One of Those Years

COMMENTARY
December 2022

Most years see some manner of substantial decline in stocks, even as most full-year tallies turn out positive. This year has proved an exception to that tendency. Thus far, at least—there's still about a month to go. With stocks well off the trough for the year, but still far from their peak at the start of 2022, many are wondering what's to come next. We're not much for specific predictions, so readers will hear echoes of our broader investment approach in our thoughts for 2023:

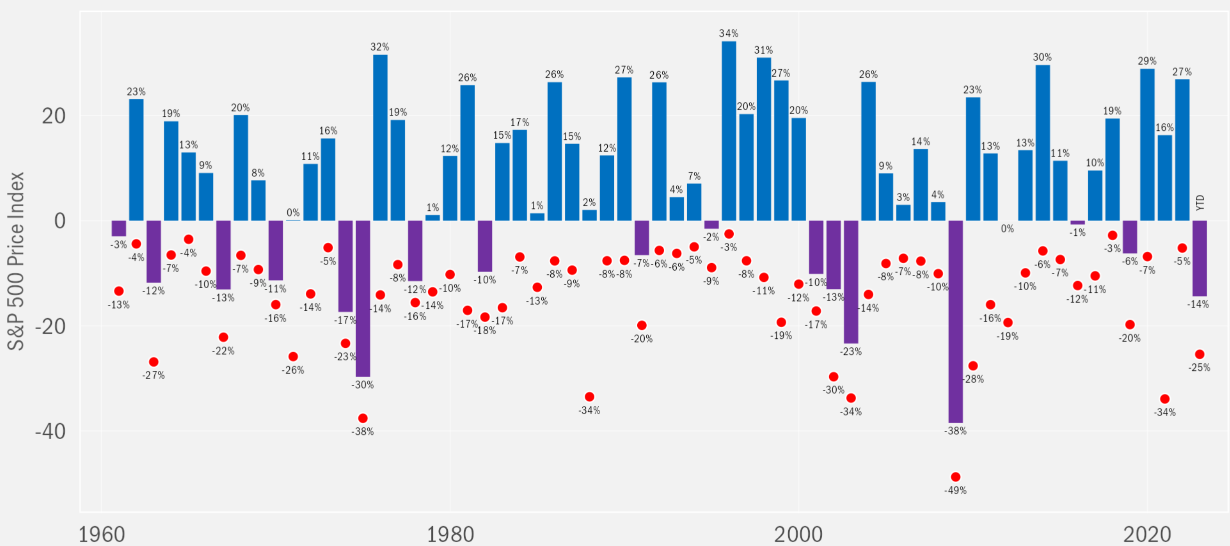
- Macroeconomic volatility likely will remain elevated in 2023. Those forces in turn may promote instability in corporate earnings, so stock investors are likely to see price volatility remain heightened next year, too
- But stocks are naturally volatile. So more volatility should always be a core component of return expectations
- Per our normal stance, we expect longer-term stock returns to be positive, though perhaps not yet in 2023
- But let's not forget that the market generally gets ahead of turns in macroeconomic growth and corporate fortune. So folks concerned about the news flow of late may find focusing only on the present may crimp the potential gains a longer-term perspective may provide

Not the Normal Outcome

History shows that most years, U.S. stocks have seen positive returns. This year so far has bucked that norm. With only a month to go, seems quite possible we may not see the broader market turn positive by New Year's Eve. Despite the nearly 14% rebound from October's low, we've have heard more than a few folks suggesting the worst hasn't yet been seen from this latest equity drawdown. That recession is nigh and stocks will plunge in sympathy at some point next year. Such pessimism seems always the easier note to strike when the market's down and the rebound seems set upon a shaky foundation. But honest folks will admit they have no idea how next year's market will perform and that whatever specific forecast they are offering must sit within a range of outcomes that include both better and worse scenarios. Of course, a wide range of potential outcomes is par for the course of equity returns, as our next chart demonstrates.

Figure 1: S&P 500 Annual Return and Max Drawdown

Stocks are volatile. But, volatility doesn't always lead to negativity. Of the past 62 years, just 16 experienced a full-year decline after having seen the inevitable decline at some point during the year



From 12.31.59 to 11.30.22. Drawdown may be measured as the maximum loss from a prior peak value or the length of time the portfolio requires to return to breakeven after a prior peak. Price data that do not take into account the receipt or reinvestment of dividends. Past performance is not indicative of future results. Investing in securities involves risk, including risk of losing some or all the invested capital. There is no guarantee that any investment or investment strategy will achieve its objective. Indexes are unmanaged. One cannot directly invest in an index. Please see additional important information regarding indexes at the end of this report. SOURCE: SRCM using data from Bloomberg

Wide Range of "Yearly" Returns

Looking at market returns only through the January-to-December lens masks the fact that stocks are pretty volatile over any 12-month period, including those that don't begin in January. Starting from the beginning of 1926, there have been 1,152 12-month periods through the end of November 2022. The median return of the S&P 500 Index across those "rolling" periods was 13.2%. Well distant from the far more extreme drops seen in history, the S&P's decline of 9.2% (including dividends) over the past 12 months (November 2021 through November 2022) sits well within the range of values that most results fall.

Figure 2: S&P 500 Historical Range of Returns by Time Horizon

Monthly data from 01.31.26 to 11.30.22. Past performance is not indicative of future results. Investing in securities involves risk, including risk of losing some or all the invested capital. There is no guarantee that any investment or investment strategy will achieve its objective. One cannot directly invest in an index. SOURCE: SRCM using data from Bloomberg and Dimensional Fund Advisors

Positively Biased

And that range has a positive bent: more than three-quarters of rolling 1-year returns have been positive. Sequential down years are possible for sure, and the U.S. stock market has seen very long periods over which investors would have lost money, but the longer we look out into the future, the greater the propensity for returns to have been positive. Not all can maintain such patience in the face of market volatility, though. So will take the opportunity of the year's close to remind readers to reach out to an advisor to discuss any shifts in comfort with exposure to market risk, as well as any changes in financial situations and goals.

Speaking of looking to the future, wishing everyone a safe a festive close to 2022 and a grand launch into the new year.

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