

The Market in Review

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This week's articles and insights

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“What if everything is an illusion and nothing exists? In that case, I definitely overpaid for my carpet.”

– *Woody Allen*

Your Index Report

	Current	Last Week	Year-to-Date
Dow Jones Ind. Avg.	31,029	+1.79%	-14.61%
S&P 500	3,819	+1.57%	-19.88%
TSX	19,079	+0.39%	-10.10%

Halfway There

Woody Allen movies were often built around a common theme. The main character is given hope that there is a meaningful, coherent moral world order, only to have this belief rudely exploded.

At times, investing feels like being trapped inside a Woody Allen movie. Nothing makes sense and the opposite of what you expect to happen actually happens.

More than any other time in history, mankind faces a crossroads. One path leads to despair and utter hopelessness. The other, to total extinction.

Let us pray we have the wisdom to choose correctly.”

– Woody Allen

In 2020, for example, the pandemic was potentially the greatest threat to human health since the 1919 Spanish Flu epidemic. What happened? Stocks went straight up.

In late 2021, corporate profits were spectacular and the world was finally reopening from endless lockdowns. What happened? Stocks began an 8-month slide.

It has been a tough first half for the year 2022. Markets are battling the continuing negative themes of inflation, the war in Europe, and rising interest rates. How long all of these last is really anyone’s guess. Bold predictions of bigger crashes ahead or spectacular rallies to come are a dime a dozen.

One rule markets do follow is *reversion to the mean*. Like the centre-line in a road holding cars to the middle, stock markets move above and below a median line of valuation and sentiment, always returning at some point in time.

Market Patterns in Pictures

“Life doesn't imitate art, it imitates bad television.”

– Woody Allen

When sentiment gets too gloomy and ‘everyone’ wants out, stocks tend to rise in the following year.

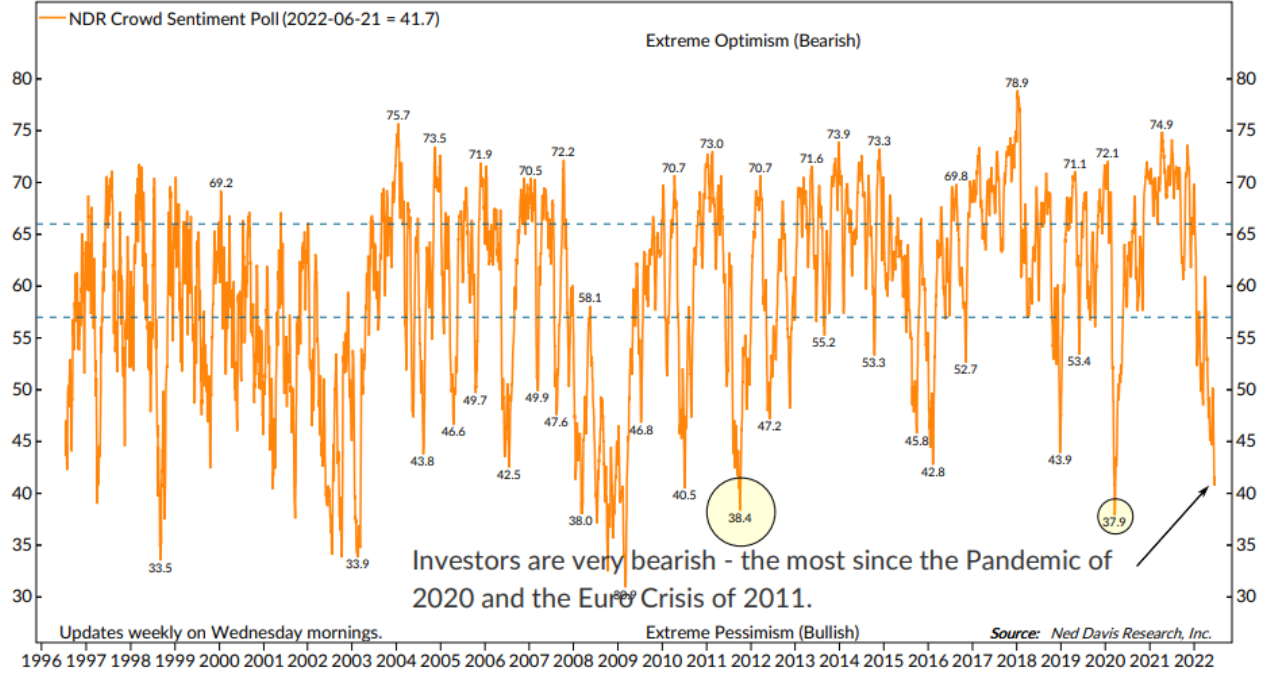
Since 1971, when consumers get this gloomy, stocks tend to rally 25% in the following year (source: JP Morgan).

Today, sentiment has not been this bearish since March of 2020 and the Euro crisis of 2011 before that.

Each of the sentiment lows in the chart below – when the majority of people were bearish – was also near a low for the stock market.

S&P 500 Index vs. NDR Crowd Sentiment Poll - Transitional Mode Basis

Daily Data 1996-07-17 to 2022-06-21



S&P 500 Index Performance		
Full History: 1995-12-01 to 2022-06-21		
NDR Crowd Sentiment Poll is	% Gain/Annum	% of Time
Above 66.0	-0.41	27.83
57.0 - 66.0 From Above	1.95	17.94
57.0 - 66.0 From Below	20.13	18.69
Below 57.0	9.73	35.13
Buy/Hold = 7.11% Gain/Annum		

S&P 500 Index Performance		
Chart View: 1996-07-17 to 2022-06-21		
NDR Crowd Sentiment Poll is	% Gain/Annum	% of Time
Above 66.0	-0.50	28.46
57.0 - 66.0 From Above	2.61	18.30
57.0 - 66.0 From Below	20.71	18.51
Below 57.0	9.18	34.73
Buy/Hold = 7.11% Gain/Annum		

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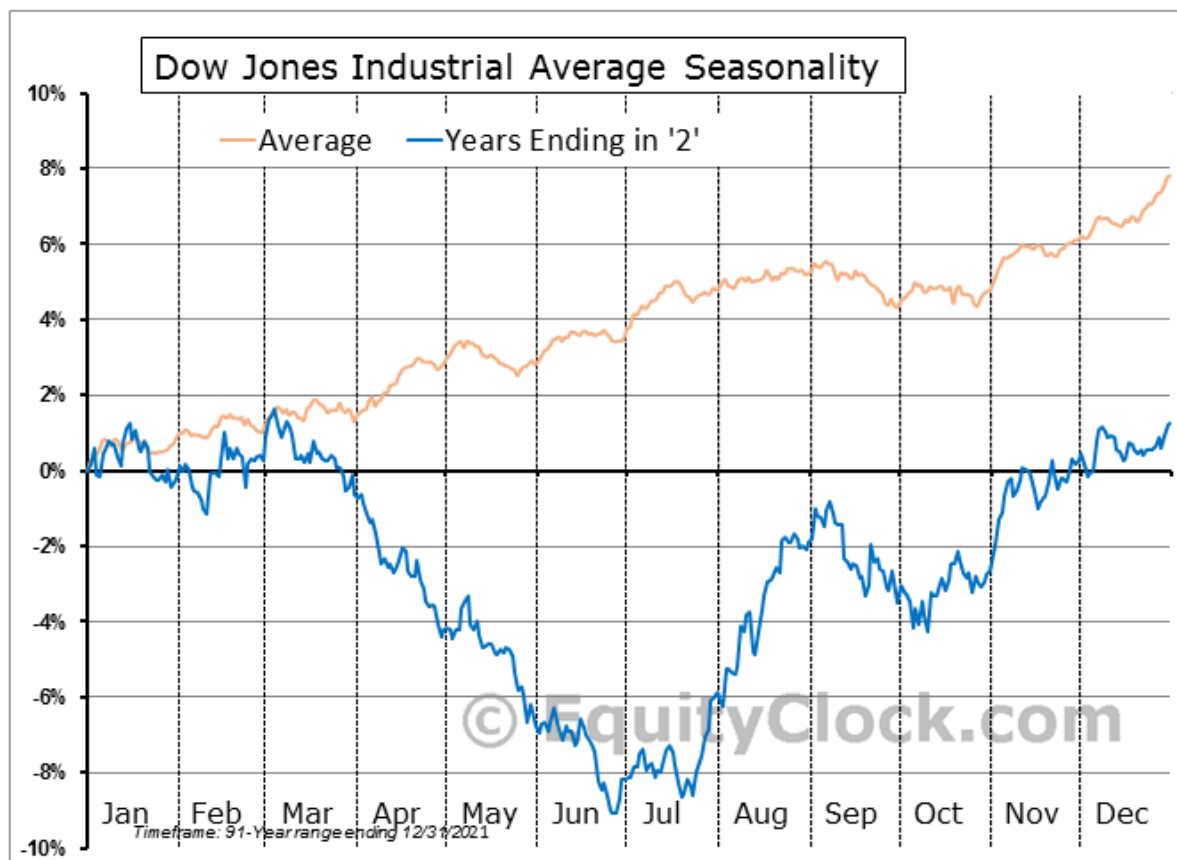


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“Returns are few, when the year ends in two.”

Another pattern we have seen in years past is years ending in “2”.

No one can really explain why - and just because it happened in the past doesn't mean it will happen again - but years ending in “2” (2002 and 2012 being the most recent) tend to be poor years for returns. These years also tend to bottom over the summer.



Dow Jones Industrial Average Seasonal Chart - Years Ending in "2"

Finally, we've shown the Election Cycle before.

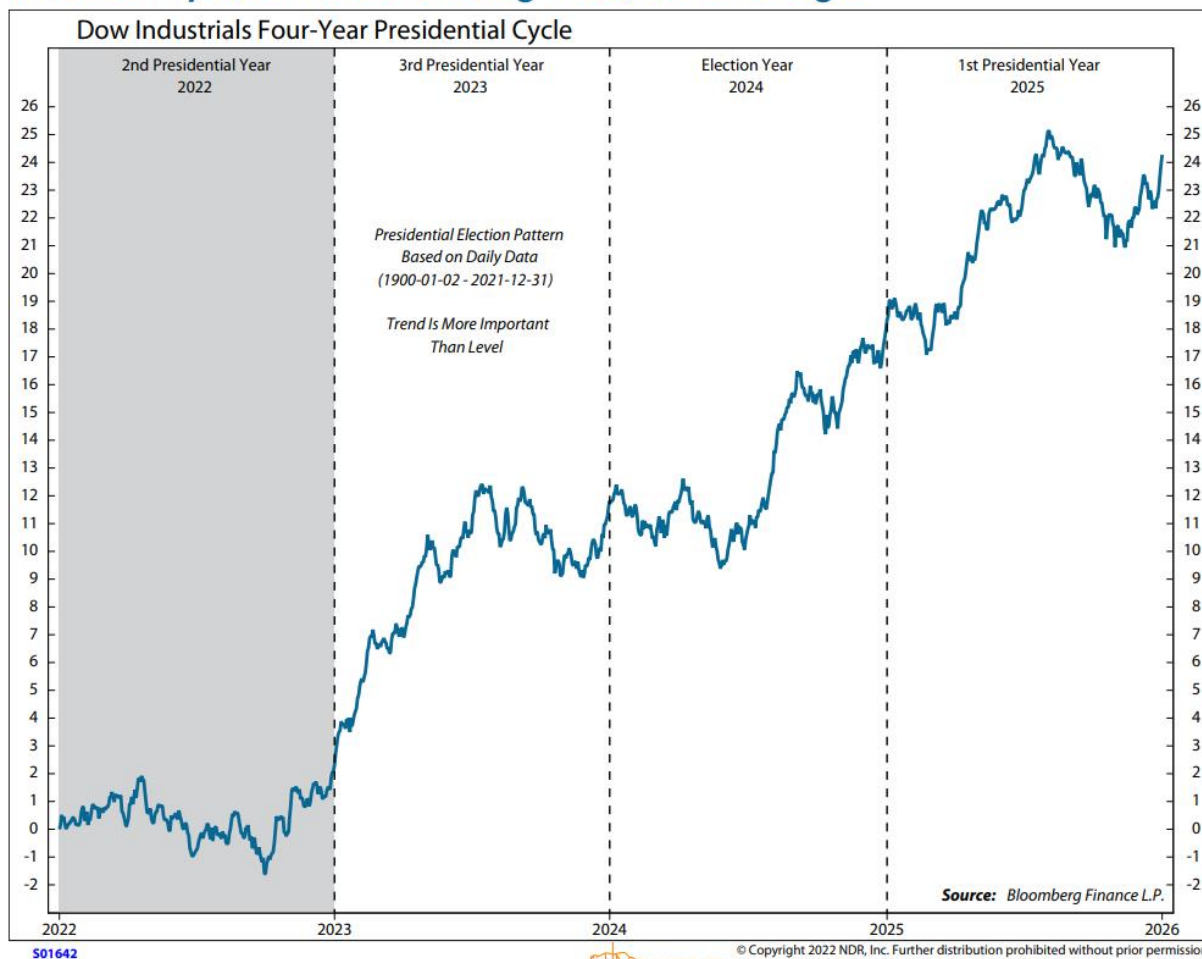
"I believe there is something out there watching us. Unfortunately, it's the government."

– Woody Allen

Mid-term U.S. election years are usually weak stock market years. The incumbent president often loses seats and there is heightened political turmoil until the election is decided.

The low for the year is usually between now and September.

Midterm years weak through Q3, on average



Economic signs suggest a recession (two quarters of negative growth) will be declared sometime in late 2022. Corporations and people are in pretty good financial shape, jobs remain plentiful, and all the large U.S. banks just passed the harshest of stress tests.

So, any recession should be a shallow one. The market's decline may already reflect such a recession. We shall see.

Crypto Losses

I sold a piece of furniture I had in my basement recently. The fellow who bought it, a hard-working immigrant fellow, admitted to me he owned "some crypto." He was way down on his investment and was holding on and praying for a recovery.

This followed a conversation I overheard on the B.C. ferry to Vancouver a few months ago. Two young men in front of me were animatedly discussing bitcoin, Ethereum and other cryptocurrencies in great detail, as both had apparently sunk most of their savings into it.

Bitcoin and its electronic cousins have now dropped from over \$3 trillion in November 2021 to approximately \$913 billion today (source: Charles Schwab), meaning over \$2 trillion has been wiped out.

Few of our clients invested in it, but many Millennials (ages 26-42) and Generation Z investors (ages 25 and younger) did.

They have just learned a valuable lesson in speculation. It works well for early investors. Not so well for the later ones.

We can't even guess how much has been lost by thousands of small investors in bitcoin, but it is likely more than we think. And it is likely contributing to the gloom many feel about the economy.



Real Estate Bust

Is the real estate boom over? It certainly looks that way:

- In 2021, owning a home was cheaper than renting in most cities - mortgage payments were less expensive than rent in 56% of U.S. cities.
- In 2022, interest on 30-year mortgages has jumped from 3% to 6% in a single year – renting is now cheaper than paying a mortgage in 90% of U.S. cities (source: Zillow).

Viewed another way, the average U.S. worker had to work 47 hours to afford one mortgage payment in 2021. In 2022, it is 66 hours (source: Liz Ann Sonders, Charles Schwab).

Either real estate prices come down or wages go up. Maybe a bit of both.

One anonymous source said that 10% of all properties purchased in Florida in the last two years were financed with cryptocurrency profits. That boom is now over.

The Good News

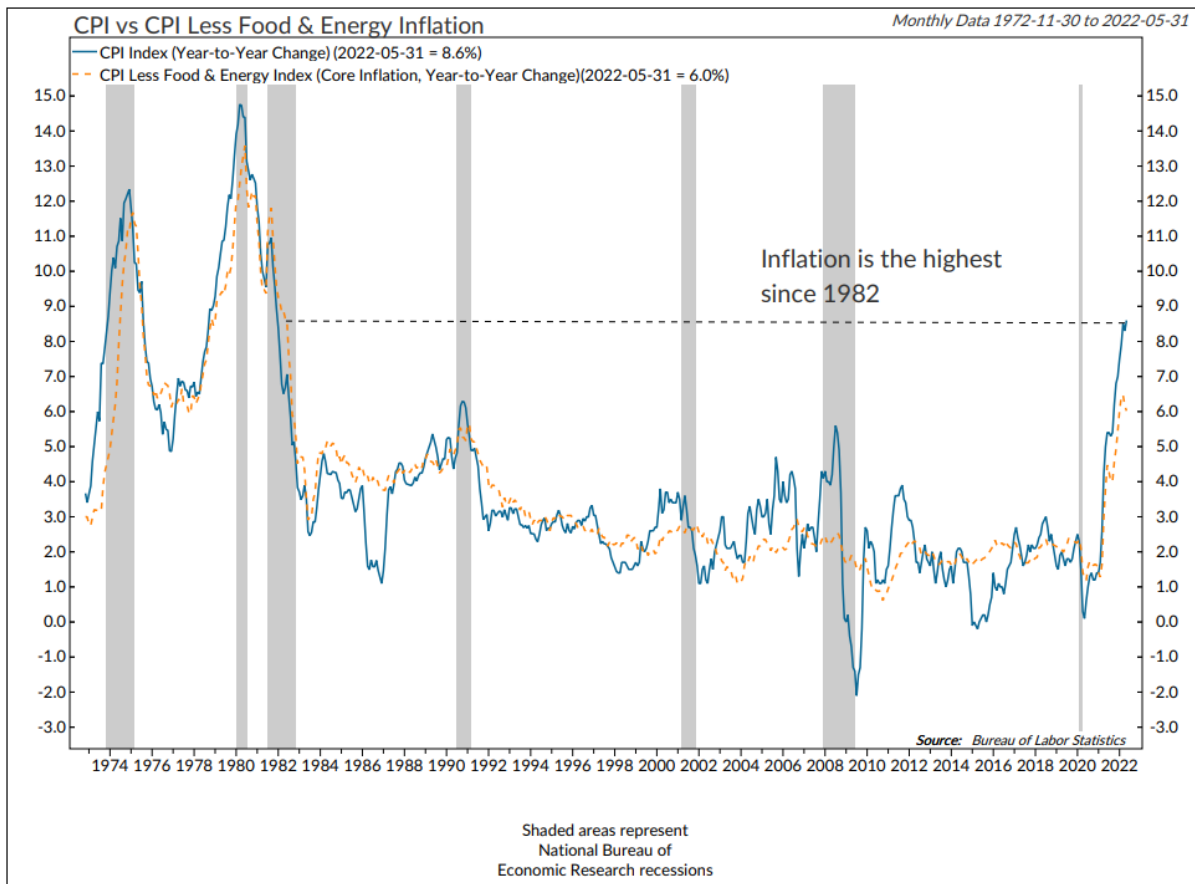
The war:

The two largest waves of war refugees this century have been centred in Syria and Ukraine. Both are directly due to the intervention of Russia and its leader Vladimir Putin. Tens of millions displaced due to one man. It is a sobering thought.

However, even as the war in Ukraine rages on, it is reaching a standstill of sorts. Russia's gains are small and Ukraine is receiving more and more modern weapons to defend itself. From an economic point of view, *stalemate* is an improvement.

Inflation:

The PCE price index – a measure of inflation - rose 0.2% in May, down from 0.6% in April (source: Factset). This is the slowest pace since January. The harsh medicine to bring inflation down is working.



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Interest rates:

Fears of recession are guiding economists to lower their interest rate projections.

2-year bonds now yield 3.14%. Economist expectations are shown below – they expect rates to fall by next year.

Canada Bonds	Current	4th Qtr	2nd Qtr	4th Qtr	2nd Qtr.
	Yield	2022	2023	2023	2024
2 Year	3.14%	3.06%	2.96%	2.71%	2.23%
10 Year	3.31%	3.15%	3.03%	2.81%	2.47%
30 Year	3.27%	3.12%	3.04%	2.89%	2.84%

Happy Canada Day to Canadians and July 4th to Americans!

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<http://www.dividendvaluepartners.com>

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Prices shown as of June 29th, 2022

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