Seventy2 Capital

June 2022

MONTHLY MARKET COMMENTARY

On June 13th, the S&P 500 Index officially entered bear market territory, dropping more than 20% from its peak on January 3rd. Thursday's close marked the stock market's worst starting half to a year since 1970. The market took 161 days to transition from its peak into bear market territory, which is much faster than the average timeframe of 245 days in previous bear markets. Historically, a quick descent often precedes a shallower decline and a faster recovery. Markets don't repeat themselves, but they often rhyme. On average, bear markets last 16 months, decline 35.1%, and are followed by a 43.4% return over the next 12 months. The chart here reviews the bear markets we have seen since World War II.

A review of the past 11 bear markets

Bear market start	Bear market length (months)	Overlapping recession?	Bear market returns	6-month returns after bear end	12-month returns after bear end	Length to recover from bear trough (months)
1946	36.53	Yes	-29.6%	22.8%	42.1%	11.87
1956	14.66	Yes	-21.6%	9.8%	31.0%	11.08
1961	6.44	No*	-28.0%	20.5%	32.7%	14.27
1966	7.89	No	-22.2%	22.1%	32.9%	6.87
1968	17.85	Yes	-36.1%	22.8%	43.7%	21.37
1973	20.71	Yes	-48.2%	30.9%	38.0%	69.50
1980	20.45	Yes	-27.1%	44.1%	58.3%	2.73
1987	3.32	No	-33.5%	19.0%	21.4%	19.73
2000	30.54	Yes	-49.1%	11.5%	33.7%	55.69
2007	17.00	Yes	-56.8%	52.7%	68.6%	48.66
2020	1.08	Yes	-33.9%	44.7%	74.8%	4.87
Average overall	**16.0**		**-35.1%**	**27.4%**	**43.4%**	**24.2**
Average w/o recession	**5.9**		**-27.9%**	**20.5%**	**29.0%**	**13.6**
Average w/ recession	**19.9**		**-37.8%**	**28.7%**	**48.8%**	**28.2**

Sources: Bloomberg and Wells Fargo Investment Institute. Data as of May 31, 2022. *1961 recession ended in February, whereas the S&P 500 Index peaked in December 1961. Returns measured by the S&P 500 Index. An index is unmanaged and not available for direct investment. **Past performance is no guarantee of future results.**

We believe this market environment is unprecedented and does not have an appropriate historical comparison. There has been an enormous amount of stimulus (both fiscally from the government and monetarily from the Federal Reserve) over the last decade. We are not seeing the indicators that typically appear going into a recession. As shown below, many indicators still show an expansionary environment, albeit some are likely to lag and turn negative in the coming months. The labor market and housing market is still incredibly strong. Corporate balance sheets are healthy, and we see a much lower risk of default than in previous downturns, meaning fewer people are likely to lose their jobs.

Although demand for homes is coming down with higher rates, there is still a tremendous housing shortage in the United States. As a result, prices are not likely to see a dramatic drop (nationally, while higher-growth markets over the last few years are likely to see a substantial pullback.) We believe this inflationary environment, especially driven by rising food and energy, will cause a decline in consumer spending, retail sales, and profit margins.

We advise our clients to stay patient in this market environment. We expect volatility to continue for the remainder of the year, and the best market days often come very close to the worst. It is important to stick with the investment objectives defined when portfolios were put into place and not make drastic changes to your portfolio's risk level.

U.S. Recession Risk Indicators

		Current	2020	2007-2009	2001	1990-1991	1981-1982	1980	1973-1976	1969-1970
Confidence	Housing Permits	↑	↑	×	●	×	×	×	×	×
	Job Sentiment	↑	●	×	×	×	×	●	●	●
	Jobless Claims	↑	↑	●	×	×	×	×	↑	×
	Retail Sales	↑	↑	×	×	×	×	×	●	×
	Wage Growth	×	×	×	×	×	×	×	×	×
Economic	Commodities	●	↑	×	×	×	×	●	●	●
	ISM New Orders	↑	●	×	×	×	×	×	×	×
	Profit Margins	↑	×	×	×	×	×	×	●	×
	Truck Shipments	↑	↑	●	×	×	×	×	n/a	n/a
Financial	Credit Spreads	×	↑	×	×	×	×	×	↑	●
	Money Supply	●	↑	×	×	×	×	×	×	×
	Yield Curve	↑	×	×	×	×	×	×	×	×
	Overall Signal	↑	●	×	×	×	×	×	●	×

↑ Expansion ● Caution × Recession

Data as of June 15, 2022

Source: FactSet, Bloomberg, Conference Board, Census Bureau, Federal Reserve, FRBPA, Chicago Fed, ISM, Dept. of Labor, Bloomberg/Barclays, AAII, Investors Intelligence, and Moody's.

We are actively making strategic changes to portfolios through the volatility and have shifted to higher-quality names in sectors that perform well during economic slowdowns. We are already finding opportunities in this market and expect to see many more in the coming months.

As always, please reach out to your financial advisor with any questions or concerns.

-The Seventy2 Capital Team

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Please join us for our Seventy2 Tuesday Monthly Webinar on July 5th at 12pm ET as we discuss these topics and more.