

February 3, 2022

Dear Valued Investor:

The calendar had barely flipped to 2022 and investors were reminded that even attractive long-term stock returns come with a cost: volatility. The S&P 500 Index fell nearly 10% from January 3 through January 27 amid fears that the Federal Reserve (Fed) will have to get a lot more aggressive to fight inflation, before staging a 4% rally over the last two days of the month to end January down 5%. After such a steady march higher in 2021, the dip may have caught some investors off guard.

For those whose anxiety levels may have risen a bit last week, here are some numbers that may provide reassurance:

- Even in positive years for the S&P 500, on average the index experiences a maximum peak-to-trough decline of 11%. This year's max drawdown is now 9.8%.
- After a correction of 10-15%, the index has experienced an average one-year gain off the lows of 22% and has risen in 12 of the 13 one-year periods.
- The average stock market gain one year after the first Fed rate hike of an economic cycle has been 11%, with gains the past eight cycles dating back to 1983.
- When investor sentiment is most negative, as it was during the past two weeks based on the American Association of Individual Investors (AAII) investor sentiment survey, stocks have risen an average of 11% in the next year.

This data argues that stock investors should stay the course. But remember that gains in 2022 will likely be tougher to come by than in 2021. They may be more modest and happen later in the year, as is typical during midterm election years.

The good news is that an inflation peak may be near as the COVID-19 Omicron variant loses its punch. Slower, but still solid, economic growth this year will help cool inflation as Fed rate hikes take hold. We're already seeing backlogs and bottlenecks start to clear. We expect more people to jump back into the labor force later this year, easing wage pressures. We may also get some help from lower oil prices, though that may have to wait for Russia-Ukraine tensions to die down.

These uncertainties make the road ahead for stocks tougher. But with U.S. consumers and businesses in excellent shape, the U.S. economy may grow 4% this year, well above the pace of the last decade. Corporate America is showing once again during fourth quarter earnings season that it is thriving with S&P 500 earnings poised to increase by more than 25% year-over-year.

Perhaps the stock market in 2022 will be like the exciting NFL playoff games played during the past two weekends—with a lot of back and forth between the bulls and the bears before the bulls grind out a hard-fought win late in the game.

Please contact your financial advisor if you have any questions.

Sincerely,



Jeffrey Buchbinder, CFA
Equity Strategist
LPL Research

This material is for general information only and is not intended to provide specific advice or recommendations for any individual. There is no assurance that the views or strategies discussed are suitable for all investors or will yield positive outcomes. Investing involves risks including possible loss of principal. Any economic forecasts set forth may not develop as predicted and are subject to change.

References to markets, asset classes, and sectors are generally regarding the corresponding market index. Indexes are unmanaged statistical composites and cannot be invested into directly. Index performance is not indicative of the performance of any investment and do not reflect fees, expenses, or sales charges. All performance referenced is historical and is no guarantee of future results.

All index data from FactSet.

All information is believed to be from reliable sources; however, LPL Financial makes no representation as to its completeness or accuracy.

This research material has been prepared by LPL Financial LLC.

Securities and advisory services offered through LPL Financial (LPL), a registered investment advisor and broker-dealer (member FINRA/SIPC).

Insurance products are offered through LPL or its licensed affiliates. To the extent you are receiving investment advice from a separately registered independent investment advisor that is not an LPL affiliate, please note LPL makes no representation with respect to such entity.

**Not Insured by FDIC/NCUA or Any Other Government Agency | Not Bank/Credit Union Guaranteed
Not Bank/Credit Union Deposits or Obligations | May Lose Value**