



FROM THE DESK OF KEN SOUTH

May 20, 2022

Our team adheres to a set of principles designed to provide an exemplary client experience.

We believe the trust of our clients is earned over time and remains our most important asset.

We take great pride in the professional quality of our work. Exceptional client service that is proactive, thoughtful, and customized.

Competitive investment returns with a focus on risk management.

Sophisticated financial planning — an essential pillar in the development of your customized investment strategy.

We believe in continuous improvement. As our clients' needs change, we learn and adapt.

We stress teamwork in everything we do and remain accountable for our responsibilities.

Integrity and honesty are at the heart of our business. Integrity: we do what we say we're going to do, full disclosure and no surprises.

Honesty means we give it to you straight, even if means having a difficult conversation

We regularly receive confidential information as part of our normal client relationship. It is our responsibility to protect against the unauthorized disclosure of this information.

Stocks at a Crossroads

In the spotlight today: economic expectations due to domestic retailer weakness, sentiment, and valuations — the big things you need to know:

1. The S&P 500 is still trading as though it's experiencing a growth scare, a framework that has been pointing to a downside in the S&P 500 to roughly 3,850. Current trends in economic forecasts continue to support the idea that this is the right way to think about how far stocks should fall, though we remain mindful that could change. The news almost always precedes the action.
2. Institutional investor sentiment has made significant progress catching down to retail investor sentiment, with overall US equity futures positioning among asset managers now below 2020 & Great Financial Crisis lows and getting close to 2011 and 2015/2016 lows — something that makes the case for a bottoming in stocks relatively soon if recession fears can be kept at bay. We continue to keep a close eye on equity put/call ratio, as well as crypto, which we view as important sentiment barometers.
3. While valuations aren't yet a reason to buy US equities on their own, they are no longer a problem for the market as a whole. With last week's sell-off, top-down trailing and forward P/Es for the S&P 500 have broken below their long-term averages and the relative P/Es of the most popular hedge fund stocks have also returned to 2018-2019 levels.

The S&P 500 Is Still Trading like We're Experiencing a Growth Scare

Despite how much worse the tape has felt, the S&P 500 closed on Thursday just 18.1% below its early January high. With that move, the S&P 500's decline has been a little worse than the average post-GFC (Great Financial Crisis) growth scare (the declines of 2010, 2011, 2015-2016, and late 2018), but not quite as bad as the more extreme ones of 2011 (-19.4%) and 2018 (-19.8%). The duration of the early 2022 drawdown (129 days) is also getting close to the average duration of the other major post-GFC growth scares (147 days).

18% Drop in the S&P 500 In Early 2022 A Little Worse Than The Median Post-GFC Growth Score



S&P 500 Growth Score Pullbacks Post 2010: Peak To Trough Declines & Performance Post Trough

S&P 500 Decline Details						Performance Post Trough		
Peak Date	Trough Date	Duration (# Calendar Days)	Peak Price Level	Trough Price Level	% Decline	6 Month Return	9 Month Return	12 Month Return
04/23/2010	07/02/2010	70	1217	1023	-16.0%	23.0%	30.3%	31.0%
04/29/2011	10/03/2011	157	1364	1099	-19.4%	28.6%	23.2%	28.7%
05/21/2015	02/11/2016	266	2131	1829	-14.2%	19.5%	18.5%	26.6%
09/20/2018	12/24/2018	95	2931	2351	-19.8%	18.2%	20.0%	32.0%
01/03/2022	05/12/2022	129	4797	3930	-18.1%			
Median ex current		126			-17.7%	21.2%	21.6%	29.8%
Average ex current		147			-17.3%	22.3%	23.0%	29.6%

As we've highlighted before, if the S&P 500's decline this time around matches the late 2018 drawdown, the index would fall to around 3,850, a level that the S&P 500 came close to hitting but failed to breach intraday on May 12th. In this context, we think the S&P 500 is currently at an important crossroads. If 3,850 doesn't hold, we think the equity market will be telling us that it's starting to price in a recession. If that happens the key number to keep in mind is 3,200 which would represent a 32% drop from the January high – right in line with the average drawdown seen in past recessions.

The Stock Market Tends to Lose, on Average, One-Third of Its Value Heading into Recessions

Drawdowns have ranged from 14% to 57%, with an average drop of 32%; that kind of drop would take the S&P 500 to 3,262 this time around

S&P 500 Peak To Trough Declines Around Recessions

Recession Dates	S&P 500 Peak Date	S&P 500 Trough Date	S&P 500 Peak Level	S&P 500 Trough Level	S&P 500 Peak To Trough Decline (% Chg)	S&P Pullback Duration (# Calendar Days)	Estimated end of Recession Month	Estimated Trough Month	Estimated # of Months Stocks Bottomed Before Recession Ended
May 1937 - June 1938	03/10/1937	03/31/1938	19	9	-54%	386	06/30/1938	03/31/1938	-3.0
Nov 1948 - Oct 1949	06/15/1948	06/13/1949	17	14	-21%	363	10/31/1949	05/31/1949	-5.1
July 1953 - May 1954	01/05/1953	09/14/1953	27	23	-15%	252	05/31/1954	08/31/1953	-9.1
Aug 1957 - April 1958	07/15/1957	10/22/1957	49	39	-21%	99	04/30/1958	11/30/1957	-5.0
April 1960 - Feb 1961	08/03/1959	10/25/1960	61	52	-14%	449	02/28/1961	10/31/1960	-4.0
Dec 1969 - Nov 1970	11/29/1968	05/26/1970	108	69	-36%	543	11/30/1970	05/31/1970	-6.1
Nov 1973 - Mar 1975	01/11/1973	10/03/1974	120	62	-48%	630	03/31/1975	09/30/1974	-6.1
Jan 1980 - July 1980	02/13/1980	03/27/1980	118	98	-17%	43	07/31/1980	03/31/1980	-4.1
July 1981 - Nov 1982	11/28/1980	08/12/1982	141	102	-27%	622	11/30/1982	07/31/1982	-4.1
July 1990 - Mar 1991	07/16/1990	10/11/1990	369	295	-20%	87	03/31/1991	09/30/1990	-6.1
Mar 2001 - Nov 2001	03/24/2000	10/09/2002	1527	777	-49%	929	11/30/2001	09/30/2002	10.1
Dec 2007 - June 2009	10/09/2007	03/09/2009	1565	677	-57%	517	06/30/2009	02/28/2009	-4.1
Feb 2020 - April 2020	02/19/2020	03/23/2020	3386	2237	-34%	33	04/30/2020	03/31/2020	-1.0
Average					-32%	381		Average ex 2001	-4.8
Median					-27%	386		Median ex 2001	-4.6

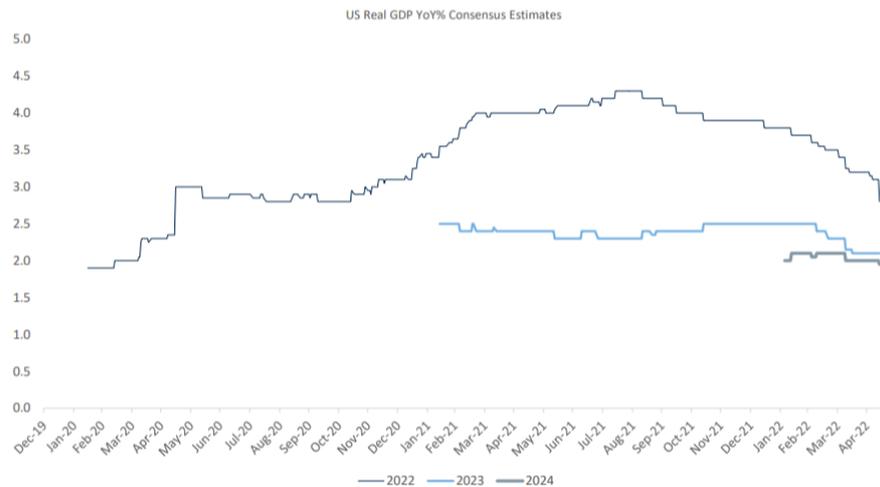
We excluded the 1945 recession as there was no clear stock market pullback around it. Stats for Estimated # of Months Stocks Bottomed Before Recession Ended excludes 2001 recession. 2001 recession pullback stats are based on March 2000 peak / Oct 2002 low. The market hit a low in Nov 01, which was then retested and surpassed in 2002.

Though we remain mindful that the risks to the economy have grown, it makes sense to us that the S&P 500 is attempting to stabilize just as it is approaching the outer band of growth scare territory. While recession



expectations among economic forecasters have inched up recently per Bloomberg, they are still only on par with another post-GFC growth scare (2011). GDP forecasts on the Street have been pulled down but are still slightly above trend for 2022 and are still north of 2% for 2023. US economic surprises remain in positive territory. High-frequency economic indicators like dining, flying, back to work and same-store sales remain stable. Freight rates have come down sharply from their highs. Inflation expectations are retreating.

2022 GDP Forecasts Have Finally Taken A Hit, Now Sitting at 2.8%, 2023-2024 Below Average

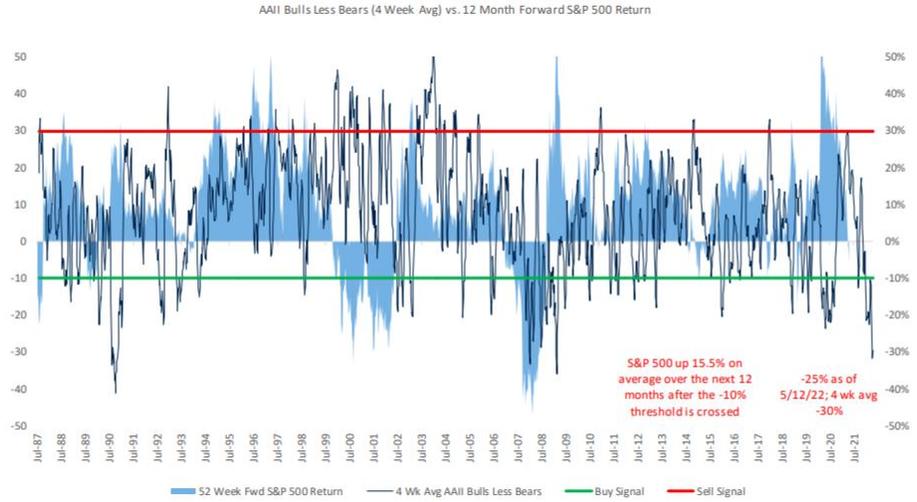


We don't blame the stock market for wanting to see evidence of an unraveling before pricing it in, given how frequently the economy and US consumers have been more resilient than expected in recent years. As for the Fed and the fear that they will tighten too aggressively, our economics team noted last week that "It's fair to wonder if the Fed will even get to neutral. We think Powell is growing worried about the degree to which the economy is going to slow."

While retail investor bearishness on equities has been extreme, such that it has been sending a contrarian buy signal for the S&P 500, that simply hasn't been the case for institutional investors. And it may have simply been that in order for the US equity market to find a bottom, institutional investors have needed to catch down to retail.



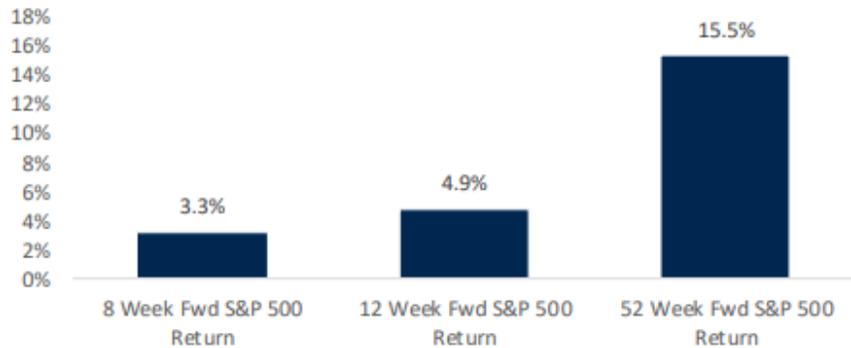
Individual Investor Sentiment Has Been Deeply Bearish, a Contrarian Buy Signal



Source: RBC US Equity Strategy, AAI, Bloomberg, as of May 12, 2022

Today, there's been no meaningful change in the sentiment for retail investors, where net bearishness remains at the deepest levels we've seen since the Financial Crisis. Important progress has been made on the institutional side, however. The main way that we monitor institutional investor sentiment is by tracking the weekly CFTC data on asset manager positioning in US equity futures. Importantly, when we aggregate the data for all of the major contracts, we find that positioning is now below 2020 and GFC lows. Though it's still technically above 2011 and 2015/2016's lows, it's gotten much closer to them.

Avg S&P 500 Fwd Return since 1987 when 4 Week Avg AAI Bulls Less Bears Spread is below -10



it's also worth noting that the relative P/E multiples of the baskets of the most popular stocks in hedge funds that we track (as measured against the median S&P 500 stock) have returned to 2018-2019 levels, though not pandemic lows. While valuations aren't a reason to own US equities yet, they are no longer a reason to avoid them. A recent story I heard was that



in La Guardia airport, one beer is now \$27.00. That's right, for a beer! I won't even go into how freight rates are coming down as diesel fuel makes the cost to fill up a trucker's tank over \$1,100. Something has got to give. It surely doesn't bode well for increasing taxes nor for further government involvement in public company management.

As the old saying goes, "it is always darkest before the dawn." I don't know when the sun will shine again, but I do know that in looking at most prices, it is pretty dark out there right now. At the same time, I am writing this to provide some level of perspective. I don't like to be negative, but at times honesty is clearly the best policy.

Please have a nice weekend but save it up for the holiday weekend next week. It is well deserved by all!



IMPORTANT DISCLOSURES:

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. To determine which investment(s) may be appropriate for you, consult your financial professional prior to investing. All performance referenced is historical and is no guarantee of future results. All indices are unmanaged and cannot be invested into directly.

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Investing involves risks including possible loss of principal.

The Standard & Poor's 500 Index is a capitalization weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The Dow Jones Industrial Average is comprised of 30 stocks that are major factors in their industries and widely held by individuals and institutional investors.

The Nasdaq-100 is a large-cap growth index. It includes 100 of the largest domestic and international non-financial companies listed on the Nasdaq Stock Market based on market capitalization.

The Russell 2000 Index is an unmanaged index generally representative of the 2,000 smallest companies in the Russell 3000 index, which represents approximately 10% of the total market capitalization of the Russell 3000 Index.

This information is not intended to be a substitute for specific individualized tax advice. We suggest that you discuss your specific tax issues with a qualified tax advisor.

