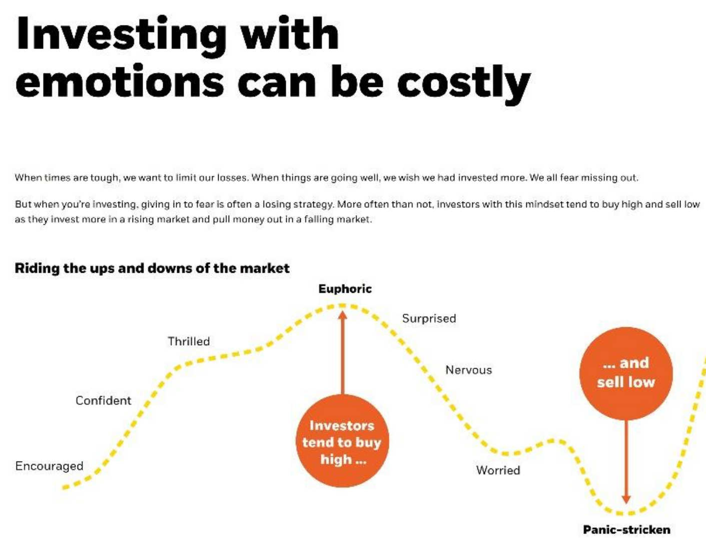
A wild ride for the market

There's no way to sugar coat it -the stock market has experienced a bear market affecting all sectors of the market except for Energy. The declines started in March 2021 when the most speculative parts of the market peaked. Many of these companies are now down 70% to 90% with valuations for the overall group down about 70% according to an analyst from Bernstein. During previous market disruptions investors fled to the trillion-dollar technology companies but they too have succumbed to selling pressure and are all solidly in bear market territory.

We had hoped investors would rotate into the Value and Low Volatility factors. While these groups have outperformed helping our performance relative to the S&P 500, their returns are still negative.

The reasons for the change of heart are clear. The market is currently adjusting to higher inflation, a more hawkish Fed, and a war in Ukraine. A good part of the inflation problem occurred as people bought stuff since they couldn't spend money on services during the Covid shutdown. The data is improving here – in April, manufactured goods inflation was essentially zero. There is some indication that recent increases in services inflation is more akin to a one-time recalibration rather than a permanent acceleration in growth. This outcome is consistent with inflation surveys that imply consumers believe the current disruption is temporary. Bottom line is that inflation news could pleasantly surprise in the second half of the year.



While the last couple of months have been brutal it's important for investors not to panic and recall that the stock market has done this before. Many investors probably already have forgotten that the S&P 500 had a similar decline in 2018 that ended on Christmas Eve. More recently, the Covid crisis pushed down stocks even further. The BlackRock attachment included with this newsletter demonstrates the dangers of investing with emotions. While anything can happen in the short term, we'd argue the market is closer to the Panic-stricken stage than the Euphoric stage.

Longer term stocks continue to be the best alternative and a lot of value has been built due to the correction. Sharply rising interest rates seemed to have been the catalyst for the equity revaluation, so it is comforting that rates are stalling at current levels.

There's lots of news so please call us if you'd like to review your portfolio.

Jim Tillar, CFA and Steve Wenstrup
Tillar-Wenstrup Advisors, LLC
1065 E. Centerville Station Rd.
Dayton, OH 45459
937-428-9700 - EXT. 102
www.twadvisors.com