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Market Update: Persistent Inflation Leads Fed to Take Action

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What Happened? A 5-Day Timeline

- **6/10/2022: Disappointing Inflation Data** – Consumer Price Index (CPI), the primary measure of inflation, rose by 1% over the last month and 8.6% over the last year (primarily fueled by energy prices), the most in more than 40 years and above expectations. The market may have believed that inflation had peaked, leading to a S&P 500 drop of 2.91%.
- **6/13/2022: Negative Market Reaction** – After taking the weekend to process the data, fear of a more aggressive rate-hike path and a slowdown in economic growth led to a drop in the S&P 500 of 3.88%, pushing the index into bear market territory (down more than 20% since the highs in early January).
- **6/14/2022: Volatility Before the Storm** – A volatile day in the market, which left the ending price just slightly lower on the S&P 500 as the market geared up for the Federal Reserve (Fed) meeting.
- **6/15/2022: Fed Meeting With 75bp Hike** – The expectation at the scheduled meeting was originally for a 50bp hike, but revisions for higher inflation data and lower growth lead the decision for a higher hike. S&P 500 was up 1.46% on June 15, perhaps with the hope that the Fed was taking necessary action to curb inflation.
- **6/16/2022: Other Central Banks Follow Suit** – The Swiss National Bank announced a surprise 50bp rate hike (the first in 15 years), the Bank of England raised by 25bp and Brazil's central bank increased its key rate by 50bp. The market reaction shifted to a global recession fear and the S&P 500 fell 3.25%.

Important Market Reminders

1. **Market Drops Are Normal** – The train that is generally moving up a mountain needs to let out some steam now and again to prevent more serious problems. The market may have been overheating towards the end of the year from strong performance post-Covid, and is now releasing some of that pressure by coming down to more stable levels. As a reminder, the S&P 500 was up 31% in 2019, 18% in 2020, and 29% in 2021.

As per the "S&P 500 Index 1942-2022" chart below, a market drop of 10% happens just about every year and a drop of 20% happens about every six years. Investors sometimes get comfortable in the good times and forget to expect a bit of market turbulence now and then on their way up the mountain.

2. **Markets Are Cyclical** – Market performance is often overexaggerated on the upside due to excessive expectations and is then overly disappointed as it reverses course. This is why the market is volatile and doesn't simply move in a straight line. The post-Covid exuberance may have been overdone in 2021, but recent market performance may certainly lead you to believe very unfavorable outcomes in 2022. This means that the market is already pricing in high inflation, high rates, low growth, high food and energy prices, continued geopolitical conflict, Covid driven supply-chain issues, etc. Any potentially favorable or "less bad" news may shift the tide back to the upside.

As per the "Average Annualized Returns After Market Decline of More Than 10%" chart below, the forward looking one, three and five-year returns are all close to or above positive double-digit growth.

S&P 500 INDEX 1942–2022

Type of Decline	Average Frequency*	Average Length**	Last Occurrence
-5% or more	About 3 times a year	40 days	April 2022
-10% or more	About every 16 months	129 days	April 2022
-15% or more	About every 3.33 years	240 days	March 2020
-20% or more	About every 5.75 years	339 days	March 2020

Source: Bloomberg, 4/29/1942 - 4/29/2022. Past performance is no guarantee of future results. For illustrative purposes only and not indicative of any actual investment. Investors cannot invest directly in an index.

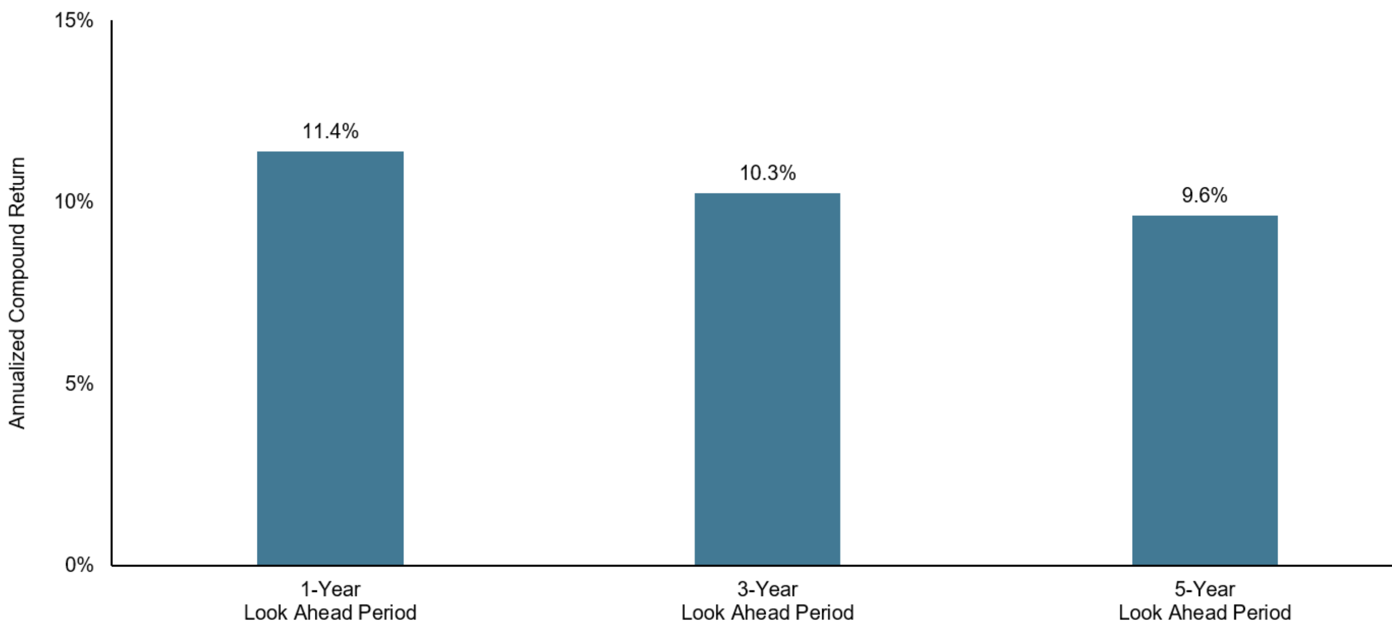
* Correction cycles are determined by identifying market declines in excess of the minimum declines noted above. The cycle ends when there is a recovery of the magnitude of the minimum decline needed for that correction size (i.e., a recovery of greater than 5%, 10%, 15% or 20%). After that recovery is noted, the algorithm begins searching for the next decline to start the cycle again.

** Measures from the date of the market high to the date of the market low.

The S&P 500 Index is an unmanaged index of 500 companies used to measure large-cap U.S. stock market performance. The Dow Jones Industrial Average® (The Dow®), is a price-weighted measure of 30 U.S. blue-chip companies. The index covers all industries except transportation and utilities.

Average Annualized Returns After Market Decline of More Than 10%

S&P 500, 1/1926–12/2021



In U.S. dollars. Past performance is no guarantee of future results. Declines are defined as months ending with the market below the previous market high by at least 10%. Annualized compound returns are computed for the relevant time periods after each decline observed and averaged across all declines for the cutoff. There were 1,151 observation months in the sample. January 1990–present: S&P 500 Total Returns Index. S&P data © 2022 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. January 1926–December 1989; S&P 500 Total Return Index, Stocks, Bonds, Bills and Inflation Yearbook™, Ibbotson Associates, Chicago. For illustrative purposes only. Index is not available for direct investment; therefore, its performance does not reflect the expenses associated with the management of an actual portfolio. There is always a risk that an investor may lose money.

As always, Dynamic recommends staying balanced, diversified and invested. Despite short-term market pullbacks, it's more important than ever to focus on the long-term.

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