	15.29%	57.82%
Nov 1948 - Oct 1949	11 Months	-1.70%	31.50%	88.00%	171.30%
Jul 1953 - May 1954	10 Months	-2.60%	35.92%	83.74%	502.67%
Aug 1957 - Apr 1958	8 Months	-3.70%	37.30%	66.30%	89.70%
Apr 1960 - Feb 1961	10 Months	-1.60%	13.61%	35.06%	68.41%
Dec 1969 - Nov 1970	11 Months	-0.60%	11.20%	20.60%	25.20%
Nov 1973 - Mar 1975	1 Year, 4 Months	-3.20%	14.37%	21.89%	55.16%
Jan 1980 - Jul 1980	6 Months	-2.20%	12.90%	55.90%	100.90%
Jul 1981 - Nov 1982	1 Year, 4 Months	-2.70%	25.40%	67.24%	103.23%
Jul 1990 - Mar 1991	8 Months	-1.40%	11.00%	29.80%	98.20%
Mar 2001 - Nov 2001	8 Months	-0.30%	-16.51%	8.44%	34.33%
Dec 2007 - Jun 2009	1 Year, 6 Months	-5.10%	14.40%	57.70%	137.00%
AVERAGES	11 Months	-2.40%	15.33%	45.84%	120.33%

Source: Ben Carlson, CFA & awealthofcommonsense.com

Investment Strategy Outlook – Fall 2022

There are always valid bullish and bearish narratives for investors to contemplate and selectively implement into their investment strategies. From a fundamental standpoint, the bearish case probably still offers more credence than the bullish case does today, at least over the short term. Having said this, a lot of bad news has been priced into markets at this point and the time to be truly bearish on risk assets was at the beginning of this year (when most of Wall St. had S&P 500 price targets > 5000) in our opinion.

We acknowledge that markets could go meaningfully lower from here in the months ahead. Nonetheless, we believe long term investors are being presented with their most attractive entry point into US equities since the fall of 2020. By no means are we calling this a generational buying opportunity or the time to go “all in” or overweight equities. But we do want to recognize the fact that valuations have normalized, investor sentiment is abysmal, and all else equal, the best time to buy stocks in the 4 year presidential election cycle is in the summer and fall of a midterm election year.

In light of this, we are recommending that investors proceed as follows in the weeks ahead as opportunities present themselves:

- For investors who began deploying capital into markets less than 6 months ago we intend to continue our dollar cost averaging programs and begin to accelerate some purchases.
- None of our clients who began deploying fresh capital in January 2021 or later have achieved a fully invested status yet. For these investors we want to use this as a potential opportunity to bring equities up to weight with our longer-term strategic equity targets.
- For investors who have been fully invested all year we want to use this current market weakness as an opportunity to rebalance portfolios back up to strategic equity targets.
- In all of these instances, this will be a process and not an event. We generally want to slowly purchase equities from 3750 +/- to 3450 +/- on the S&P 500. We believe there is good value in these purchases on a 3 year plus time horizon, regardless of if or by how much lower the market goes in the short term.
- We want to reiterate the fact that in all of these instances we are simply rebalancing back to “neutral” vs. our longer-term equity targets. However, this is somewhat misleading because when we consider our allocation to trend following equities, we will continue to effectively be underweight equities given the defensive (cash) positioning on 10% +/- of our overall equity allocation.
- Around 3400 on the S&P 500 carries a lot of irony as this was roughly the pre COVID highs for the S&P 500. We will monitor the situation if / when markets get to this level, but this could be a great opportunity for long term investors to add additional risk to their portfolios. We would expect to see some signs of true investor capitulation if we were to reach these levels and suspect that risk / reward for long term investors would become very attractive anywhere below these levels on the S&P 500. We will plan to communicate and act accordingly.

Investment Strategy Outlook – Fall 2022

Whether it be from the Federal Reserve or market pundits, economic and market “forecasts” have mostly been detrimental to investors this year. Thus, our “advantage” as market participants needs to be in the form of a longer time horizon, and the ability to slowly shift from our relatively defensive stance to a more offensive positioning within portfolios just as some investors are beginning to make emotional investment decisions. During bear markets we like to remind ourselves of a few key ideas which are essential to successful portfolio management over longer time horizons.

- We are not going to allow short term market volatility to sacrifice investment discipline.
- The reason that stocks have returned 4% - 5% per year above bonds on average for the last 100 plus years, it to compensate investors for the short-term volatility which they will inevitably incur.
- “Successful investing is not about what you know, but about how you behave. The difference between knowing and doing is light years apart.” - Ben Carlson

Unless interest rates go to 6%+, fixed income returns should drastically improve over the following 12 months vs. the last year. In addition, unless the ensuing downturn morphs into an all-out financial crisis, equity markets should be much closer to a market bottom than they are to the top. Regardless of daily market gyrations we will remain disciplined in our investment process and long term focused. We look forward to continuing these conversations with you in the weeks ahead.

Sincerely,

Brian Gift, CFA

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2022 Investment Strategy Outlook

It is plenty obvious that 2022 is going to be a drastically different investment environment than what we experienced in 2021. A confluence of historical factors are aligning to suggest that we probably haven't seen the low prices in equity markets for 2022. Midterm election years and hawkish Fed pivots have often led to 10% - 20% corrections on their own right. This year we are experiencing them together into the backdrop of an expensive equity market by historical measures. Nonetheless, reintroducing two-way risk back into equity markets should ultimately be a terrific thing for the health and longevity of the current bull market. But that doesn't change the fact that corrections are never much fun, they are always a bit "messy", and they always seem as if they have at least another 10% further to fall.

Conversely, meaningful corrections create terrific opportunities for long term investors, sometimes to the likes of which we dream about. But those circumstances never seem like an upbeat "dream" when we are living through the given situation in present time.

In closing, we will remind ourselves of two final points. First, historically speaking, very large bear markets have happened when economic growth and corporate earnings are contracting. There is little evidence that suggests either of these are the case today. Second, we want to consistently remind ourselves of the parting words from the legendary investor Bill Miller who wrote his final quarterly letter last fall. His final analysis of the current market state was brilliantly profound yet so simple at the same time.

"Over the past decade or so my letters have been focused mostly on saying the same thing: we are in a bull market that began in March of 2009 and continues, accompanied by the typical and inevitable pullbacks and corrections. Its end will come either when stocks get too expensive relative to bonds or when earnings decline, neither of which is the case now. There have been a few other themes: since no one has privileged access to the future, forecasting the market is a waste of time. It is more useful to try and understand what is happening now and give up trying to predict what is going to happen."

Source: [Millervalue.com](https://www.millervalue.com); Bill Miller 3Q 2021 Market Letter

We can't add much to that other than to say we will remain disciplined in our investment process, and long term focused. We look forward to continuing these conversations with you in the weeks ahead.

Sincerely,



Brian Gift, CFA