

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](#), and [register for the next Making Sense webinar](#).

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

- Economic update
- Bear markets: drawdowns and recoveries
- Where do markets go from here?

WHAT'S NEXT?

Making Sense Webinar: 6.22.2022 – Register [here](#).

Want Weekly Updates? Follow [Making Sense: In Brief](#) for updates every Monday.

Are We Going Into a Recession?

As we've said for months, the US economy is slowing, and inflationary pressures remain high. Both factors are causing concerns about the potential for a recession. We believe the risks for one has risen, **but we do not have a recession as our 1-year base case**. If we are wrong, the good news is that both the consumer and corporations are in the best shape they've been in for decades. This indicates to us that if a recession were to occur, it would likely be shorter and potentially less severe than previous recessions.

- **Bear case (40%):** Recession
- **Base case (55%):** Mid-cycle slowdown
- **Bull case (5%):** Re-acceleration

Drawdowns: Recession vs. Non-recession

The tables below show the major S&P 500 drawdowns since 1950—with a recession and without. Both the length and magnitude of drawdowns in both tables are about the same. But focusing on the percentage recovery of previous highs one year following the bottom, most observations met or exceeded 100% of their initial peak.

Major S&P Declines <u>With a Recession</u> - 1950 to Present					
Start Date	End Date	Months Peak to Trough	% Decline	1-year Post Low	% Recovery of Previous High
2/19/2020	3/23/2020	1.1	-35.4%	74.9%	113.0%
10/9/2007	3/9/2009	16.7	-56.8%	68.3%	72.8%
3/24/2000	10/9/2002	30.0	-49.1%	33.8%	68.0%
7/16/1990	10/11/1990	2.8	-19.9%	28.8%	103.2%
11/30/1981	8/12/1982	8.3	-18.9%	55.4%	126.0%
2/13/1980	3/27/1980	1.4	-17.1%	39.6%	115.8%
7/15/1975	9/16/1975	2.0	-14.1%	27.5%	109.5%
11/7/1974	12/6/1974	1.0	-13.6%	34.7%	116.5%
10/12/1973	10/3/1974	11.5	-44.1%	34.7%	75.3%
11/29/1968	5/26/1970	17.6	-36.1%	46.2%	93.5%
8/3/1959	10/25/1960	14.5	-13.9%	30.0%	112.0%
7/15/1957	10/22/1957	3.2	-20.7%	32.0%	104.7%
1/5/1953	9/14/1953	8.2	-14.8%	37.7%	117.3%
Average		9.1	-27.3%	41.8%	102.1%
Median		8.2	-19.9%	34.7%	109.5%

Major S&P Declines <u>Without a Recession</u> - 1950 to Present					
Start Date	End Date	Months Peak to Trough	% Decline	1-year Post Low	% Recovery of Previous High
9/20/2018	12/24/2018	3.1	-19.8%	37.0%	109.9%
5/20/2015	2/11/2016	8.6	-15.2%	25.5%	106.4%
5/2/2011	10/4/2011	5.0	-21.6%	28.5%	100.8%
7/20/1998	10/8/1998	2.6	-22.5%	38.1%	107.1%
8/25/1987	10/20/1987	1.8	-35.9%	16.3%	74.5%
9/21/1976	3/6/1978	17.2	-19.4%	11.5%	89.9%
2/9/1966	10/7/1966	7.8	-22.2%	32.1%	102.8%
12/12/1961	6/26/1962	6.4	-28.0%	34.2%	96.6%
Average		6.5	-23.1%	27.9%	98.5%
Median		5.7	-21.9%	30.3%	101.8%

Bottom Line for Markets:

- Wall Street consensus S&P 500 12-month forward price target is **5,265.87** or **31.5%** return from close on May 19th close of **3,900.79**.ⁱⁱ
- Our revised 2022 S&P 500 price target is **4,600** equating to **~-3%** growth over 2021.
 - 8-10% earnings growth
 - Now **10-15% multiple contraction**.
- **We believe the S&P 500 can potentially reach 5,000 or higher** (2024 EPS of \$271 at ~18.5x) by YE 2023 / 1H 2024 as inflationary pressures moderate and Fed interest rate hiking cycle slows.
- **What should you do?** (1) Have a financial plan, (2) truly assess your risk tolerance, and (3) work with your First Citizens partner to make sure you're staying on track.

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ⁱ Bloomberg, Strategas Research

ⁱⁱ Bloomberg as of 5/24/22