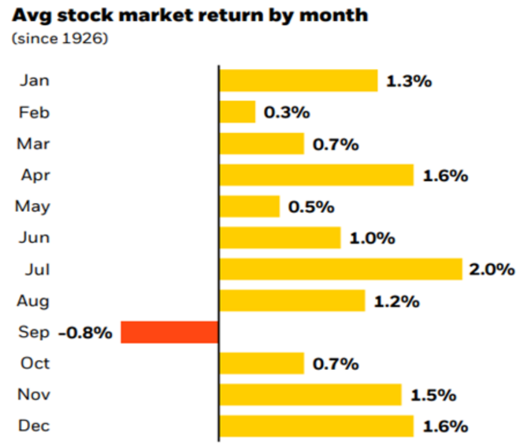
September Living Up to Reputation

We are in the final stretch through what has historically been the roughest month of the year for the stock market, and this year, September is certainly living up to its reputation with the S&P 500 down approximately 5.1% month to date. We all know that markets rise and fall - so we can be disappointed by downturns, but we shouldn't be surprised by them. Reacting emotionally to recent market volatility may be more detrimental to portfolio performance than the drawdown itself; thus, the importance of maintaining perspective and identifying the drivers of the current equity market pullback.



Perspectives on current pullback:

- First and foremost, the equity market was due for a modest pullback. In fact, historically the S&P 500 experiences an average of 4 pullbacks of 5% or more in a year. Prior to this most recent decline, the S&P 500 only had one other pullback of 5% or more which occurred during the banking turmoil back in March.
- Markets go up much more than they go down. In fact, the S&P 500 has delivered a positive annual return 75% of the time of the time over the past 95 years. Down days – and sometimes down months – are part and parcel of investing.

Drivers of Current Pullback:

- We are in a classic "good news is bad news situation" – where what's good news for the economy and Main Street is bad news for Wall Street. In this instance, economic data has continued to exceed expectations. In turn, this means that the Fed might have to keep interest rates higher for longer than expected to curb inflation.
  - Indeed, the latest estimate for 3rd quarter economic growth from the Atlanta Fed's GDPNow model puts 3rd quarter GDP growth at 4.9% - far higher than the 10-year average GDP growth rate of 2.1%.
- Federal Reserve maintains "hawkish" stance. Projections from the last week's Federal Reserve meeting show that officials anticipate keeping rates at a higher level for a longer period of time; with potentially one more rate hike on the table for 2023. Nevertheless, the Fed is nearing the end of their aggressive rate hiking cycle and switching into passive tightening by keeping rates higher for longer. The discussion now shifts from "how high" to "how long"?
- High likelihood of a government shutdown (according to several political analysts we have spoken to, it is all but guaranteed on October 1st) has also weighed on market sentiment. However, it is important to note that government shutdowns have historically been a non-event for the markets. See 7 Things to Know About Government Shutdowns from LPL Research & Government Shutdowns & Investors from Fidelity for more.

Short-term blips should serve to reinforce the importance of prudent diversification paired with maintaining a long-term perspective. The longer your perspective, historically, the better your odds are at seeing positive outcomes as shown in the chart below. Now these positive outcomes don't guarantee a specific rate of return, even over longer time frames. But when we realize that investing means getting paid for accepting risk, we can start to see uncertainty as a source of opportunity, even during times of market volatility.

S&P 500: 1926-2020

Time Frame	Positive	Negative
Daily	56%	44%
1 Year	75%	25%
5 Years	88%	12%
10 Years	95%	5%
20 Years	100%	0%

Source: Dimensional Fund Advisors