



Investment Insights Monthly

From The Desk of Bill Hornbarger, Chief Investment Officer

June 2022



Not a Time to be Looking for the Exit

Despite the fact they're still in negative territory for the calendar year, equity indices have rebounded in recent weeks, lifting investor spirits along with generally higher prices. But even with the recent strength, the S&P 500 is still down more than 13% for the year, and the tech heavy NASDAQ remains in bear market territory, off 23% year-to-date. In spite of recent better performance, uncertainty about the outlook remains, and investors remain skittish.

It is impossible to know if we are in a correction, a routine bear market, or something worse – such as the 2008-2009 Global Financial Crisis – until after the fact. However, with heightened inflation, the Federal Reserve communicating aggressive rate hikes, and concerns

over a slowing economy, stocks continue to face headwinds. This is an environment that likely continues to provide heightened volatility and high dispersion across individual sectors and companies. We would also point out the S&P 500 was up the previous three calendar years. Four consecutive years of gains isn't unprecedented but doesn't happen that often.

Last month, we mentioned that bear markets and corrections are inevitable and that being resistant to panic (and euphoria) were important attributes to helping one survive them. That is not, however, a call to sit still and hope for a recovery. There are actions that an investor can and should consider. These include:



- **Reassess goals and risk tolerance** – Has the recent drawdown changed your probability of success in terms of retirement, or has it led to the inability to sleep peacefully at night? If the answer to either question is “yes” it might be time to take a good, hard look at your risk tolerance and objectives and make sure they are aligned and realistic.
- **Rebalance to target** – Rebalancing is a risk management strategy that also incents good behavior by buying low and selling high. Rebalancing back to, or near target in a volatile market can prevent you from exposing yourself to more risk than is desirable and allows you to take advantage of drawdowns by buying into them.
- **Take tax losses where applicable** – Many people only think of taxes at year end, and returns in the context of how one is doing against a benchmark. However, after-tax returns are what matter, and volatility presents an opportunity to potentially generate tax losses that can be used to shelter gains as one reallocates, potentially improving after tax portfolio returns.
- **Upgrade quality** – In times of uncertainty, many investors desire quality. While definitions of what constitutes quality vary, we would point out the fact that, in general, U.S. large cap companies have some of the best balance sheets and liquidity in the world.
- **Reassess positioning/security selection** – Many investors will hang on to a position that is below their acquisition price with the intent of selling it when they get back to breakeven. We put the accompanying chart together to show how much a few select individual companies would have to gain to achieve their recent peaks. We would also point out the experience of tech stock investors in the 1999-2001 market cycle. The tech-heavy NASDAQ peaked in March of 2000 and experienced a nearly 80% drawdown, and it didn’t recover its all-time high level until March of 2015. We have seen a rotation in the markets, generally away from momentum stocks towards value and generally away from some of the stay-at-home stocks towards energy and consumer staples.

Drawdown Illustration – as of June 8, 2022

Ticker	Name	% Off High	% Gain to Breakeven
XOM	Exxon Mobil Corp	6%	6%
BRK.B	Berkshire Hathaway Inc.	14%	16%
AAPL	Apple Inc.	20%	25%
MSFT	Microsoft Corp	23%	30%
AMZN	Amazon.com Inc.	34%	51%
TSLA	Tesla Inc.	43%	74%
NFLX	Netflix Inc.	72%	256%
DOCU	DocuSign Inc.	73%	274%
ZM	Zoom Video Communications	81%	430%
PTON	Peloton Interactive Inc.	93%	1,271%
AIG	American International Group	97%	2,847%

Source: Y Charts



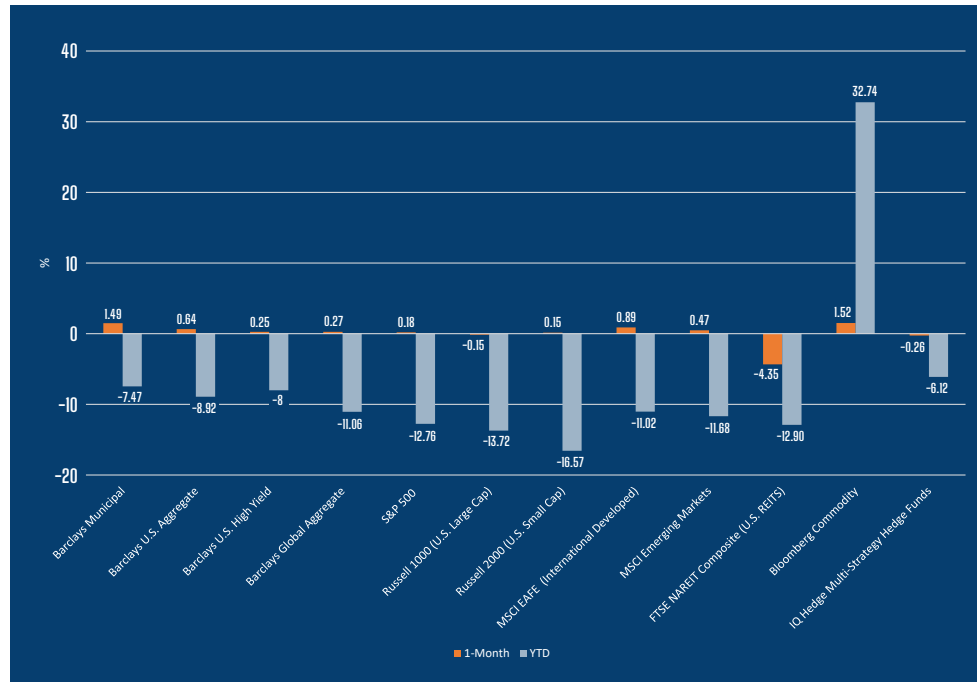
- **Time horizon and perspective is important** – Many popular stock indices peaked at the end of 2021 and are down double digits year-to-date. However, on a trailing three-year basis the S&P 500 is still up approximately 15% annualized, well in excess of its long-term average.
- **Don't ignore fixed income** – After a very long period of “low” yields and low returns, yields have started to move higher, particularly in short-and intermediate maturities. This has resulted in poor trailing returns for fixed income, but higher coupons historically have boded well for forward returns.

Forecasting tops and bottoms for the markets is an impossible task. This has been a challenging year for equity investors, and we expect the road to remain bumpy and won't be surprised if stocks finish the calendar year negative. However, history has proven repeatedly that exposure to the equity markets over longer time horizons is beneficial, both in terms of building wealth and providing long-term returns in excess of inflation. And while markets are down, they are down from record high levels. We would be in the camp of not exiting the equity markets, but rather proactively realigning our portfolio for a changing economic regime, consistent with some of the aforementioned thoughts.



Asset Class Returns as of May 31, 2022

Comparing Recent Month and Year-to-Date Total Returns



Source: Morningstar

Fixed Income

- Yields finally stabilized in May, leading to modest gains in core fixed income and most credit sectors. It has still been a very rough year overall for fixed income.
- Spreads tightened some in investment grade, high yield, and emerging market debt, but floating rate loans finally started to show some cracks.
- U.S. dollar weakness provided a boost for non-U.S. assets in May.

Equities

- U.S. equities rallied sharply to end May, but growth stocks still posted another month of negative returns.
- Value beat growth again in May, and performance was similar between large caps and small caps.
- The NASDAQ has fallen nearly 23% YTD.
- Non-U.S. equities outperformed their U.S. counterparts in May.
- International developed markets in particular tend to be value focused, so the outperformance is not surprising.
- Outside the U.S., value led growth, and large caps beat small caps.
- Emerging markets eked out a small gain in May led by Latin America and China.
- The weaker USD added nearly 100 basis points to EAFE returns and approximately 60 bps to emerging market returns.

Real Assets

- Commodities were strong as inflation fears remain elevated and energy prices continued to climb.
- REITS had another poor month and were hurt by overall market volatility and higher interest rates.



May 31, 2022	MTD	QTD	YTD	1-Year	3-Year	5-Year	10-Year
Fixed Income Indices							
Barclays U.S. Treasury Bill 1-3 Month	0.05%	0.07%	0.10%	0.12%	0.63%	1.06%	0.59%
Barclays Municipal	1.49%	-1.32%	-7.47%	-6.79%	0.50%	1.78%	2.54%
BBgBarc U.S. Govt/Credit Intermediate	0.61%	0.07%	-2.42%	-3.03%	0.73%	1.20%	1.08%
Barclays U.S. Aggregate	0.64%	-3.17%	-8.92%	-8.22%	0.00%	1.18%	1.71%
Barclays U.S. High Yield	0.25%	-3.32%	-8.00%	-5.27%	3.33%	3.57%	5.42%
S&P/LSTA Leveraged Loan	-2.56%	-2.35%	-2.45%	-0.26%	2.91%	3.35%	4.04%
Barclays Global Aggregate	0.27%	-5.22%	-11.06%	-13.21%	-1.44%	0.08%	0.48%
JPM GBI EM Global Diversified	1.76%	-4.37%	-10.55%	-16.55%	-2.63%	-1.32%	-0.50%
U.S. Equity Indices							
DJ Industrial Average	0.33%	-4.51%	-8.43%	-2.65%	12.30%	11.87%	12.91%
S&P 500	0.18%	-8.55%	-12.76%	-0.30%	16.44%	13.38%	14.40%
NASDAQ Composite (Price)	-2.05%	-15.04%	-22.78%	-12.13%	17.47%	14.28%	15.63%
Russell 1000	-0.15%	-9.05%	-13.72%	-2.71%	16.03%	13.12%	14.24%
Russell 1000 Growth	-2.32%	-14.12%	-21.88%	-6.25%	18.31%	16.13%	16.06%
Russell 1000 Value	1.94%	-3.81%	-4.52%	0.93%	12.75%	9.50%	12.06%
Russell Mid Cap	0.08%	-7.63%	-12.87%	-6.77%	12.87%	10.48%	12.78%
Russell 2500	0.34%	-8.21%	-13.55%	-11.62%	12.05%	9.76%	12.00%
Russell 2000	0.15%	-9.77%	-16.57%	-16.92%	9.70%	7.72%	10.83%
Russell 2000 Growth	-1.89%	-13.93%	-24.79%	-25.71%	6.18%	6.87%	10.55%
Russell 2000 Value	1.92%	-5.99%	-8.25%	-7.67%	12.21%	7.83%	10.71%
Non-U.S. Equity Indices							
MSCI World	0.15%	-8.13%	-12.76%	-4.38%	13.20%	10.29%	11.66%
MSCI ACWI	0.19%	-7.79%	-12.64%	-6.37%	12.23%	9.54%	10.82%
MSCI ACWI Ex-U.S.	0.82%	-5.45%	-10.49%	-11.98%	6.97%	4.91%	6.88%
MSCI EAFE	0.89%	-5.55%	-11.02%	-9.90%	6.93%	4.68%	7.65%
MSCI EAFE Growth	-1.10%	-8.94%	-19.75%	-16.31%	6.95%	5.58%	8.20%
MSCI EAFE Value	2.67%	-2.43%	-1.93%	-3.74%	6.20%	3.34%	6.83%
MSCI Europe	0.97%	-4.71%	-11.60%	-9.13%	7.75%	4.72%	7.99%
MSCI Japan	1.65%	-7.30%	-13.28%	-13.01%	5.48%	4.04%	7.33%
MSCI AC Asia	0.89%	-5.64%	-12.64%	-18.51%	5.92%	4.41%	6.98%
MSCI EAFE Small Cap	-0.62%	-7.37%	-15.18%	-15.65%	6.99%	4.51%	9.26%
MSCI ACWI Ex-U.S. Small Cap	-0.84%	-7.19%	-13.15%	-12.97%	9.02%	5.48%	8.23%
MSCI Emerging Markets	0.47%	-5.11%	-11.68%	-19.56%	5.36%	4.17%	4.54%
MSCI EM Asia	0.42%	-4.68%	-12.92%	-21.80%	7.36%	5.09%	6.67%
MSCI China	1.19%	-2.94%	-16.71%	-35.86%	0.01%	1.46%	5.24%
MSCI EM Eastern Europe	0.39%	-15.04%	-81.58%	-81.08%	-38.58%	-21.31%	-10.67%
MSCI EM Latin America	8.25%	-5.76%	20.00%	4.31%	2.02%	3.70%	0.36%
MSCI EM Small Cap	-1.61%	-6.51%	-10.49%	-8.86%	11.66%	6.38%	6.15%
MSCI Frontier Markets	-6.32%	-8.86%	-15.98%	-10.06%	3.47%	3.17%	5.94%
Hedge Fund Indices							
IQ Hedge Long/Short	1.25%	-4.81%	-8.71%	-7.19%	5.86%	4.14%	--
IQ Hedge Multi-Strategy	-0.26%	-3.87%	-6.12%	-7.01%	1.76%	2.00%	2.76%
Real Assets Indices							
FTSE NAREIT Composite	-4.35%	-8.08%	-12.90%	3.32%	7.97%	8.34%	9.44%
Alerian MLP	7.73%	7.64%	27.88%	27.52%	6.13%	2.62%	2.60%
Bloomberg Commodity	1.52%	5.73%	32.74%	41.85%	19.82%	10.85%	0.86%
S&P Global Infrastructure	3.72%	0.33%	7.83%	12.48%	8.21%	6.52%	8.67%
Other							
Oil Price Brent Crude	12.35%	13.84%	57.93%	77.21%	23.96%	19.55%	1.86%
CBOE Market Volatility (VIX)	-21.59%	27.38%	52.09%	56.26%	11.86%	20.26%	0.85%

Source: Morningstar



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