

# MARKET INSIGHTS

from Ziegler Capital Management

## 2022 Has Been a Rare Beast

Written: October 5, 2022

Rare as certain species, we believe 2022 will go down in the history books as one of the rarest for the two largest asset classes, stocks and bonds, when viewed in combination. While negative returns do occur with some frequency for each class, they seldom happen at the same time. Since 1928, or 94 years, there have been only 8 occasions when investors have experienced the annual double drawdown. While equities have been the more volatile asset class, fixed income as measured by the Baa corporate bond index has experienced only one other double-digit decline, 1931. The second time is 2022.

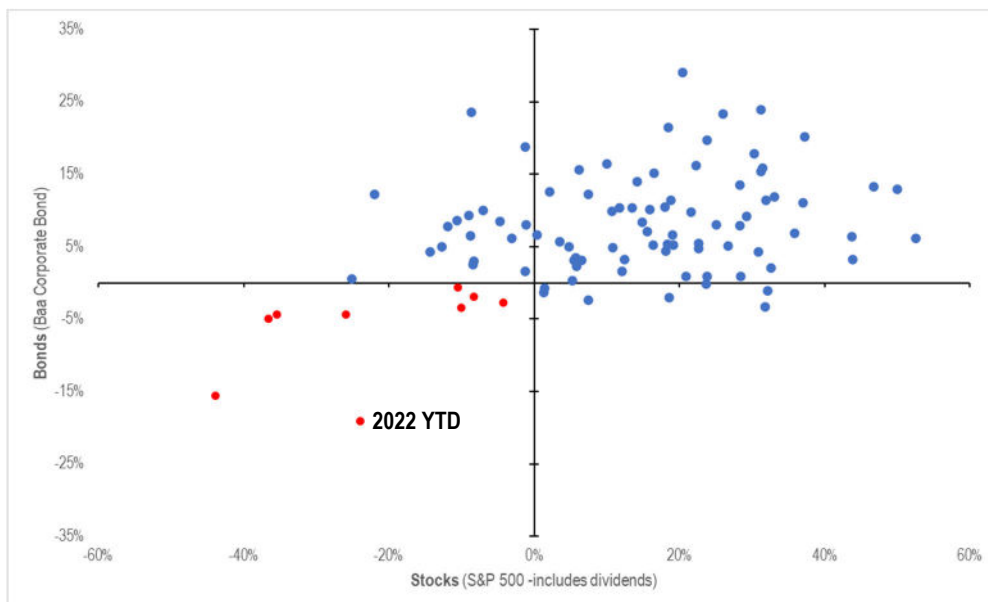
Clearly for 2022, the long-awaited reversal of interest rates brought on by high inflation and aggressive Fed action has reset the bond price valuation equation. This is also a dominant factor for stocks, as the equity risk premium has repriced to reflect higher inflation expectations. While all this seems so clinical and easy to predict, it's been the consensus that this would happen sooner but didn't as Fed policy and disinflationary forces ruled the day. What changed was a pandemic which created unprecedented policy response, unforeseen dislocations, and global economic disruptions. Add in a strong dose of political instability and commodity shortages, and the goldilocks economy ended.

### KEY TAKEAWAYS

- It is rare that both stocks and bonds have negative performance in an annual period.
- Of the 8 periods where this has happened, all but 1 produced positive equity returns the following year and, in all 8 instances bond returns were positive the next year.
- Despite all the gloom in the market we believe there is hope for the coming year.

### Annual Stocks vs Bond Performance since 1928

Since 1928 there have been 8 years where both stocks and bonds have produced negative returns.



Last Observation 09/30/2022. Data Source: [https://pages.stern.nyu.edu/~adamodar/New\\_Home\\_Page/datafile/histretSP.html](https://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/histretSP.html)

### ABOUT ZCM MARKET INSIGHTS

A series that provides a glimpse of our internal thought process through current topics affecting our clients and colleagues.

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## History shows a positive outcome for the subsequent year.

In 7 of the 8 years for stocks and 8 of the 8 years for bonds, returns were positive. The 8-year average calendar year return for stocks and bonds was 23% and 12%, respectively. This is a good moment to point out that past performance does not guarantee future results.

				Following Year		
	Stocks Returns	Bond Returns	Inflation Rate	Stock Returns	Bond Returns	Inflation Rate
1931	-43.84%	-15.68%	-9.32%	-8.64%	23.59%	-10.27%
1937	-35.34%	-4.42%	2.86%	29.28%	9.24%	-2.78%
1957	-10.46%	-0.72%	2.90%	43.72%	6.43%	1.76%
1966	-9.97%	-3.45%	3.46%	23.80%	0.90%	3.04%
1969	-8.24%	-2.03%	6.20%	3.56%	5.65%	5.57%
1974	-25.90%	-4.38%	12.34%	37.00%	11.05%	6.94%
2008	-36.55%	-5.07%	0.09%	25.94%	23.33%	2.72%
2018	-4.23%	-2.76%	1.91%	31.21%	15.33%	2.29%
Average	-21.82%	-4.81%	2.56%	23.23%	11.94%	1.16%
2022 YTD*	-23.87%	-19.19%	5.94%	--	--	--

\*As of 09/30/2022. Period 1928-2021. Stocks represented by the S&P 500. Bonds represented by Baa Corporate Bonds. Inflation is the Annual Real Return on Inflation rate. Data Source: [https://pages.stern.nyu.edu/~adamodar/New\\_Home\\_Page/datafile/histretSP.html](https://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/histretSP.html).

When we look further into the experience during those 8 calendar years, in more than half (5), inflation began to fall during the subsequent “recovery” year. Is that likely to happen in 2023? Assuming the Fed continues with its mandate and no globally systemic event happens, the answer is most likely yes. With inflation declining, valuations adjusted, and the pandemic behind us, prospects look encouraging.

Such turbulent times can create opportunities for strategic asset allocation decisions. We look forward to discussing these strategic market changes over the coming weeks.

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S&P 500: The Standard & Poor's 500 Index is a capitalization-weighted index that is generally considered representative of the U.S. large capitalization market.

US Baa Corporate Bonds: Investment grade debt securities issued by US corporations. Baa bonds occupy the lowest tier of investment grade corporate bonds. The bonds make up slightly more than 50% of investment grade corporate bond indexes.

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22-02001  
Printed Internally

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