Making Sense

Each month, **Chief Investment Officer, Brent Ciliano** and **Manager of Institutional Portfolio Strategy, Phillip Neuhart** help you make sense of the markets and the economy. Watch the full update **here**. Register for the next Making Sense webinar **here**.

CONSIDER HISTORY:
- **How have forward S&P 500 returns fared after 10% corrections?**
- **Market volatility doesn't last long!**

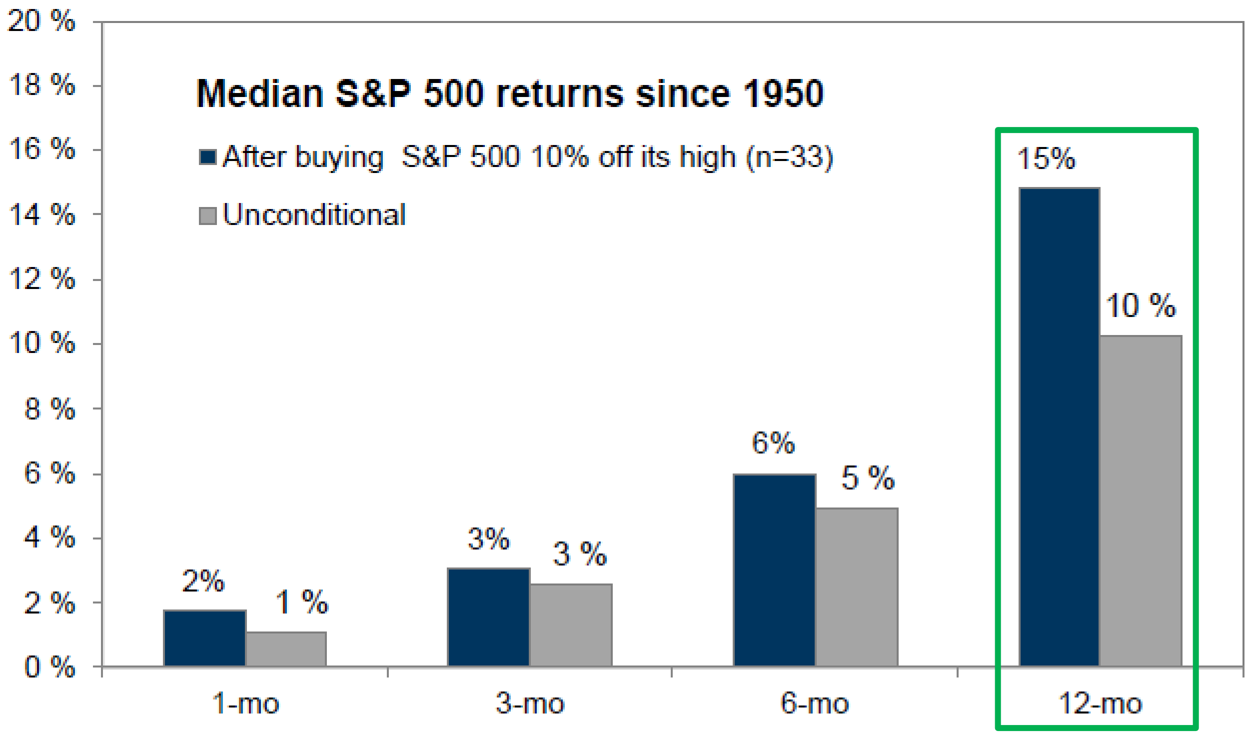
WHAT'S NEXT?
The next Making Sense Webinar: March 30th – Register here.
REVIEW OUR 2022 MARKET OUTLOOK

Following the February 23rd market update, Russia launched attacks on Ukraine. Considering this material development, we will continue to bring you reliable information as you make financial decisions.

Consider History: How have forward S&P 500 returns fared after 10% corrections and high levels of uncertainty?[1]

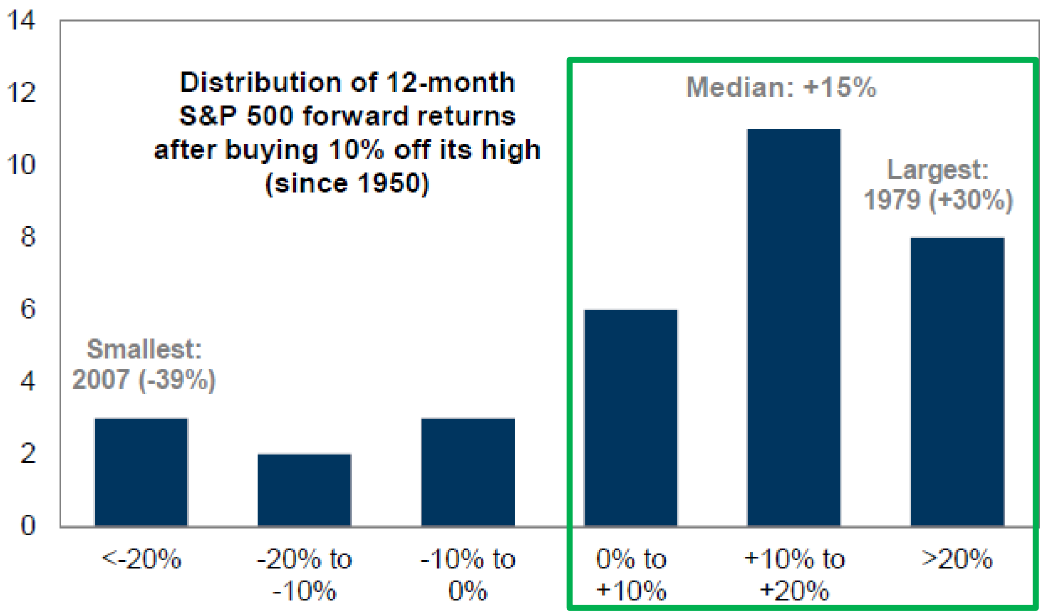
The week ending on February 25th saw the S&P 500 enter correction territory for the first time since February 2020 after falling 12% from its January 3rd high (4,797 to 4,225). The confluence of geopolitical risks, mixed earnings and tightening financial conditions weighing on economic growth has also pushed market volatility higher. Past S&P 500 corrections have typically been buying opportunities **if the economy is not in or entering a recession**, with the S&P 500 returning +15% during the subsequent 12 months.

Figure 1 – Source: Goldman Sachs Investment Research – 02-25-2022



Additionally, 25 of the 33 occurrences (76%) post-1950 saw forward S&P 500 returns above zero, with 19 of the 33 (58%) seeing 12-month forward returns north of 10%. **Thus, the key takeaway is that market volatility doesn't last long, and 10% corrections in the S&P 500 have historically been good buying opportunities.**

Figure 2 – Source: Goldman Sachs Investment Research – 02-25-2022

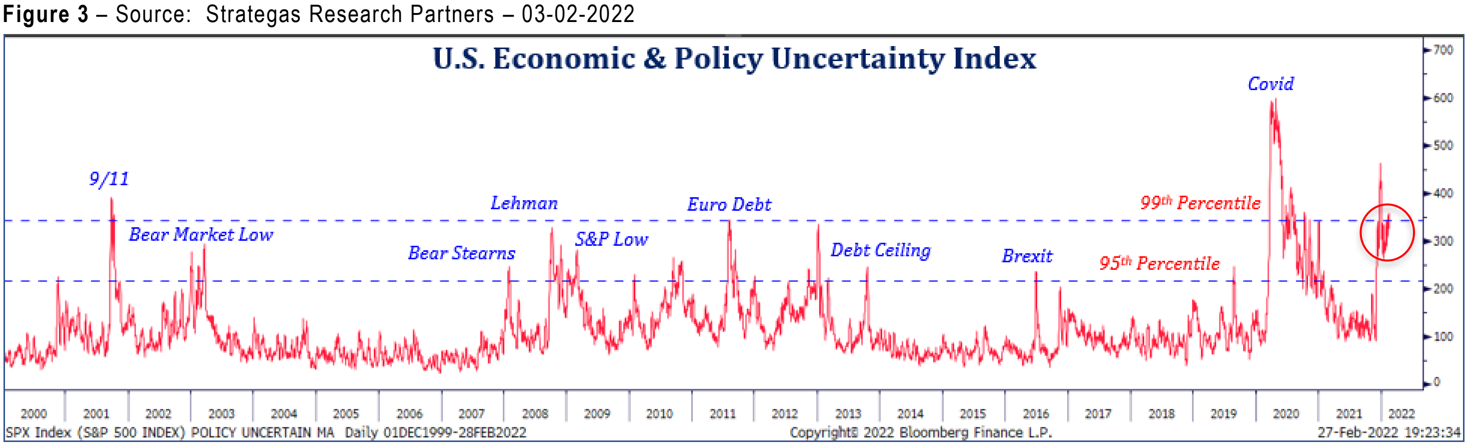


One of the more often stated concerns we hear is how will various events – either at home or abroad – impact investment nest eggs. There always seems to be something to worry about, and it is normal human instinct to believe that these events, whatever they may be, will have some undue impact on the value of one's investment portfolio.

In Figure 3 below, we highlight the US Economic & Policy Uncertainty Index. This index measures the broad level of uncertainty in the US across multiple components including policy changes and estimates, market and economic forecasts as well as media references to uncertainty and volatility.

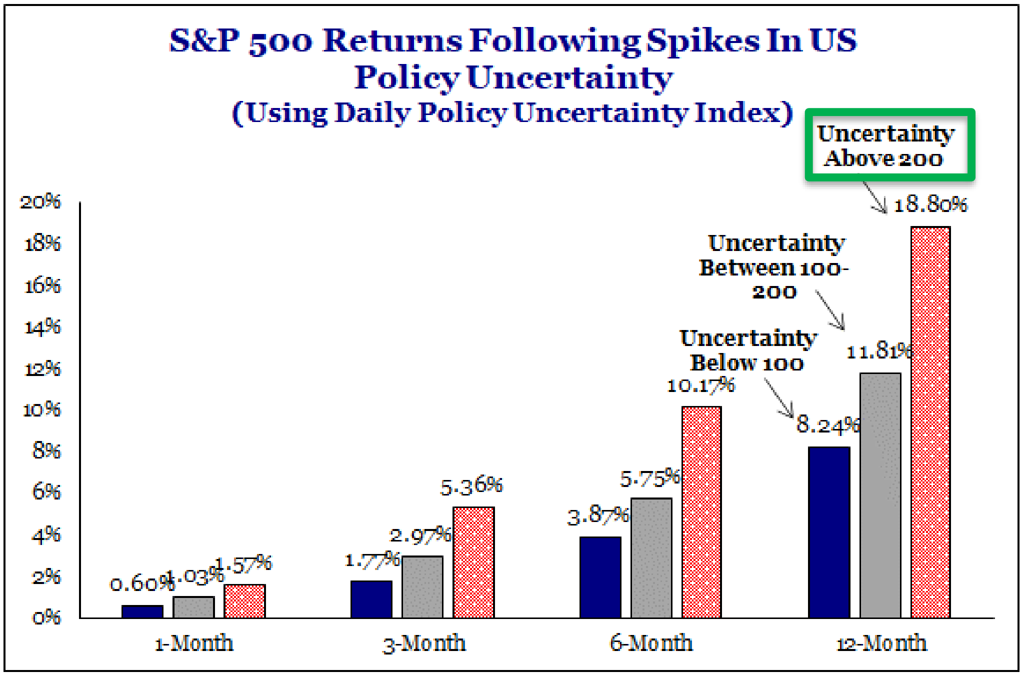
With the events unfolding between Russia and Ukraine coupled with Fed policy uncertainty, the US Policy Uncertainty Index is sitting above the 99th percentile at a level of 343.43 (14-day moving average), marking one of the highest readings in more than 20 years. **As a forward indicator, higher levels of uncertainty have yielded *higher forward market returns*, *not lower*.** Trust me, we understand how counter-intuitive it sounds, but extremely elevated levels of policy uncertainty are more often found near market lows than peaks.

Figure 3 – Source: Strategas Research Partners – 03-02-2022



As highlighted in Figure 4 below, forward S&P 500 returns following elevated policy uncertainty readings have historically seen significantly higher returns, 1-, 3-, 6-, and 12-months post. ***Index levels north of 200 have historically seen forward S&P 500 returns more than double those of readings below 100*** (Index historical mean and median < 100).

Figure 4 – Source: Strategas Research Partners – 03-02-2022



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1 – Bloomberg, Goldman Sachs Investment Research – 02/25/2022
2 – FactSet – 02/25/2022