FIT WEALTH MANAGEMENT

Tuesday, May 3, 2022

Hello FIT friends,

Attached is your first quarter statement and our updated ADV. The following are some thoughts regarding the recent market volatility.

2022 continues to be a tough year. The S&P 500 is down 13.3% through the end of April 2022. That's the bad news. The following chart shows the worst starts to the year (including this year) and how the S&P 500 performed the rest of the year. The good news is that a lot of bad news is currently priced into the markets.

2022 Is One Of The Worst Starts Ever For Stocks

10 Worst S&P 500 Index Returns YTD By The End Of April

	S&P 500 Index Return	
Year	**YTD Return End Of April**	**Rest Of Year Return**
1932	-28.2%	18.7%
1939	-16.8%	14.0%
2022	-13.3%	?
1941	-12.0%	-6.7%
1942	-11.9%	27.5%
1970	-11.4%	12.9%
2020	-9.9%	29.0%
1973	-9.4%	-8.8%
1960	-9.2%	6.9%
1962	-8.8%	-3.3%
	Average	10.0%
	Median	12.9%
	% Positive	66.7%
	Average Rest of Year	4.8%
	Median Rest of Year	6.0%

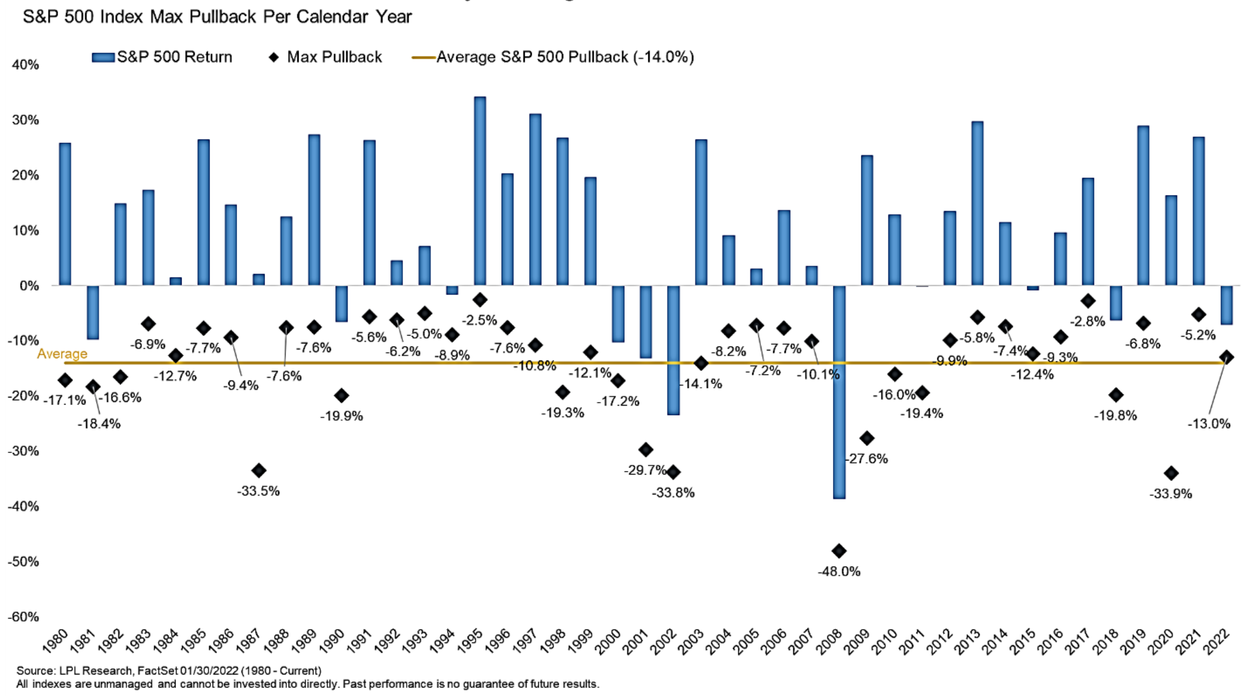
Source: LPL Research, FactSet 04/29/2022 (1928 - Current)

All indexes are unmanaged and cannot be invested into directly. Past performance is no guarantee of future results.

The modern design of the S&P 500 Index was first launched in 1957. Performance before then incorporates the performance of its predecessor index, the S&P 90.

Like we have mentioned before, the market is dealing with several headwinds. We believe the main headwind is that the Federal Reserve (Fed) is behind the curve on the inflation front. Inflation has surged to 40-year highs, and even though the market is down, the Fed will likely be raising interest rates throughout the year. This puts pressure on the fixed income market because of the inverse relationship between interest rates and bond prices. Higher rates also are an attempt by the Fed to slowdown the US economy, which sometimes puts pressure on equities. The second headwind is the Russia / Ukraine conflict. Not neglecting the human toll of war, this war is putting additional pressure on the supply chain including commodities, which is driving higher prices (higher inflation). The third headwind is the uncertainty of the global economy. The question the markets are facing – will the Fed's action drag the US into recession? And if that happens, will we also see global economies head into recession?

A question many people are asking- is this pullback normal? In the following chart you can see that the average pullback since 1980 is -13%. In recent years we have been spoiled by much lower-than-average pullbacks. In 2017, the max pullback was only 2.8%. In 2019, the max pullback was 6.8% and in 2021 the max pullback was only 5.2%. Also, an interesting note from this chart is that the pullbacks do not direct how the full year plays out.



Volatility in stocks is expected. That's the price of admission for higher returns over time. A unique challenge the last six to nine months has been the volatility in the bond markets. Usually when stocks decline, bonds rise as investors flee to safety. However, since the Fed is raising rates (fighting inflation), bonds are also down. As mentioned above, when rates go higher, bond prices go down (inverse relationship). Almost all parts of the bond market are down including the Municipal bond market. This pressure does present some opportunity to take advantage of the lower bond prices. Below is a chart on bond performance.

Range 12/31/2021 - 04/29/2022 Period Daily No. of Period 119 Day(s)

	Security	Currency	Price Change	Total Return
1)	AGG US Equity	USD	-9.83%	-9.43%
2)	HYG US Equity	USD	-9.75%	-8.72%
3)	LQD US Equity	USD	-15.03%	-14.52%
4)	MUB US Equity	USD	-8.22%	-7.81%

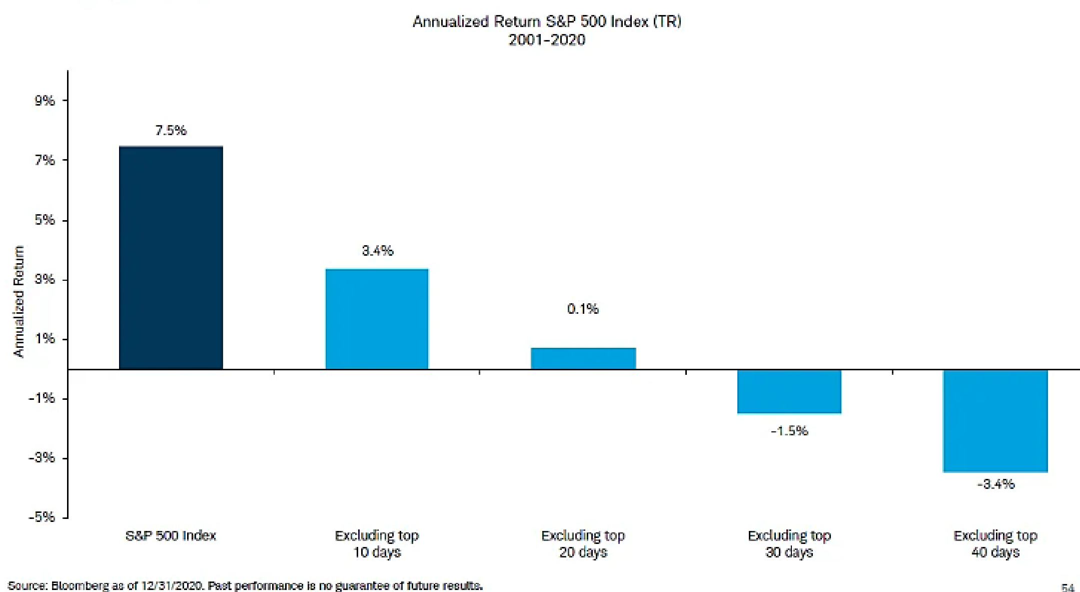
Source: Bloomberg

AGG: Core US Bond Market ETF / HYG: High Yield Market ETF / LQD: Corporate Bond Market ETF / MUB: Municipal Bond ETF

While we expect continued volatility (we believe the Fed will raise interest rates in the near-term) there is good news. The US economy is still strong, and unemployment is low. Consumer spending continues to be solid and company balance sheets are healthy. Many corporations took the opportunity to refinance their debt over the last few years when rates were low (helps keep interest costs down).

We want to reiterate the importance of "time in the market" versus "timing" the market. Market timing is attempting to sell everything (moving to 100% cash) when the market is at a high and buying at a low. Evidence suggests that market timing is almost impossible and often detrimental to long-term performance. The main issue here is investor psychology. Markets tend to bottom when everyone feels horrible. In March of 2020, the market bottomed on March 23, 2020, right when COVID was at its peak. Almost no one wanted to buy during that time.

This chart shows the effect of missing the "best" days in the market. Usually, the best days are followed by the worst days.



Our team at FIT (Brian, Aaron and Bill) are here to answer your questions. If you would like to schedule a meeting, please do so with the following links or just give us a call.

Brian https://calendly.com/brianfitwealth

Aaron https://calendly.com/fitwealthaaron

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