



Is the Glass Half Empty or Half Full?

May 2022

“America now is stumbling through the darkness of hatred and divisiveness.

Our values, our principles, and our determination to succeed as a free and democratic people will give us a torch to light the way. We will survive and become the stronger not only because of a patriotism that stands for love of country, but a patriotism that stands for love of people.”

— Gerald R. Ford

Say what you will about Gerald Ford as a president, but you’ve got to give him credit for reminding us that in the darkest of days there is still light to behold. Very apropos for today’s concerns since the markets and global stage seem to be a huge mess right now. But the reality is that when the glass looks half-empty, it is still half-full as well. So let’s talk about what is potentially going right since we all know what is going wrong.

Let’s start with some statistics (from LPL Research) on the markets. As of the end of April, this has been one of the worst starts to a year ever for stocks, with the S&P 500 down 13.9% from a peak earlier in January. However, as sobering as that may be, it’s reassuring that this is actually not atypical as the average S&P 500 correction since 1980 is 14.0% - and during 12 of the 21 times that the S&P 500 corrected by at least 10% it still managed to finish the year positive. It may also be reassuring for you to know that during midterm election years not only did the S&P 500 tend to be more volatile, correcting more than 17% on average, but it rebounded 32% on average in the 12 months following.

As for the bond market, it’s easy to forget that we have essentially been in a bond bull market for the last thirty years or so, during which time rates slid and bond values, all things being equal, increased. Now that we seem to have reached bottom with rates, it’s painful to watch the inevitable reinflation of rates to more rational levels. But don’t forget that the ten-year Treasury yield, which essentially doubled over the past 6 months, is only getting back to where it was at the end of 2018. So, not unlike gas prices going up 30% in the last year, rates are really only settling back to where they were previously (in the case of gas, we’ve actually had about 0% inflation over 14 years).

And sure, the Federal Reserve is now playing catchup, but don’t forget that the markets are discounting mechanisms, which is why an additional 250 basis points (2.5%) of rate hikes are already priced in this year. Add to the fact that the U.S. consumer is still quite healthy, with lots of cash available, and corporate America still quite strong, with balance sheets poised for better growth later this year, and things don’t seem so dark. To drive this point home, in April U.S. businesses added 428,000 jobs, the unemployment rate was unchanged at 3.6%, and the number of people on temporary layoffs are roughly the same as February 2020 before the onset of the global pandemic.

As always, things can change, and we can never forget the prolific yet probably most ignored disclaimer in this industry that “past performance is no indication of future results”. But it just doesn’t make sense to miss the forest for the trees, just as a glass half empty is always half full.

Speaking of perspectives, let’s switch gears and revisit the reason for the upcoming Memorial Day. The holiday, aside from helping you enjoy time with friends and family, is more so meant to honor the brave men and women who made the ultimate sacrifice for the U.S.A. We cannot forget that this sacrifice was not just meant to defend our land, but more importantly our democracy.

This democracy, as Gerald Ford reminded us, is about love of land and country, as well as love and respect for our democratic values and principles. It is these values and principles that make the U.S.A. the greatest nation in the world, not to mention a role model for the rest of the world. But this is a tenuous situation if we forget how to uphold these values and principles.

Without sounding too moralistic, I’d like to remind everyone that our democracy does not mean you have to agree with anyone else’s opinion, but you do need to support their right to those opinions. Additionally, patriotism doesn’t require perfection from the past, but it does require honesty of the present, and only by honoring, as well as learning from, the past do we become a more perfect union – a union of people that tolerates and allows every perspective (without a destructive “cancel culture” that imposes its judgmental and unilateral version of beliefs).

Remember, if we don’t uphold the rights of the people we disagree with then we shouldn’t be surprised when they fail to uphold ours. Only by respecting each other, regardless of how much we disagree with them or their ideals, do we selfishly protect our own freedoms. To me this is not unlike learning that the best way to give to yourself is to first give to others. And in my humble opinion, the problem with most politicians, from both sides of the political aisle, is that to preserve their own political careers they keep kowtowing to populist and/or extremist minorities of their parties while ignoring the wishes of their respective majorities. Politicians (and the media) need to shine a light on the glue that holds us together – which is faith in and support of every fellow citizen that we both agree and disagree with. This is how we stray from the dark, keep the guiding flame of democracy alive, and honor those who sacrificed their lives for generations to come.

As always, thank you for your friendship and trust – and have a happy Memorial Day!

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