# Retirement Market RECAP July 2022

Special Edition

HANYS Benefit Services

## The state of equity and bond markets

### The state of equity markets

On June 13, the S&P 500 entered a bear market — a decline of 20% or more from a recent peak — dropping 3.9% for the day and declining more than 21.8% from its all-time high in early January.

The latest catalyst for the equity market's decline was a higher-than-expected inflation figure, released June 10, showing an 8.6% increase in the consumer price index from May 2021 to May 2022.

This caused investors to anticipate a 75 basis point increase in the federal funds rate, which is exactly what happened at the June 15 Federal Open Market Committee meeting.

Investors are concerned that the Fed's actions to tame inflation with interest rate increases could derail growth and cause a recession.

### The state of bond markets

So far this year, fixed income, specifically investment-grade and government bonds, have not provided the downside protection investors have come to expect during equity bear markets.

Though extreme, the financial crisis of 2008 helps put this in perspective. In 2008, the S&P 500 declined by 37%, while the Bloomberg Barclays US Aggregate Bond Index gained just over 5%, a clear example of the downside protection fixed income has provided in past bear markets. Fast forward to 2022's bear market, driven by concerns of inflation and the pace of interest rate hikes, the Bloomberg Barclays US Aggregate Bond Index has declined by approximately 11.5% year-to-date through June 17, compared to the S&P 500's year-to-date decline of more than 22%. The fixed income bellwether 10-year US treasury yield surged up to 3.48% on June 14, its highest level since April 2011. Yields tend to rise as the prices of bonds fall.

### Putting it into perspective: Bear markets

The rare, simultaneous declines in equity and bond markets have created a challenging environment for investors. Historical context can help provide a positive perspective moving forward, particularly for equity markets.

According to a study conducted by Hartford Funds and Ned Davis Research, from 1929 through 2021, bear markets for the S&P 500 occur every 3.6 years and last 9.6 months. Given these data, young investors with a 50-year investment horizon can expect to live through about 14 bear markets.

It's also important to understand that bear markets don't necessarily indicate an economic recession is on the horizon. That same study found that from 1929 to 2021, there were 26 bear markets but only 15 recessions.

Of the last 92 years of equity market history for the S&P 500, only 20.6 have been bear markets, meaning stocks have risen about 78% of the time.

### Fixed income markets

It's likely that we are entering a period of restrained returns for the fixed-income markets. Historically, once interest rate hikes officially commence, there is less volatility in fixed income as higher rates tend to be priced into bond markets. The most pain in fixed income is typically felt when people are anticipating higher interest rates. In this case, that was late last year into 2022. Once the cycle of interest rate increases actually begins, fixed income markets have historically had

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range-bound returns. It wouldn't be unreasonable to expect a flattening of returns for the asset class now. If this scenario plays out, fixed income could return to its typical role of acting as a cushion during volatile equity markets, though likely not to the extent seen during the financial crisis.

### A financial argument for consistent investment

Investors who stay the course may benefit through dollar-cost averaging over time given these historical data. Dollar-cost averaging can help remove emotion from investing, as it entails investing the same or similar amount regardless of the market's fluctuations, helping investors avoid the temptation of timing the market.

A study conducted by Putnam Investments provides staggering statistics reinforcing the impact of consistently investing in the stock market rather than attempting to market time. The study showed that staying fully invested in the S&P 500 during a 15-year span (2006 - 2021) would have resulted in an annualized return of 10.66%.

Not convinced? Don't forget this 10.66% annualized return included the historic equity market drawdown during the financial crisis from 2008 to 2009 and the COVID-19-induced bear market in February and March of 2020. Here's the catch — if you missed out on the 10 best days for the S&P 500 during this time, your annualized would have declined to 5.05%. Missed out on the 20 best days for the stock market? Your annualized return would have gone down to 1.59%. Saving for retirement is a long-term venture. If history repeats itself, right now there may be more benefit to staying invested, being patient and focusing on the long term.

### Sources:

[Hartford Funds and Ned Davis Research]

[Putnam Investments]



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