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Archer June 20, 2022 Market Outlook and Update:

The Bear is awake again

We were hoping to wait until the June 30 date to put out our outlook and update, but the bear keeps growling so we thought we may provide some perspective of the markets and what we can expect in the days, months, and years ahead.

After an injection of roughly $12 Trillion in stimulus to support the economy and spur recovery from lockdowns, it should come as no surprise that inflation has risen as the economy has reopened. Nor should it come as a surprise that a prudent Central Bank would want to remove excess liquidity from the economy as the economy recovers and inflationary pressure build. Inflation in its simplest form is too much money chasing too few goods. $12 Trillion is a lot of money. Well documented damage to supply chains, exacerbated by ongoing lockdowns in China, and war in Ukraine, has kept supply of many commodities and goods suppressed. Businesses and consumers flush with pandemic era stimulus accelerated their demand for goods and have resumed spending on services as the world has reopened. As demand for travel has boomed around the globe, demand for energy has boomed along with it while war and the regulatory environment have kept supply growth muted. In his recent press conference Fed Chairman Jay Powell opined that the Fed would do its part to carefully remove excess liquidity in an attempt to reduce the demand side of the equation, but that supply side is not something they can control. With the benefit of hindsight, it is easy to surmise that Central Banks should have started to drain the punchbowl a little sooner. We agree that they will likely need some help from the supply side to ease inflation. What we don't need is more "stealth stimulus" in the form gas tax holidays and other rebates. We dislike taxes and like to receive checks as much as the next person but adding more fiscal stimulus while the Fed is trying to remove monetary stimulus seems counterintuitive at best and will likely only serve to lengthen the battle against rising prices.

So why is the market down? Shouldn't it rise with higher prices? The market can move higher in an inflationary environment. However, the reason it has dropped, just like it has on average every 7.7

years by a decline of 39% since 1926, it is uncertainty. Uncertainty if the Federal Reserve will be able to tame inflation while not driving the economy into a deep recession. Uncertainty if political leaders in Washington and around the Globe will make the tough choices to get the economy back to a normal supply and demand equilibrium. The markets do not like uncertainty and therefore tend to correct.

As unpleasant as it is, sharp declines in stock prices and bear markets happen with some degree of regularity. Since 2000, we have experienced three other such unpleasant drops previous to this one;

-45% in the 2000 dot.com bear market, -51% in the 2008 great financial crisis bear market and -34% during the early months of COVID. Each time, the market rebounded higher than it was before the decline. We think this time will be no different.

Since 1926, the markets on average declined more going into a recession than they did during the recession, and were up on average of 16% twelve months after the recession.

How Do Stocks Perform Around Recessions?

On average, stocks performed worse 1 year before a recession than during a recession. In the 2 years following a recession, price returns were positive 82% of the time.

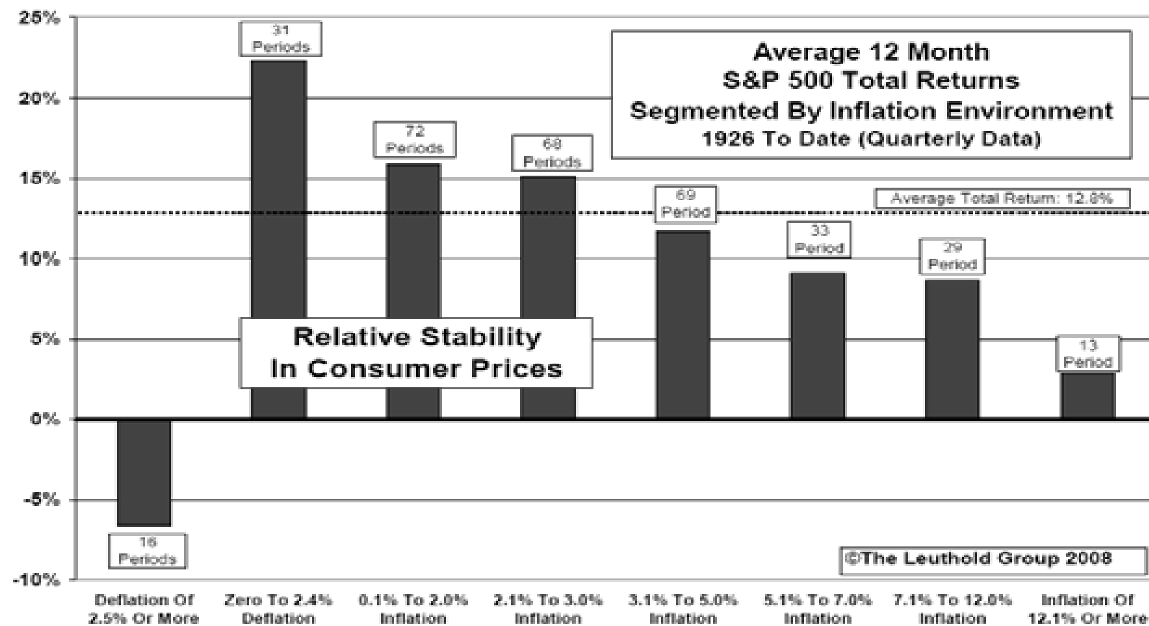
Recession Start	Length (Years)	During Recession	6M Before	12M Before	6M After	12M After	2Y After
7/31/1953	0.83	18%	-6%	-3%	17%	30%	55%
8/31/1957	0.67	-4%	5%	-5%	18%	33%	25%
4/30/1960	0.83	17%	-5%	-6%	7%	10%	1%
12/31/1969	0.92	-5%	-6%	-11%	14%	8%	34%
11/30/1973	1.33	-13%	-9%	-18%	1%	23%	18%
1/31/1980	0.50	7%	10%	14%	6%	8%	-12%
7/31/1981	1.33	6%	1%	8%	-19%	20%	18%
7/31/1990	0.67	5%	8%	3%	3%	8%	20%
3/31/2001	0.67	-2%	-19%	-23%	-6%	-18%	-7%
12/31/2007	1.50	-37%	-2%	4%	21%	12%	44%
2/29/2020	0.17	-1%	1%	6%	12%	44%	?
Average Return		-1%	-2%	-3%	7%	16%	20%
% Positive Return Periods		45%	45%	45%	82%	91%	82%

Cumulative price return of the S&P 500 during past recessions. Past performance is not indicative of future returns.

Table: Darrow Wealth Management • Source: YCharts; Nber • Created with Datawrapper

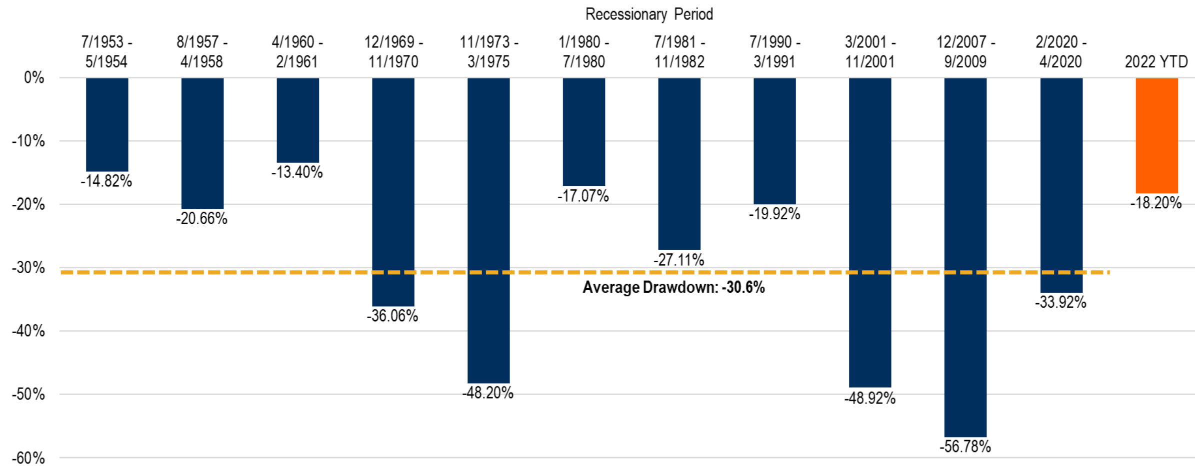
If we take the discussion a bit further and accept it is going to take some time for the Federal Reserve to slow down the economy and get some of the liquidity out, we can look at the following chart and look at the previous times inflation was running at 7.1% - 12%. The S&P 500 over the 29 periods in the chart was still up on average of close to 8%. Yes, it is not the 10%+ we have become accustomed to in recent years, but 8% is still an attractive return, particularly when compared to a number of other alternatives.

It is important to remember the market is imperfect. Yes, it gives us a price every day, but sometimes those prices are expensive and sometimes they are cheap relative to the intrinsic value or earnings power of the underlying companies. We think this is another opportunity, just as it has been in the past to stay invested and keep investing for the longer term. Nothing is guaranteed, but it may not surprise you the investor who can stomach the ups and downs, continues to outperform those that try to time the markets. Dalbar researches this every year and finds that the average investor typically underperforms the market because investors tend to sell at the wrong time and wait too long to reinvest. It may feel better to invest when we are hitting new highs, but the statistics have proven, the market has come back each, and every time it is down. This time is likely no different.



Missing even a few of the market's best days can dramatically impact your investment returns. If you were an S&P 500 investor and missed the top 10 days of performance (21 of the 25 worst trading days in the last 20 years were followed, within a month, by one of the best 25 trading days) you would have only returned half what the S&P 500 did. A $100,000 investment in 1999, right before three bad years in the market would have grown to nearly $5.9 million dollars. If you missed the top 10 days, it would only be worth $2.7 million.

Drawdowns are inevitable, but they have never stayed down. As of Mid-May, the S&P 500 had dropped over 20% since the start of the year. Recall, however, the three years previous were up approximately 31%, 18%, and 28%. It never feels good to see accounts decline in value, but equity markets have a way of rebounding and building on the strength that remains.



Although the market will be jumpy (volatile), we think investors who are focused on the long-term will be rewarded as they have in the past. Even those who are close to retirement should focus on the long-term. Why? When you enter retirement, you will not spend all your savings on the day you retire. You should have a long-term plan to spend the same way you invest. Stay focused on the long-term.

Regards,

The Archer Team