LPL Financial

75 State Street, 22nd Floor
Boston, MA 02109

4707 Executive Drive
San Diego, CA 92121

1055 LPL Way
Fort Mill, SC 29715

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Dear Valued Investor,

Stocks have gotten off to a very rocky start in 2022, with the potential for Federal Reserve rate hikes coming and the geopolitical worries over Russia and Ukraine only adding to the uncertainty. We don't want to minimize the impact of that major geopolitical event, but there is some positive news out there, even though it might not feel like it.

Starting with Russia and Ukraine, the truth is the U.S. economy and the overall stock market likely won't be impacted much by the recent conflict. In fact, stocks took most previous major geopolitical events in stride. Looking at more than 20 geopolitical events such as the attack on Pearl Harbor and 9/11, the S&P 500 Index fell only about 5% on average.

With anxiety running high, here are some important numbers that should help calm some nerves.

- The S&P 500 Index officially moved into a correction of 10% this week for the first time since March 2020. Since 1950, there has been an average of one 10% correction per year, so some volatility was likely simply due.
- On average, the index sees a peak-to-trough correction of 14% in any given year, and even in up years there is an 11% correction on average.
- After a correction of 10-15%, the index has seen an average one-year gain off the lows of 22% and has gained in 12 of the 13 one-year periods.
- Midterm election years tend to be among the most volatile out of the four-year presidential cycle. In fact, the average midterm year sees a peak-to-trough pullback of 17.1%, but stocks are up more than 30% off the lows on average a year later.

The good news is corporate America continues to see strong earnings. S&P 500 earnings per share in the fourth quarter are tracking to a 31% year-over-year increase (FactSet), roughly 10 percentage points above the consensus estimate when earnings season began. The top-line growth was extremely strong as well, with revenue growth up close to 15%. Lastly, profit margins saw very little compression, as companies with pricing power have been able to pass along higher costs and largely preserve those high margins, which are well above pre-pandemic levels.

Finally, COVID-19 trends are very positive as well, with new cases down more than 90% from the January peak (John Hopkins University). Many states are lifting mask mandates and a strong reopening will likely take place over the coming months and into the summer. Backlogs and bottlenecks continue to slowly trend the right way, and the labor force remains quite healthy as well.

The concerns and uncertainties are real, and the road ahead could be filled with more bumps and bruises. However, with U.S. consumers and businesses in solid shape, we think the U.S. economy could grow as much as 4% this year, much better than the pace of the last recovery.

They say it is always darkest before the dawn, and long-term investors should keep this in mind as better times are likely coming in 2022. Please contact your financial professional with any questions.

Sincerely,

Ryan Detrick

Chief Market Strategist
LPL Research

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