Chart of the Month

May 2022

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%
	% Positive	66.7%

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.

On Wednesday, the stock market indexes posted their largest gains since 2020 and then gave back all of those gains and more on Thursday as the Dow Jones Industrial Average retreated over 1,000 points and the Nasdaq fell 5% for the biggest two-day swing in nearly two years.

The up and down moves were in response to the Federal Reserve's first half-point rate hike since 2000 as investors initially were relieved that Chairman Jerome Powell said the central bank was not considering raising the fed funds rate by 75 basis points (0.75%) at its next meeting. However, stocks plunged the following day as Treasury yields rose approximately 18 bp due to fears in the bond market that the Fed would remain "behind the curve" in fighting an inflation rate not seen in 40 years. The market gyrations were exacerbated by short covering as stocks rose on Wednesday and margin calls as stocks fell on Thursday.

For the week as a whole, the S&P 500 was virtually flat, falling just 0.2%. Year-to-date, the S&P 500 is down approximately 13%, the worst start to a year since 1939. All is not lost though. As shown in the table above, the average annual return for the rest of the year among similarly poor starts has been a gain of 10.0%. According to LPL Research, the only years that continued to produce negative returns were in 1941 (U.S. entered World War II), 1962 (Cuban Missile Crisis), and 1973 (oil spike and recession). Perhaps the Russian war on Ukraine makes 2022 more like 1941, 1962, and 1973 than not, but even those years capped their additional losses to an average of 6.3%, a level that should be manageable, albeit not fun, for long-term investors.

The reality is that the market more than doubled in just 16 months from its pandemic low in March 2020 through last summer and then piled on an additional 9% to close the year at an all-time high. More than anything, the market has given back some of these outsized gains, which were heightened by overly accommodative monetary (interest rates being held too low for too long) and fiscal (government stimulus checks) policies. The Fed erred in thinking that inflation last year was "transitory" when it should have taken its foot off the gas pedal and started to tap on the brakes. Instead, the Fed, which did a commendable job in rescuing the economy and the markets in 2020, waited too long and has been forced to tighten monetary conditions by raising interest rates aggressively and allowing its balance sheet to shrink, both of which have been weighing on stocks this year.

As displayed below, in a more normalized environment (without the extreme moves in both directions), the S&P 500 would probably be in the vicinity of its current level and most investors would be pleased with their portfolio values. For perspective, assuming 8% per annum price appreciation (a rate that is in-line with the historical average) from the pre-pandemic high of 3,400 on the S&P 500, the index would be hovering just above 4,000 or right where the index closed today. The bottom line is that the market went up and down more than it otherwise would have on its own and is perhaps at or near fair value for the first time since the pandemic.

Going forward, the stock and bond markets are likely to remain hyper sensitive to inflation data. As such, all eyes will be on the April CPI report on May 11. The market will probably go up if there are signs that inflation is rolling over and go down if the rate is still rising. Beyond that, market participants will turn their attention to whether the Fed can engineer a soft landing without sending the economy into recession.

S&P 500
May 2019 - May 2022

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