Making **Sense**

Each month, **Chief Investment Officer, Brent Ciliano** and **Director of Market and Economic Research, Phillip Neuhart** help you make sense of the markets and the economy. Below you'll find a summary of their most recent update. Watch the full update **here**. Register for the next Making Sense webinar **here**.

COVERED ON THIS MONTH'S WEBINAR:
(WATCH IT HERE.)

- Economic update
- Real Estate Market
- Where do markets go from here?

WHAT'S NEXT?

Making Sense Webinar: 5.25.2022 – Register here
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Six reasons stocks could be higher in the next 12-24 months:

1. **Geopolitical and military events.** Looking at the last 29 major global conflicts and events post 1939, the S&P 500 has been positive on average 1, 3, and 12-months post event.
2. **First Fed rate hike.** The S&P 500 has been higher both 12 and 24 months post the first Fed rate hike of a new hiking cycle.
3. **Yield curve inversion.** S&P 500 returns have typically been positive in the two years following yield curve inversion.
4. **Periods of high uncertainty.** As a forward indicator, higher levels of uncertainty have yielded higher forward market returns, not lower.
5. **Mid-term elections.** The 12-months following mid-term elections, the US stock market has been positive 100% of occurrences since 1950, with an average return of +15.1%!
6. **Third year of first term Presidency.** Looking at data from 1981 through today, S&P 500 returns during the 3rd year of a Presidential cycle for a newly elected President (that would be 2023) have seen average returns of 22.2% - almost 4 times higher than the average returns in years 1, 2 and 4.

Rising mortgage rates, skyrocketing home prices…when does it slow down?

- Affordability has declined as mortgage rates shoot higher (rates are now around 5.4%); home price appreciation is currently near 20% year-over-year. These two factors will eventually slow the housing market.[i]
- Housing starts are currently at their highest level since 2006 as homebuilders try to keep up with demand.[ii]
- In the existing home market, supply versus demand remains tighter than at any point during the last housing boom in the early 2000s.[iii]
- Nonresidential construction has seen a material increase after the big contraction early in the pandemic.[iv]
- **Our base case:** Price appreciation slows in coming quarters as supply and demand come back in line. This slowdown is likely not immediate.
- **Less likely bear market case:** Low affordability worsens through continued record price appreciation combined with rates moving even higher. Just as housing starts peak, demand deteriorates. Again, **this is not our base case**.

Bottom line for markets:

- Wall Street consensus S&P 500 12-month forward price target **is 5,265.87 or 19.9% return from close on April 21.**[v]
- **Our 2022 S&P 500 price target is 4,900 equating to ~+3% growth over 2021,** but we expect a much more volatile year.
- **We believe the full market cycle can last through year-end 2023/first half of 2024 and potentially reach 5,200-5,500 greater (2024 EPS of $271 at 19x-20.5x), but much can and will likely change along the way.**

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[i] Bloomberg, Strategas, Bankrate.com
[ii] Strategas
[iii] Bloomberg
[iv] Strategas
[v] Bloomberg as of 4/22/22