

# Navigating the Road Ahead



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A W S F S C O M P A N Y

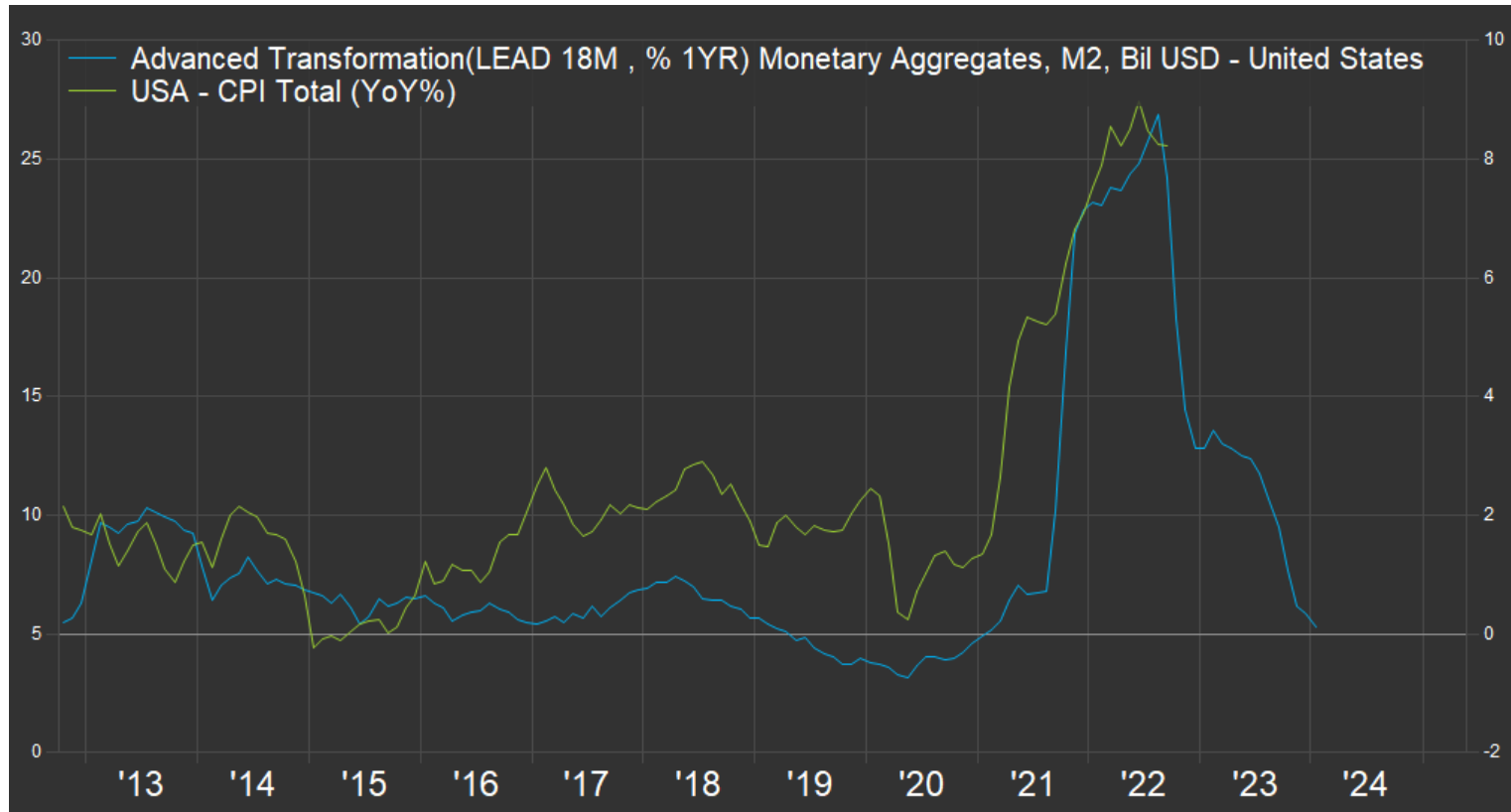
# THE ROAD AHEAD: *NOT OUT OF THE WOODS YET*

1. ***Inflation is Sticky***: it is demand-driven and the result of excessively loose monetary and fiscal policy.
2. ***The Fed is Hawkish***: they have switched from a dual mandate, centered on inflation and employment, to a single mandate, emphasizing its laser focus on inflation.
3. ***Higher rates lead to sharply slowing economic/earnings growth***: Consumers are strapped for cash. Investors' concerns are shifting from worries about inflation to worries about growth.

Bottom Line: Economic conditions will continue to deteriorate and a catalyst for a sustainable rebound is still lacking. We may avoid significant downside in stocks from here, but it may get worse before it gets better.

# “TRANSITORY” INFLATION

## WHAT DID THE FED MISS?

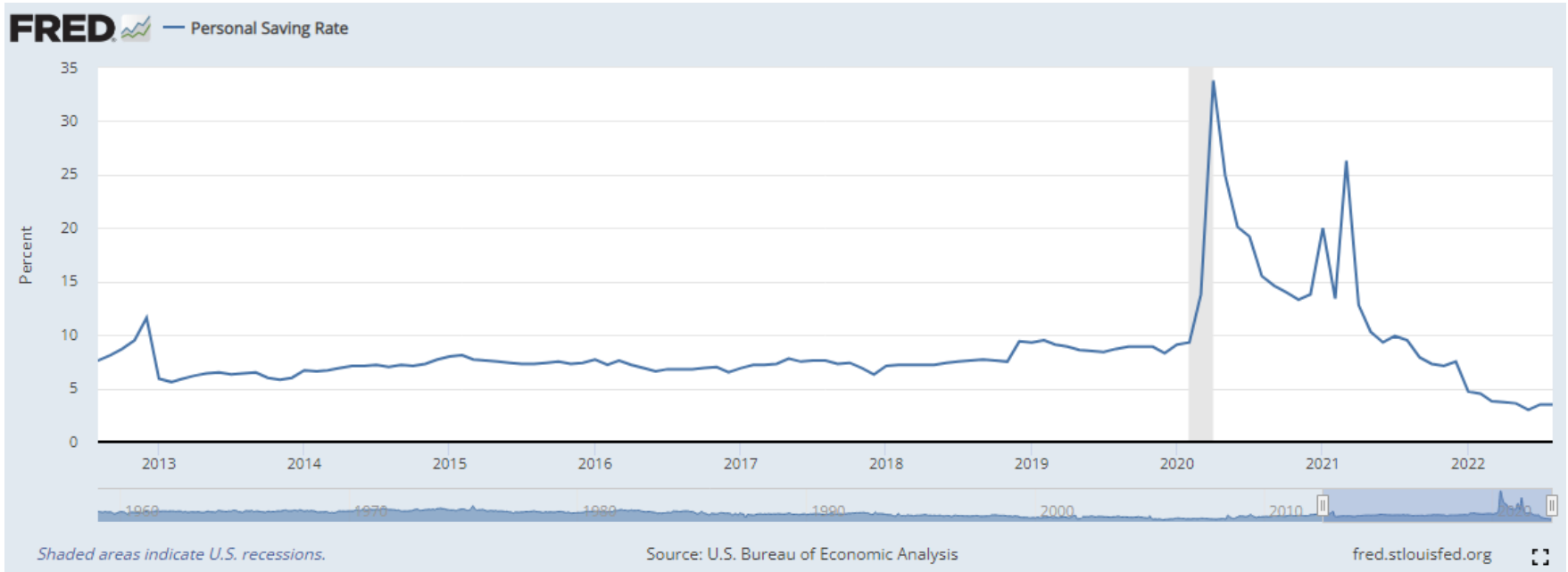


**The massive stimulus introduced during the height of the pandemic drove an increase in demand. Some at the Fed believed inflation was purely supply driven, and that was not the case.**

Source: Bryn Mawr Trust; Factset

# “TRANSITORY” INFLATION

## WHAT DID THE FED MISS?

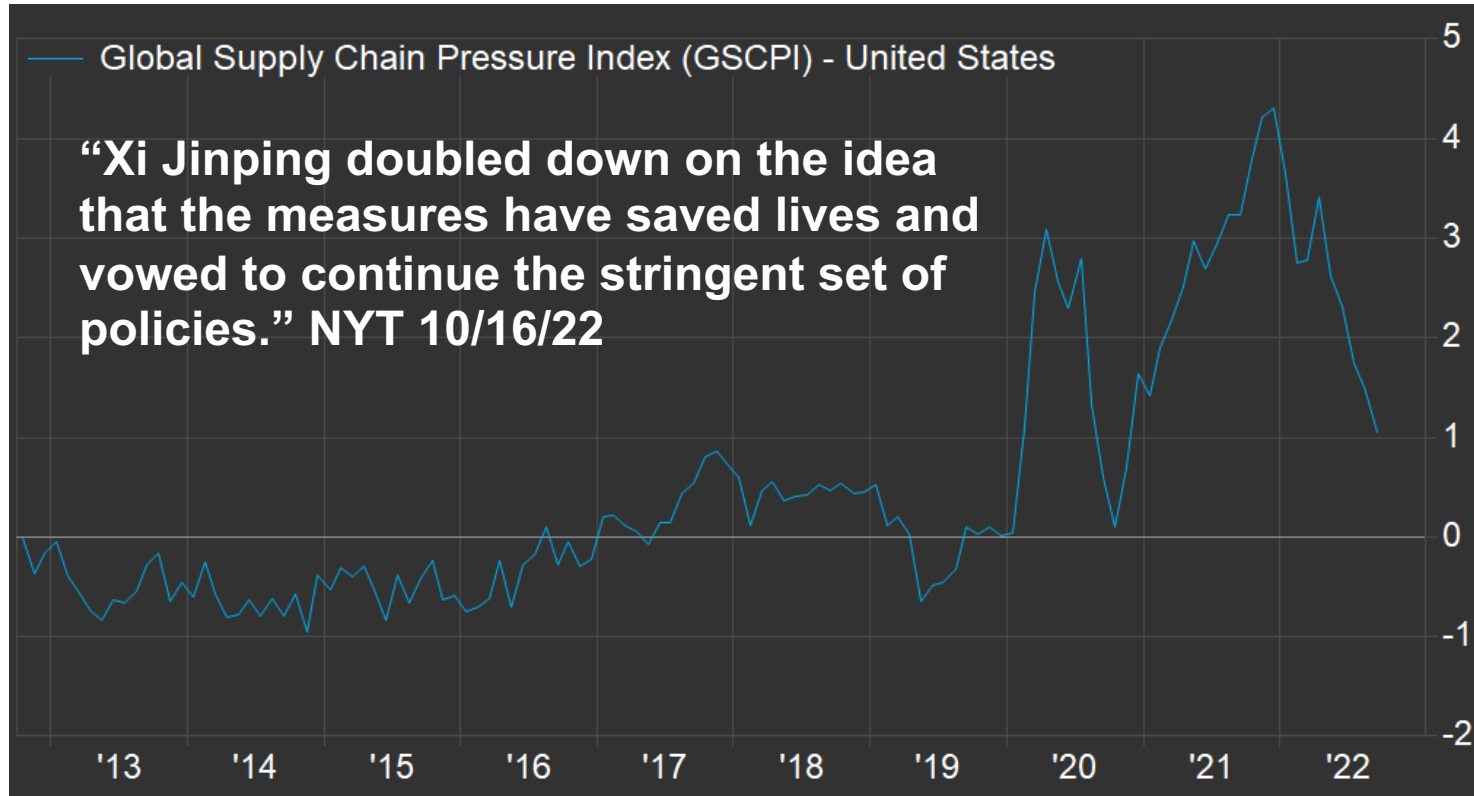


**The increase in money drove consumers savings through the roof – enabling a steady increase in consumption.**

Source: Bryn Mawr Trust; Factset

# “TRANSITORY” INFLATION

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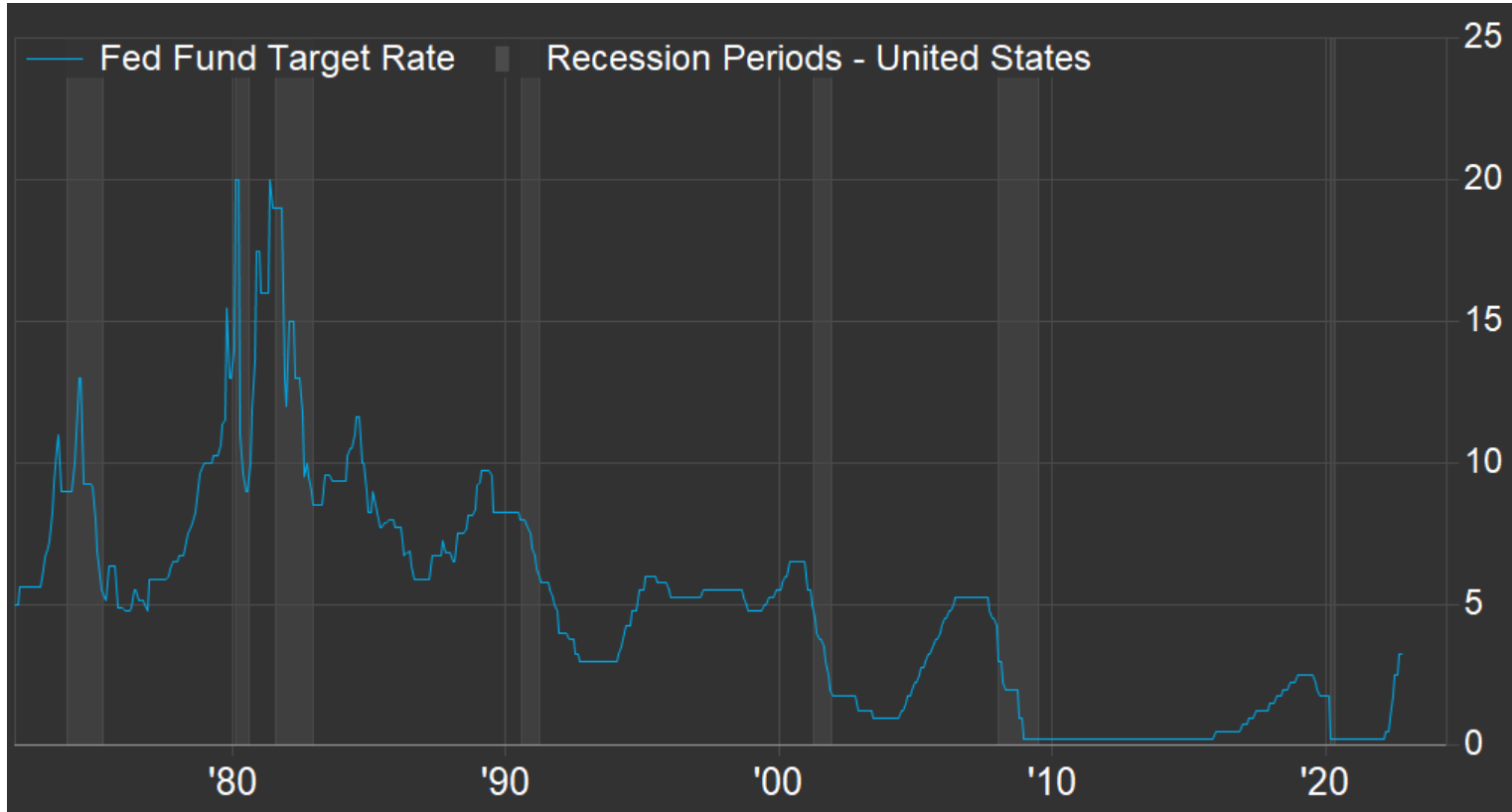


Supply chains did not clear as quickly as many assumed they would. China’s persistent “Zero-COVID” policy is one reason why.

Source: Bryn Mawr Trust; Factset

# “TRANSITORY” INFLATION

## WHAT DID THE FED MISS?

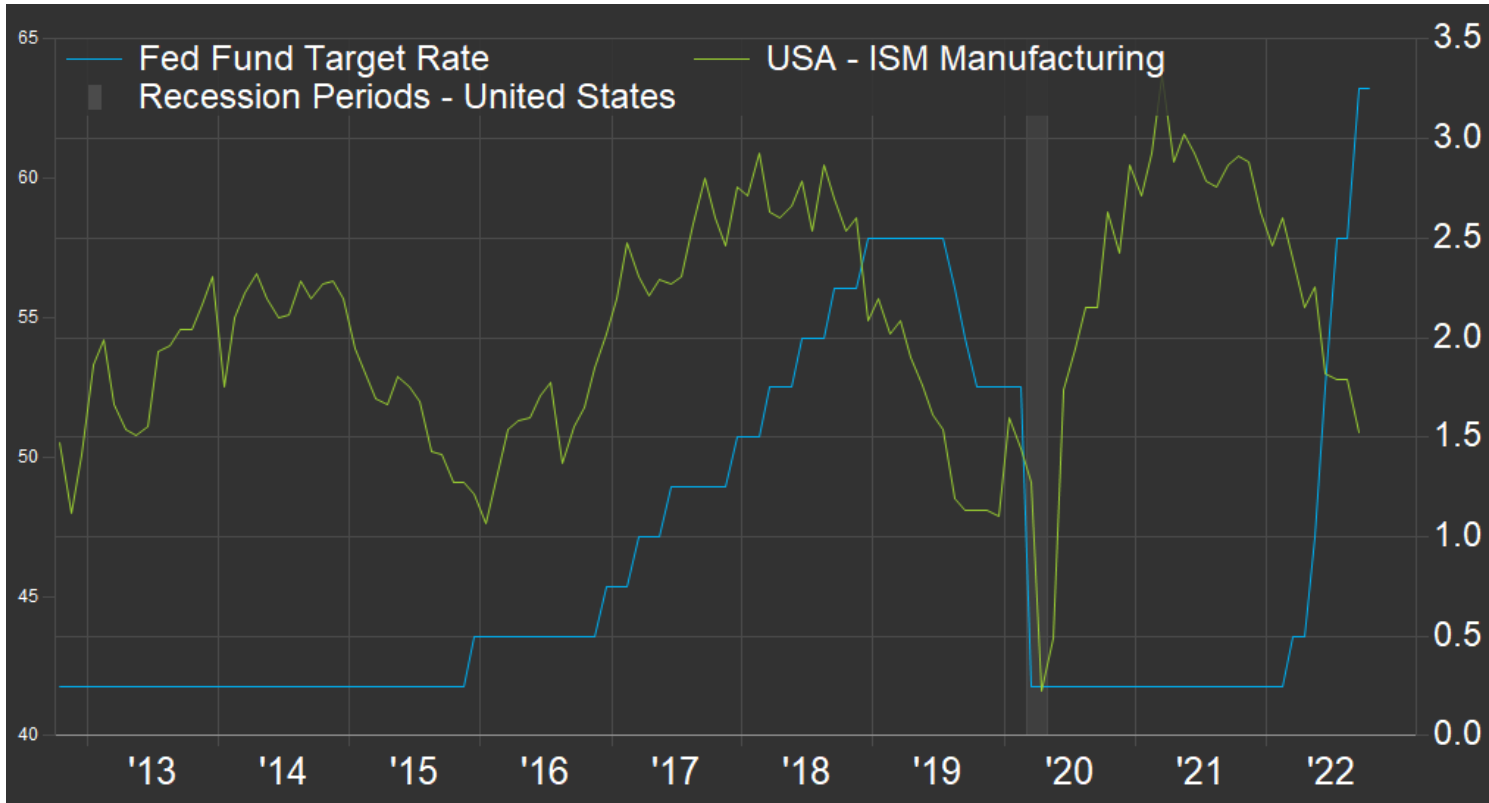


**The Fed ALWAYS hikes rates into a recession.**

Source: Bryn Mawr Trust; Factset

# “TRANSITORY” INFLATION

## WHAT DID THE FED MISS?

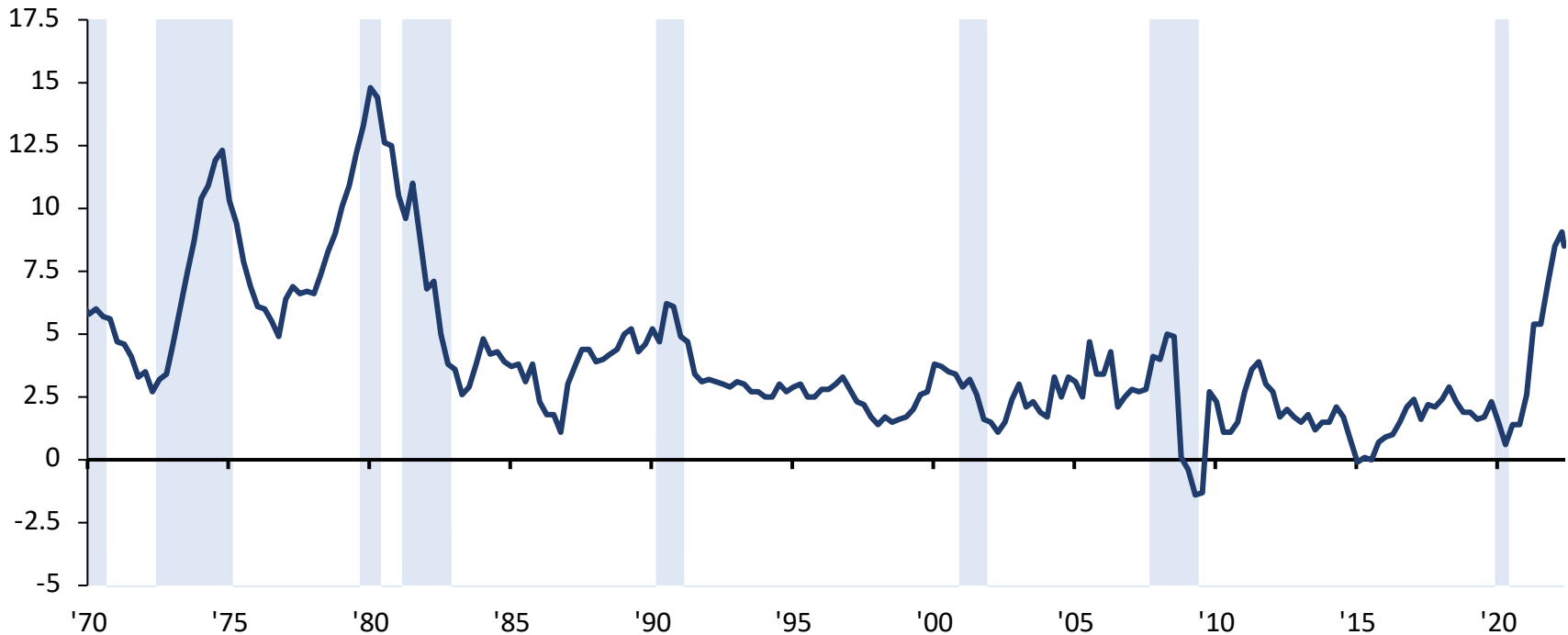


**The issue this time is that they were hiking rates while growth was already set to slow.**

Source: Bryn Mawr Trust; Factset

# INFLATION IS STICKY: IT USUALLY TAKES A RECESSION

YoY % Change in the Consumer Price Index and US Recessions

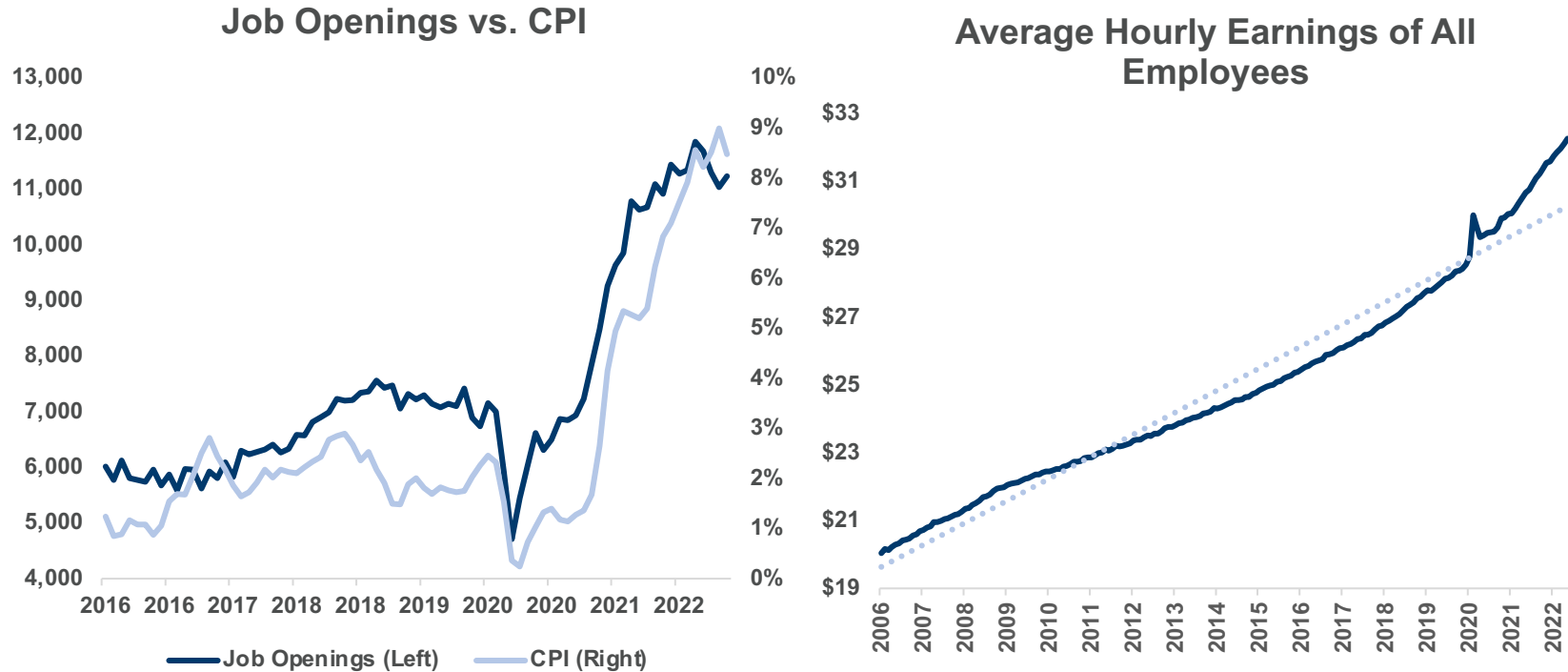


**Inflation typically peaks as a recession starts, or later. The Fed is trying to slow the economy to get inflation under control.**

Source: Bryn Mawr Trust; Factset



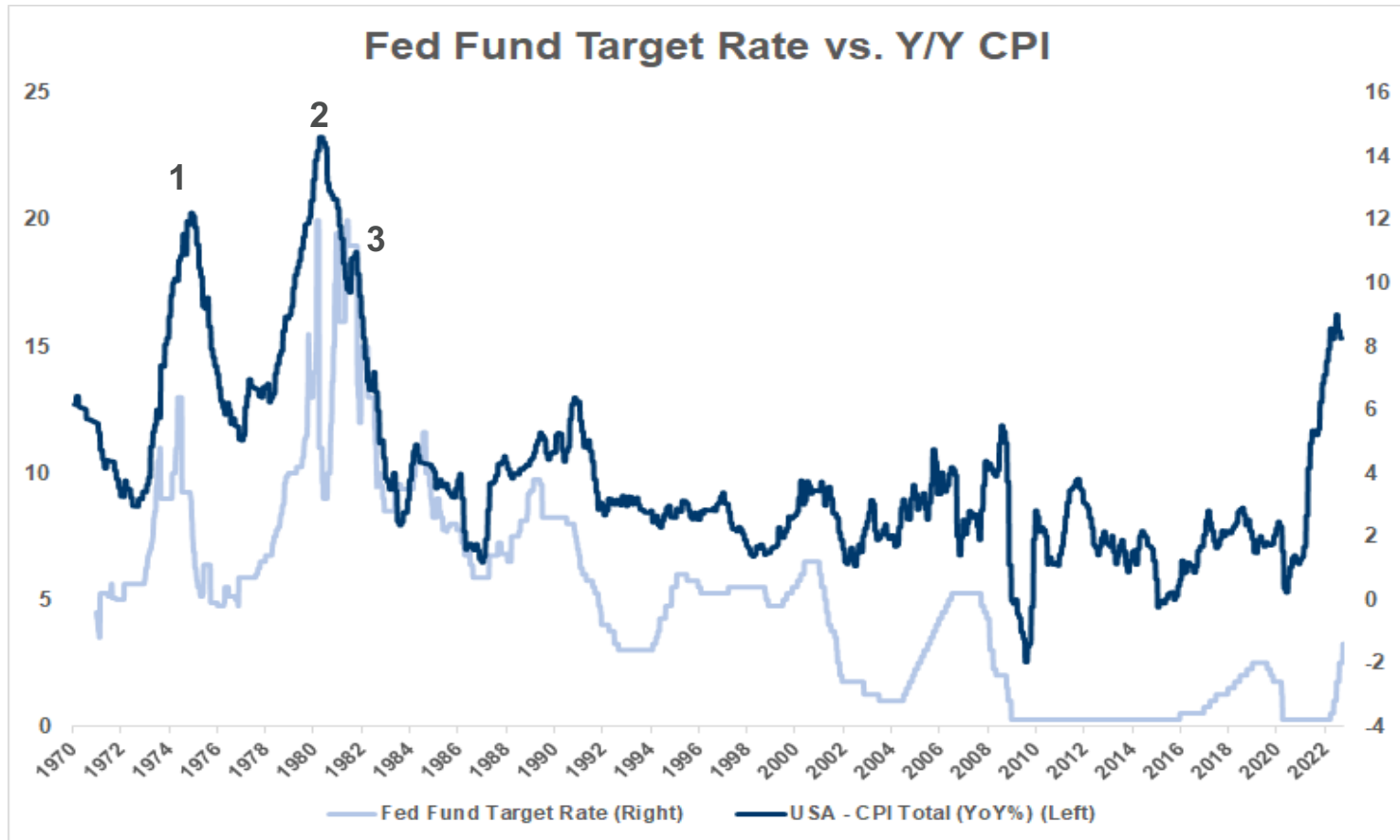
# INFLATION IS STICKY: LABOR MARKET REMAINS TIGHT



**As the US jobs market remains tight, employers are forced to pay employees higher wages which have resulted in a sharp rise in inflation.**

Source: Bryn Mawr Trust; Factset

# THE FED IS HAWKISH: WANTS TO AVOID STOP/START POLICY



**The Fed fought inflation 3 separate times in the 1970's and early 1980's. They will be careful to avoid a similar scenario.**

Source: Bryn Mawr Trust; Factset

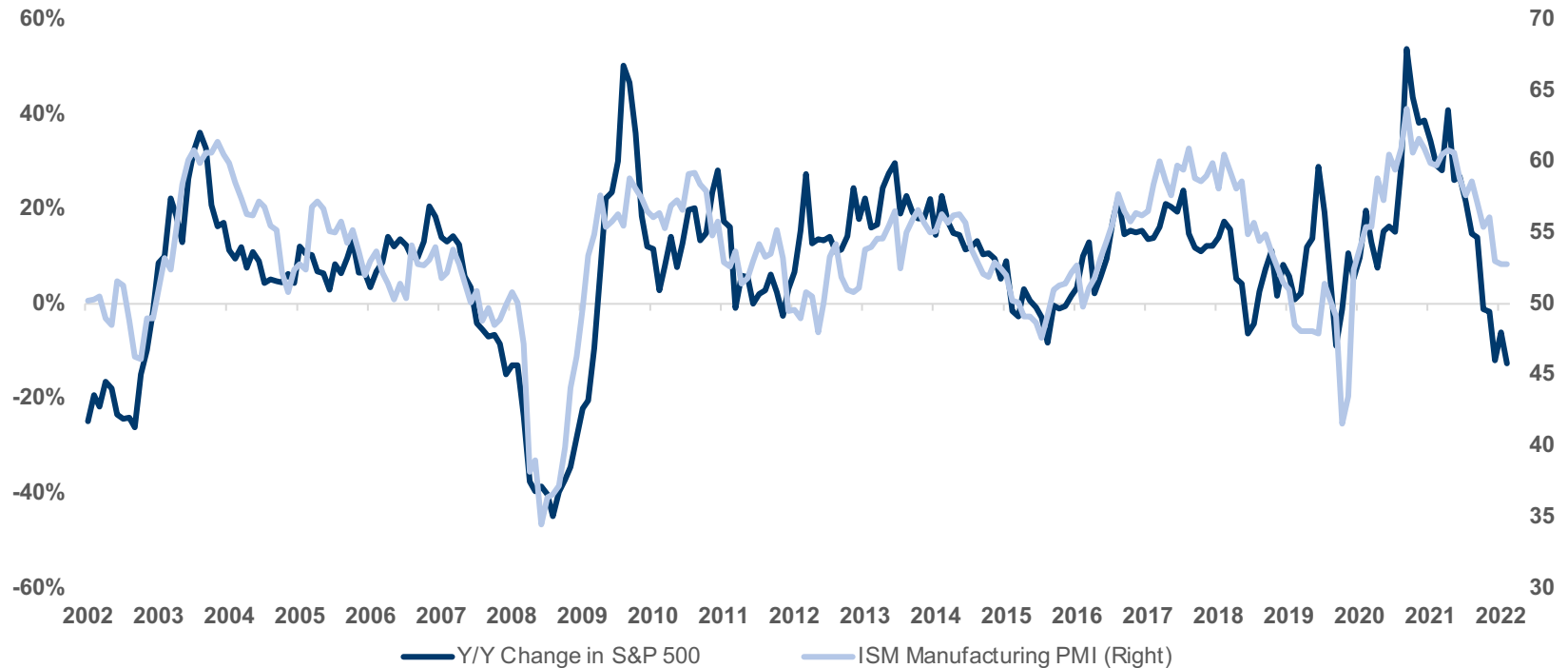
# THE FED IS HAWKISH: SO GOOD NEWS IS BAD NEWS



Source: Bryn Mawr Trust; Factset

# GROWTH IS SLOWING: *WHEN WILL THE MARKET BOTTOM?*

## PMI vs. YoY Change in S&P 500

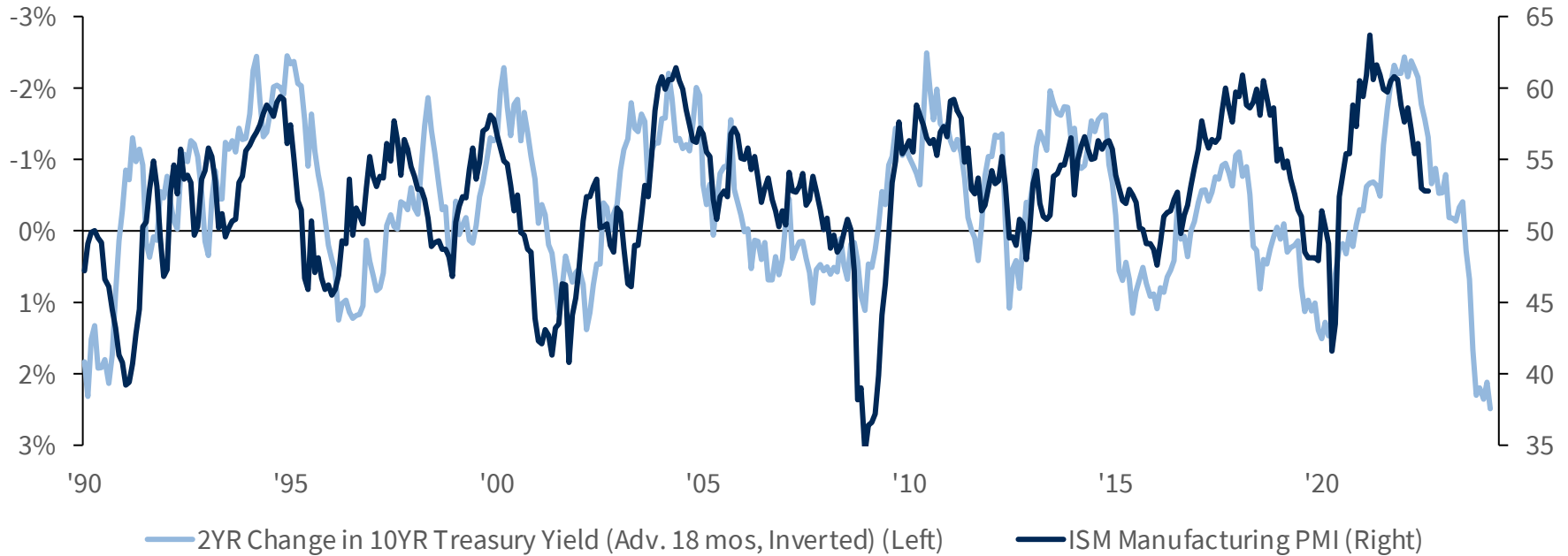


**The stock market has historically bottomed along with leading economic indicators. Until this happens, be skeptical of any sharp moves higher in stocks.**

Source: Bryn Mawr Trust; Factset

# GROWTH IS SLOWING: MORE DOWNSIDE FOR THE ECONOMY

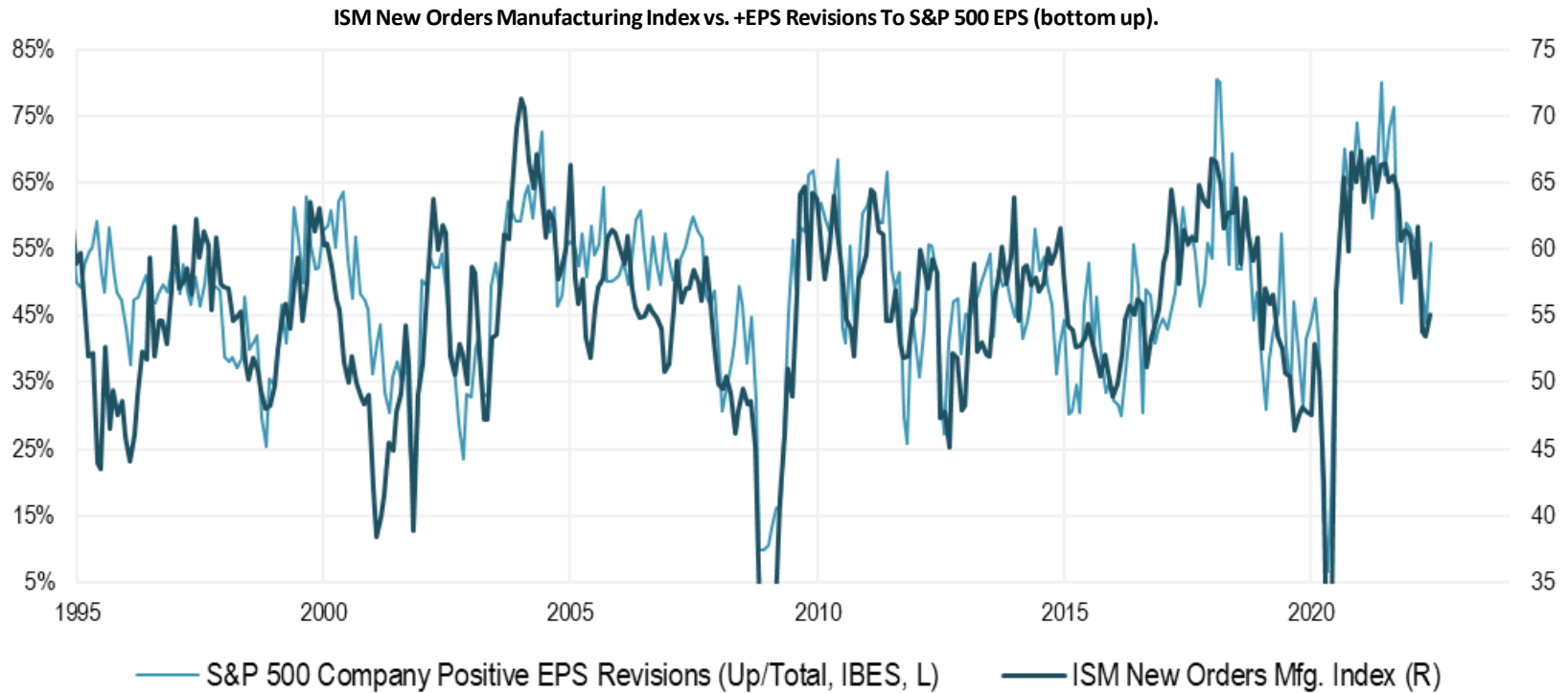
## Interest Rates and the Business Cycle



**An increase or decrease in interest rates works its way through the economy over time and leads to changes in PMI by about 18 months.**

Source: Bryn Mawr Trust; Factset

# GROWTH IS SLOWING: EARNINGS ARE AT RISK

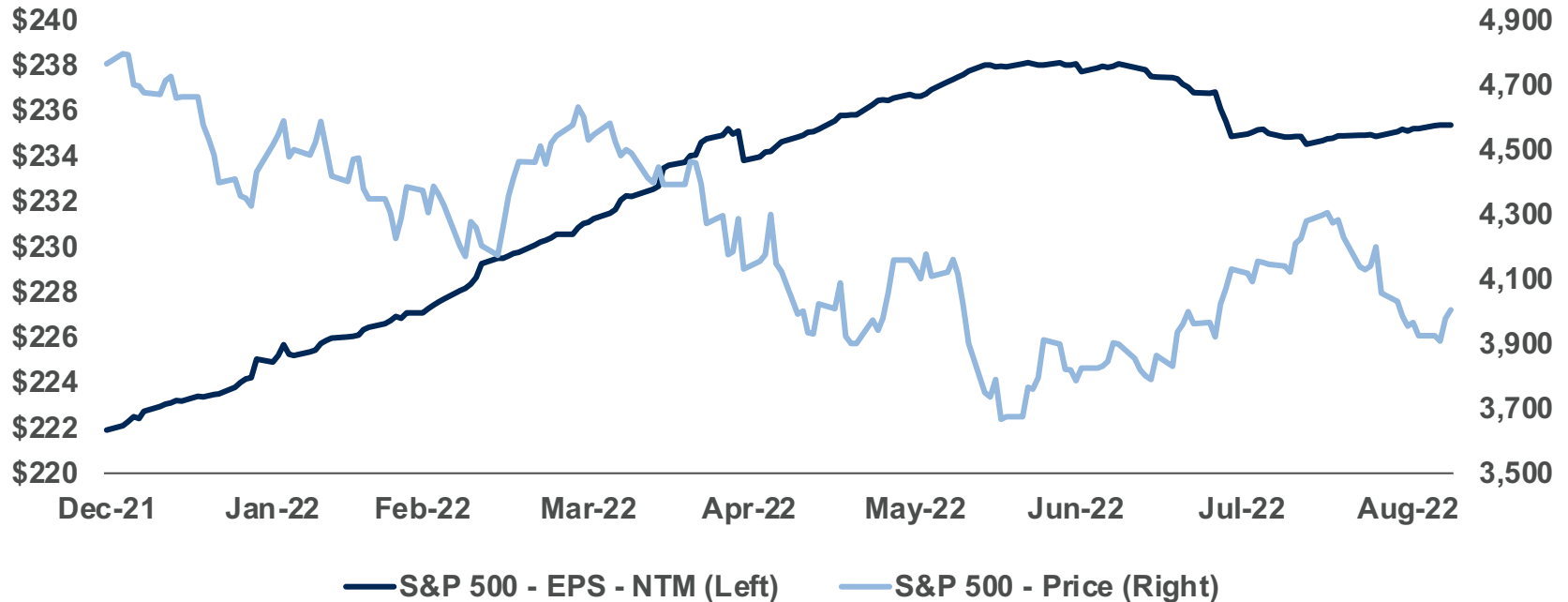


**This will create pressure on stocks in general, specifically businesses that are more sensitive to the cyclical fluctuations of the economy.**

Source: Bryn Mawr Trust; Factset

# GROWTH IS SLOWING: EXPECTATION HAVE NOT BEEN ADJUSTED

## Stock Market Performance vs. Earnings Estimates



**We find it curious that, even as the economy noticeably slows, there has been no reduction in the level of earnings analysts expect companies to generate.**

Source: Bryn Mawr Trust; Factset

# GROWTH IS SLOWING: EXPECTATION HAVE NOT BEEN ADJUSTED

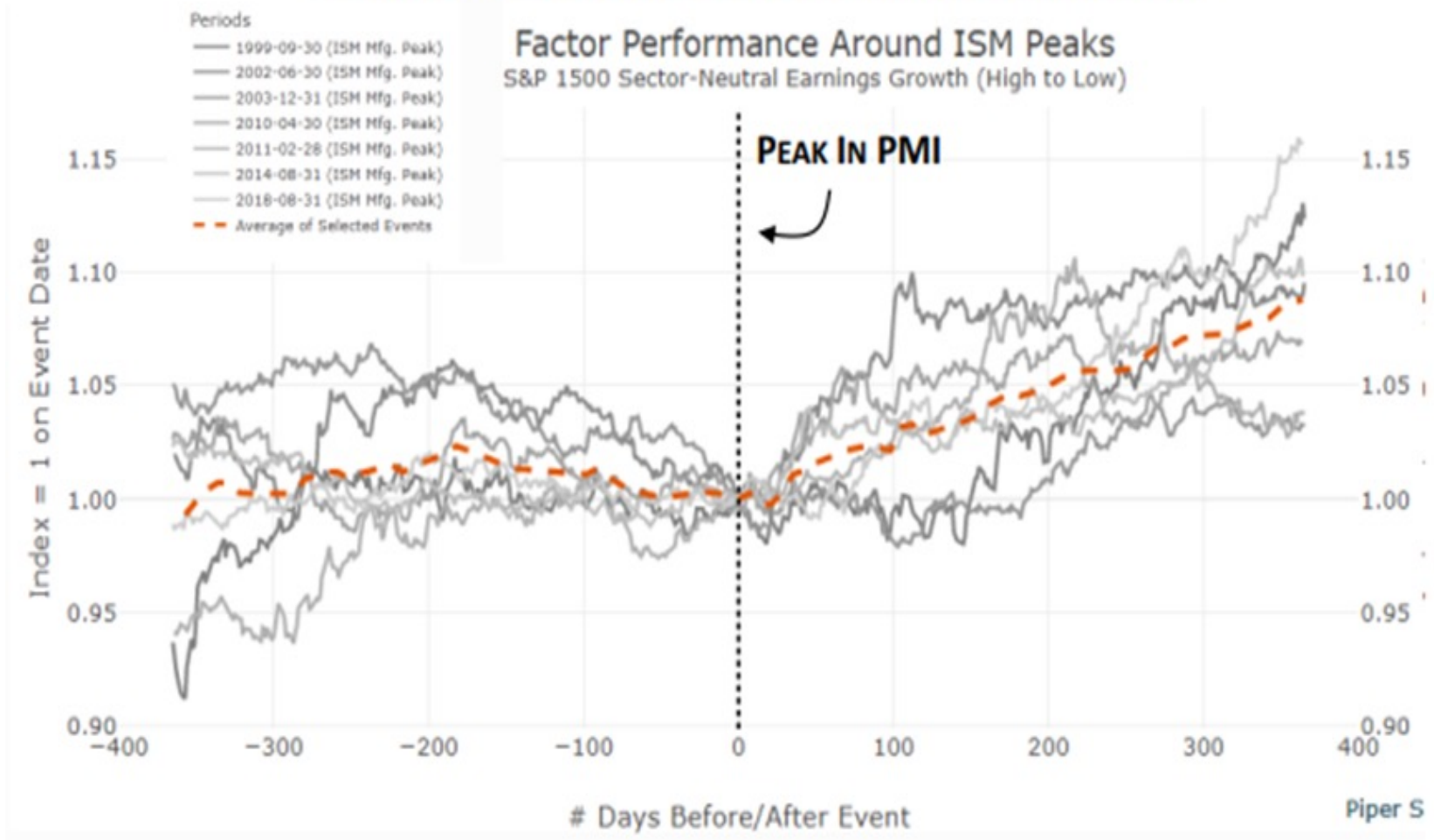


Source: Piper Sander  
Macro Research



# GROWTH IS SLOWING: WHAT WORKS?

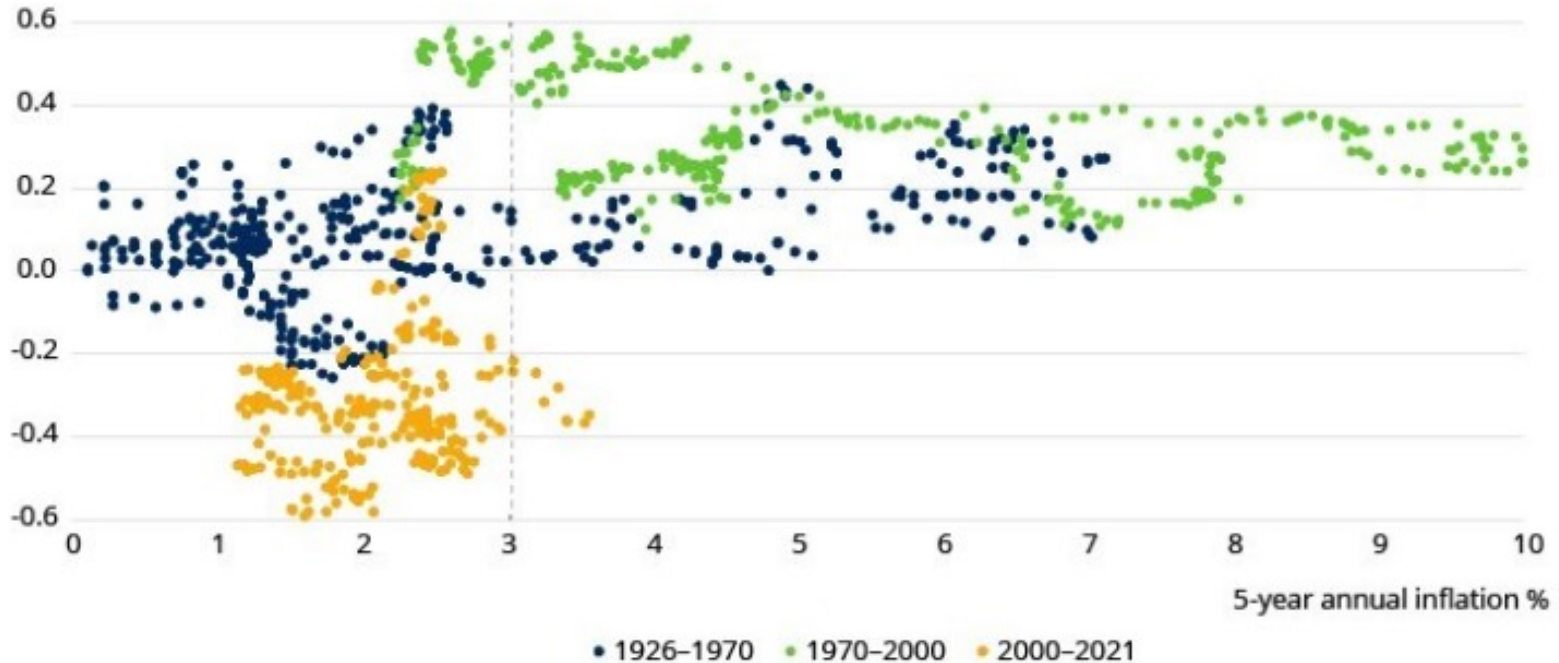
## EARNINGS GROWTH OUTPERFORMS AS PMIS FALL



Source: Piper Sandler Macro Research

# STOCK BOND CORRELATION: *WHAT IS GOING ON?*

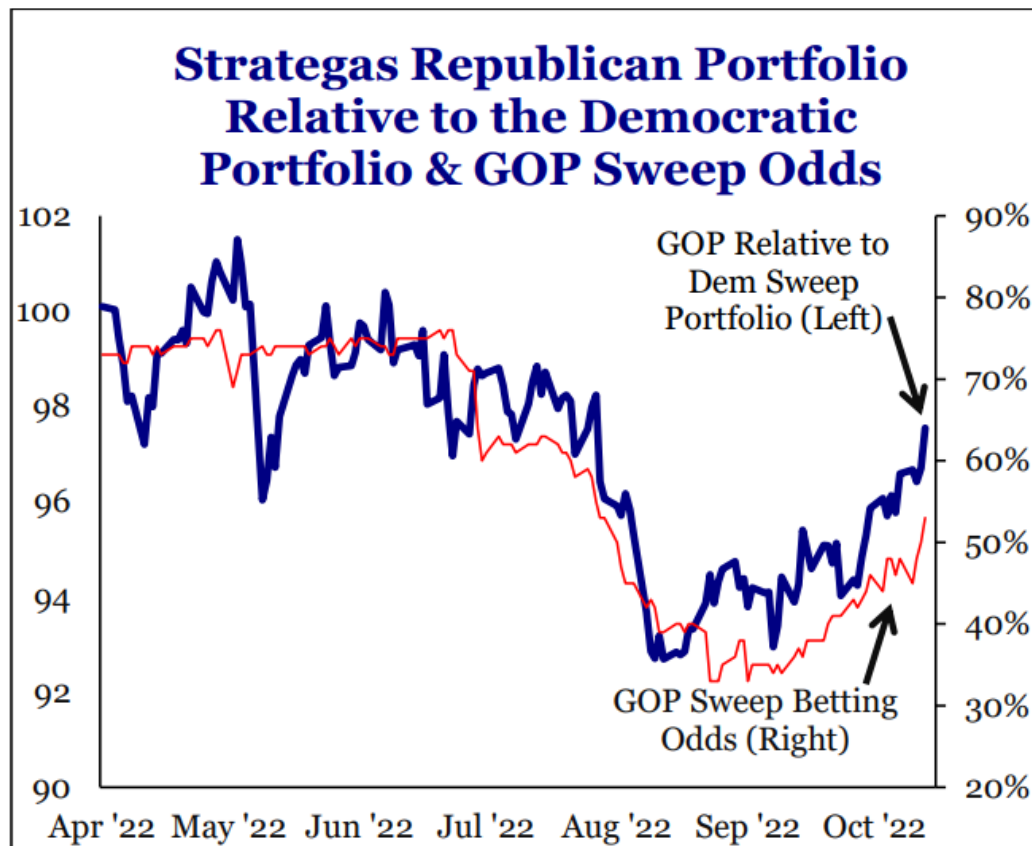
5-year equity-bond correlation



Since 1926, the equity-bond correlation has been positive 98% of the time whenever inflation breached this threshold.

Source: Schroders

# THE MID-TERM ELECTIONS: WHAT IS THE MARKET SAYING?



- Betting odds for the midterm elections flipped to a Republican sweep for the first time since early August.
- We are seeing an even more aggressive trend in Strategas' election portfolios, with our Republican portfolio outperforming the Democratic portfolio by nearly 5% since September 7.

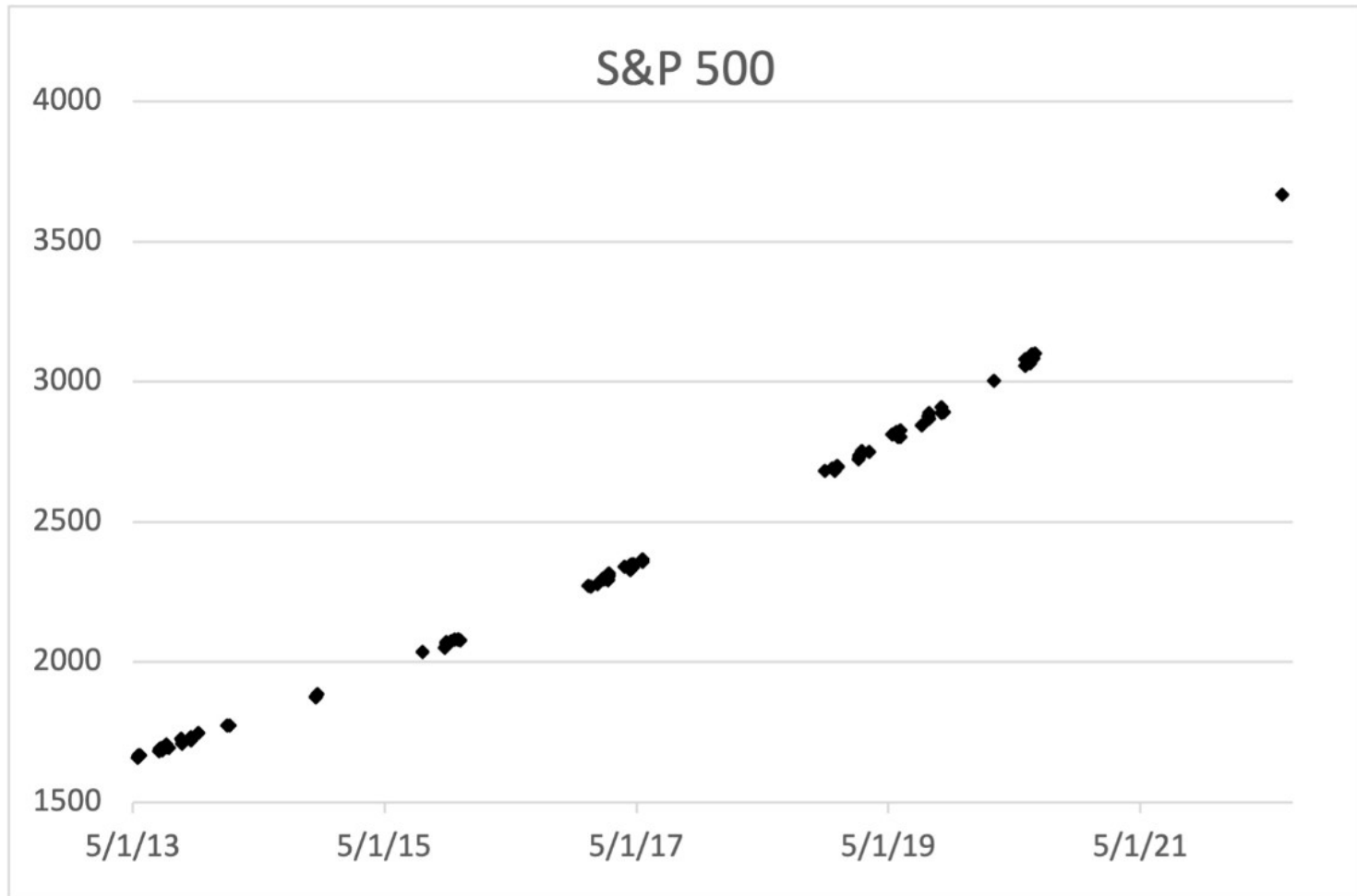
Source: Strategas Research Partners

# A SILVER LINING: THE FOUNDATION FOR FUTURE RETURNS

When the S&P 500 is Down 25% or Worse Since 1950						
Peak	Trough	% Decline	+1 Year	+3 Years	+5 Years	+10 Years
12/12/1961	6/26/1962	-28.0%	31.2%	69.2%	94.8%	171.1%
11/29/1968	5/26/1970	-36.1%	32.2%	44.3%	27.9%	97.5%
1/11/1973	10/3/1974	-48.2%	1.4%	23.8%	42.0%	188.4%
11/28/1980	8/12/1982	-27.1%	43.9%	81.2%	238.6%	403.9%
8/25/1987	12/4/1987	-33.5%	14.7%	34.1%	96.8%	387.1%
3/24/2000	10/9/2002	-49.1%	0.2%	1.9%	21.5%	38.3%
10/9/2007	3/9/2009	-56.8%	-6.9%	3.7%	61.2%	209.6%
2/19/2020	3/23/2020	-33.9%	56.4%	???	???	???
1/3/2022	9/30/2022	-25.2%	???	???	???	???
<b>Averages</b>		<b>-37.6%</b>	<b>21.6%</b>	<b>36.9%</b>	<b>83.3%</b>	<b>213.7%</b>

Source: Strategas Research Partners

# SOME PERSPECTIVE: *WHAT IS THIS CHART MISSING?*



Source: Bryn Mawr Trust; Factset

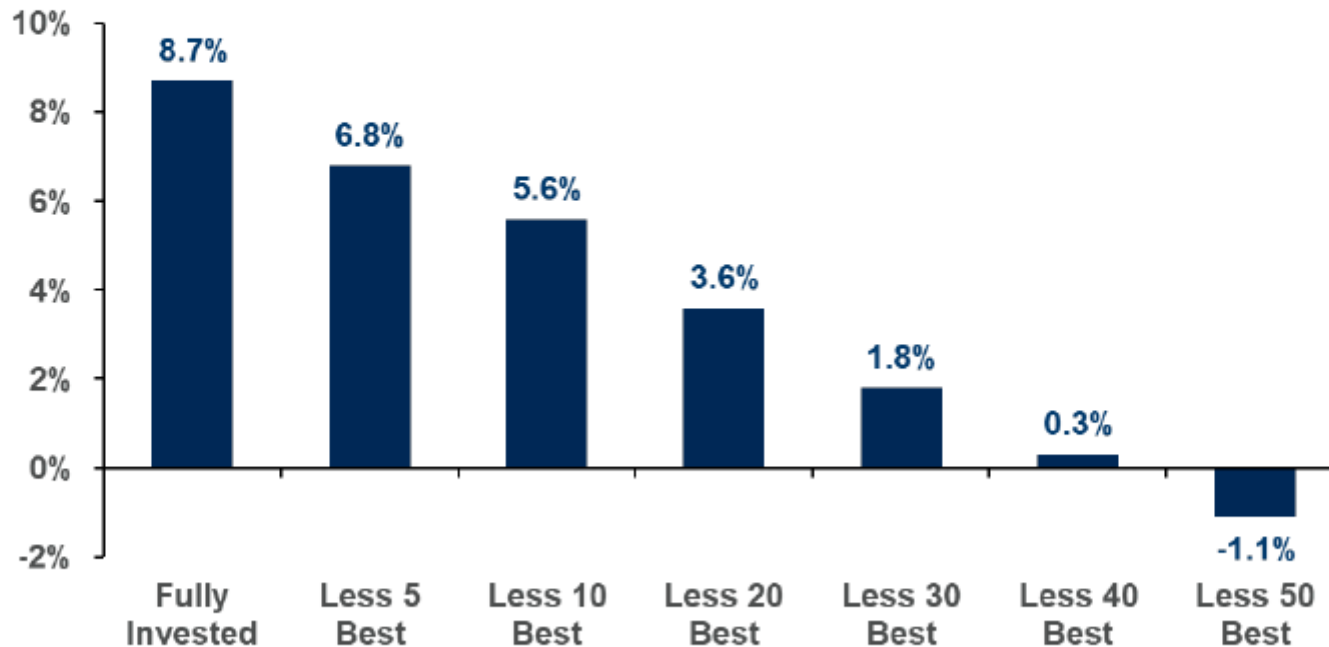
# KEEP IN MIND:

## TIMING THE MARKET CAN BE COSTLY

- Investors have been rewarded in the past by staying true to long-term investment objectives, as missing just the best 5 days in a calendar year has resulted in average underperformance of nearly 2% annually.

### S&P 500 Compound Annual Growth Rate

(January 1995 – February 2022)



Source: Strategas Research Partners

# TIMING THE MARKET: JUST HOW COSTLY?



Source: Strategas Research Partners





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# QUESTIONS





# DISCLOSURES



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