Commentary

Markets are making big moves. What does it mean?

May 2022

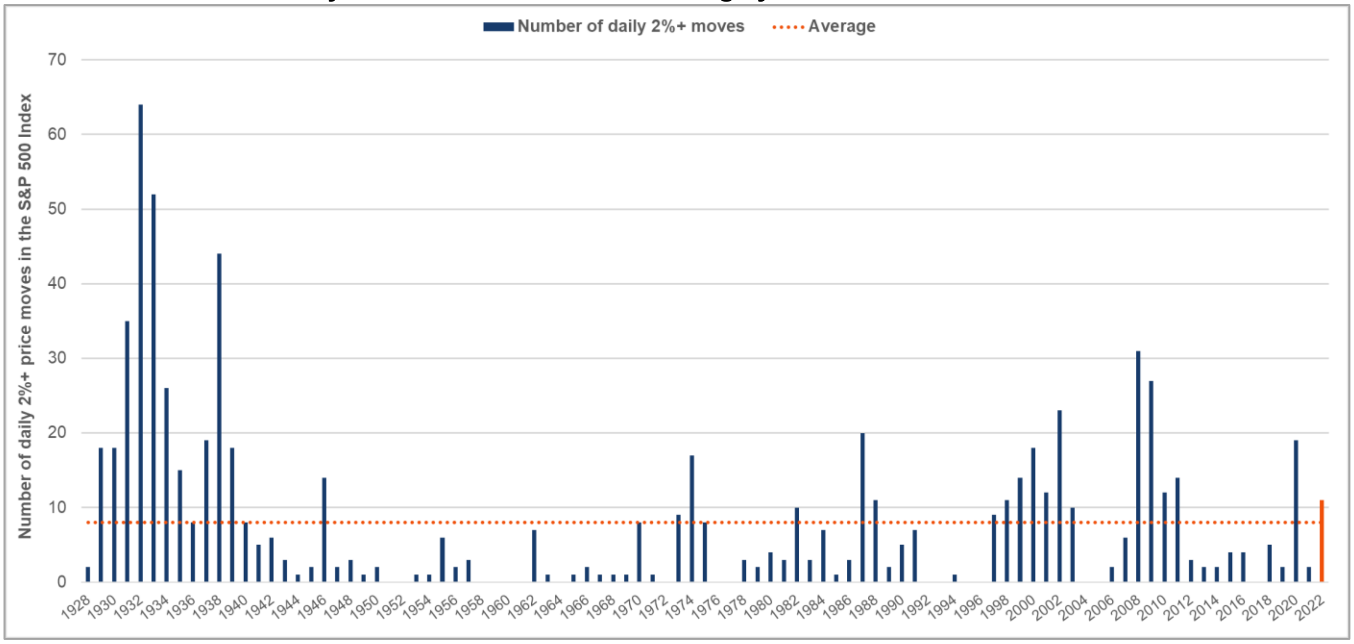
- Since January 1928, the U.S. stock market has experienced an average of eight daily moves of 2% or more per calendar year. In 2022, we surpassed that annual average by mid-May.
- The bad news is that history suggests the volatility isn't over yet.
- The good news is the average recovery period for declines of less than 30% is shorter than six months. And across declines of all sizes, recoveries have taken just under a year on average.

It's a big year for big moves.

You're not imagining things if you think equity markets have felt more volatile than usual in the year to date.

Going back to 1928, the U.S. stock market has experienced an average of eight daily moves of 2% or more per calendar year. In 2022, we surpassed that annual average by mid-May (as seen in Exhibit 1).

Exhibit 1: 2022 has already delivered more than an average years' worth of 2%+ moves.



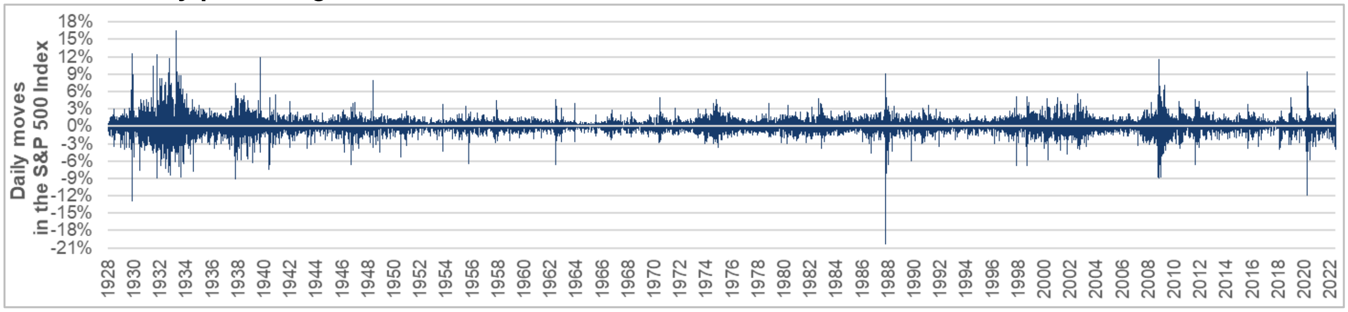
January 1,1928 through May 18, 2022. Source: Bloomberg, SEI. Performance of the S&P 500 prior to March 4, 1957 is backtested. Back-tested performance, which is hypothetical and not actual performance, is subject to inherent limitations because it reflects application of an Index methodology in hindsight. No theoretical approach can take into account all of the factors in the markets in general and the impact of decisions that might have been made during the actual operation of an index. Actual returns may differ from, and be lower than, back-tested returns. Past performance is no guarantee of future results.

Still, it's been relatively tame.

While stock prices have been volatile, there haven't been any major dislocations akin to the experiences of 2008-2009 (during the Global Financial Crisis) or early 2020 (during the early days of COVID-19).

We also haven't seen volatility rise to the levels of the dotcom bubble and bust period from the late 1990s through the early aughts, as Exhibit 2 highlights on the next page.

Exhibit 2: Daily percentage moves have been elevated, but not extreme.



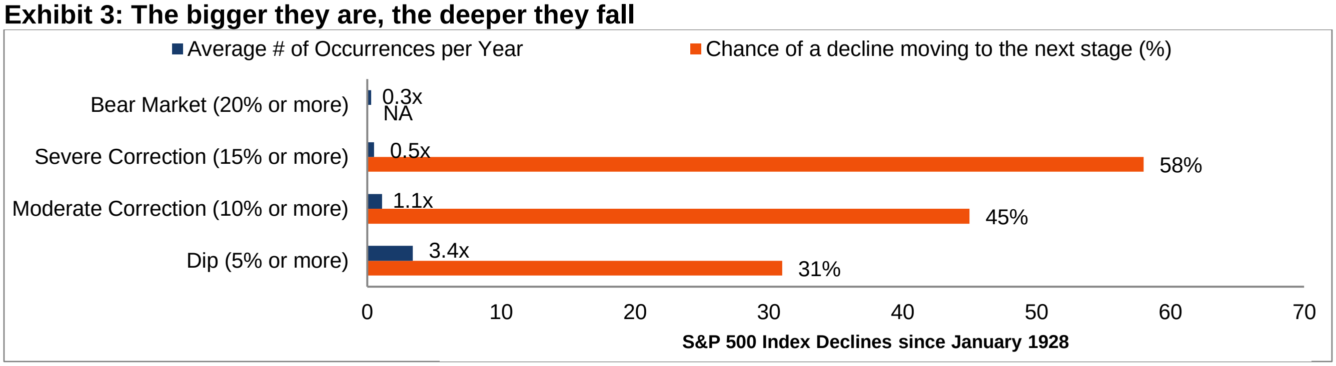
January 1, 1928 through May 18, 2022. Source: Bloomberg, SEI. Performance of the S&P 500 prior to March 4, 1957 is backtested. Back-tested performance, which is hypothetical and not actual performance, is subject to inherent limitations because it reflects application of an Index methodology in hindsight. No theoretical approach can take into account all of the factors in the markets in general and the impact of decisions that might have been made during the actual operation of an index. Actual returns may differ from, and be lower than, back-tested returns. Past performance is no guarantee of future results.

The bad news: The bigger the loss, the likelier it grows.

Volatility has been elevated, if not extreme. For investors, this means we've been tolerating an unpleasant market environment.

Unfortunately, as seen in Exhibit 3 shows, successively larger declines increase the chance that the selloff will continue to deepen. Simply put, a small dip or moderate correction has historically been less likely to get worse than the type of large decline that we're experiencing now.

Exhibit 3: The bigger they are, the deeper they fall



Source: Ned Davis Research, SEI. Data spans 1/1/1926-1/24/2022. Data are computed from the S&P 500 Index since 1957 and S&P 90 Index from 1926 to 1957. Index returns are for illustrative purposes only and do not represent actual investment performance. Index returns do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. Past performance does not guarantee future results.

Now for the good news: Recoveries can be quick.

Selloffs are an inevitable aspect of investing. So, too, are the rebounds that follow.

The average recovery period for declines of less than 30% is shorter than six months (Exhibit 4). Even when we look at *all* declines, including the major ones, recoveries have taken just under a year on average.

Exhibit 4: Declines in the S&P 500 Index

Peak to Trough Decline	Months to Recovery
10%-20%	4.4
20%-30%	5.5
>30%	37.2
all	11.6

Source: National Bureau of Economic Research, Bloomberg. Data spans 1/1/1966-1/24/2022.

Our view.

There’s no denying that headwinds persist on the path to recovery. Inflation is raging—and central banks appear to be underestimating what it will take to bring it back to earth. The war in Ukraine is exacerbating the commodity shortage—most notably in fuel and food inputs. COVID-19 continues to snarl global supply chains.

On the positive side, we don’t see a North American recession in the near term given positive corporate earnings. We had earnings growth in the first quarter and we expect to see more in the second quarter.

Higher interest rates and higher inflation have put pressure on high-multiple stocks. They’re moving back toward valuation levels that are more in line with the rest of the market. Value-oriented equities still look attractive, and bond yields are higher than they’ve been in a long time. We expect to see bargains in equities if the market falls a bit further.

Important Information

This material represents an assessment of the market environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. This information should not be relied upon by the reader as research or investment advice and is intended for educational purposes only.

There are risks involved with investing, including possible loss of principal. Diversification may not protect against market risk.

Information provided by SEI Investments Management Corporation, a wholly owned subsidiary of SEI Investments Company.