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Market and Economic **Update**

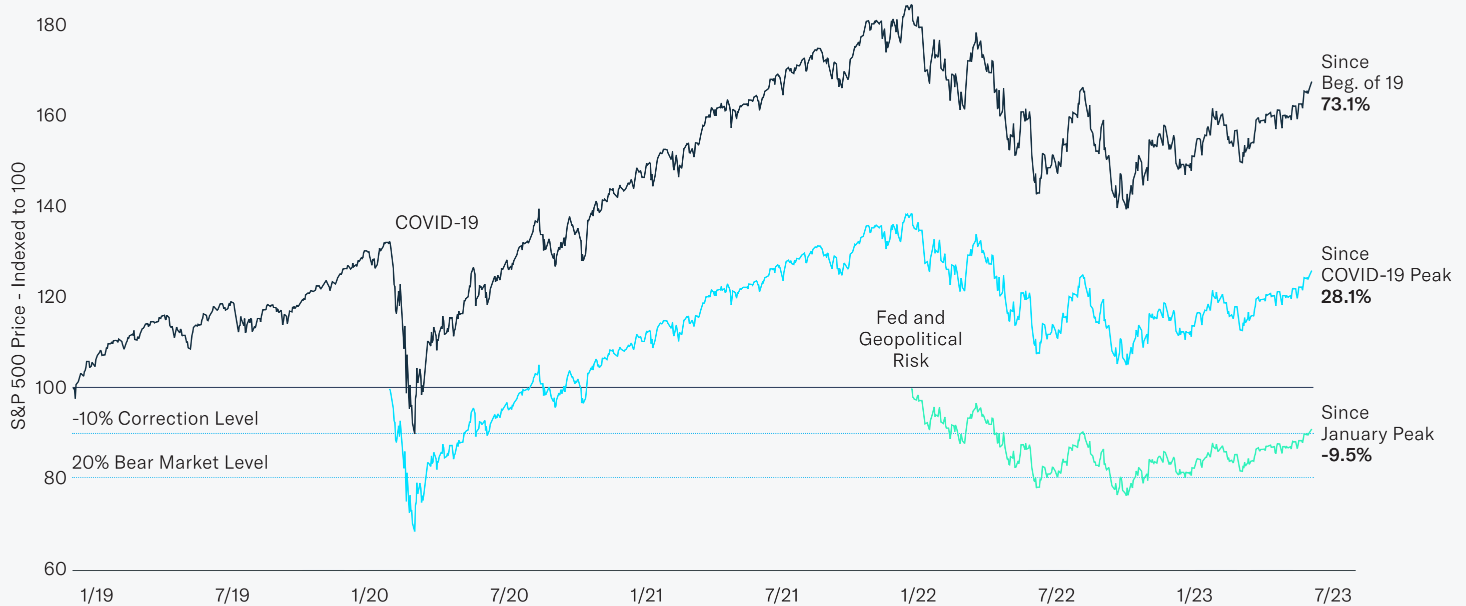
Why Stock Market Returns Have Been Strong Despite Investor Concerns

JUNE 2023

Investors have grappled with market and economic challenges this year ranging from Federal Reserve (Fed) uncertainty, stubbornly high inflation, the possibility of a recession, a banking crisis, the debt ceiling, ongoing geopolitical tensions, and more. And yet, the stock market has made significant year-to-date gains with the S&P 500 returning 13% and the Nasdaq 29% through June 12. This is further evidence that markets often defy expectations and can rebound when least expected. What factors are driving these returns and how can investors focus instead on long-run trends?

Investor sentiment tends to swing from one extreme to the other. At the start of the year, many investors and economists were certain there would be a recession within months that would result in higher unemployment and Fed rate cuts. As we approach the second half of the year, no recession has yet materialized, and many economic trends have surprised to the upside. Headline inflation measures have improved although core inflation remains stubborn. Investors expect a Fed pause and interest rates have stabilized. These factors have helped tech stocks rebound, especially in areas related to artificial intelligence.

1. Markets have made considerable gains over the past few years



Sources: Clearnomics, Standard & Poor's, January 2019 to present. Past performance is no guarantee of future results.

Despite the strong market gains this year, it is unlikely that investors feel comfortable in the current environment. There is always something new to worry about, a concept often referred to as the "wall of worry." The wall never shrinks - new building blocks are continually added as investor focus and media coverage shift to the next set of worries.

A focus on day-to-day headlines naturally leads investors to have a glass-half-empty view. Current events tend to dwell on unexpected negative events, rather than on the steadier, less noticeable progress that drives stock market returns over years and decades. Today, this short-termism reminds investors that major indices are still in the red when compared to last year's all-time highs, and that many thorny market and economic issues are still unresolved.

This is why it is often important to view the market with a broader perspective. The glass-half-full view, which is much more appropriate for long-term investors, is that many of these issues are slowly improving. As a result, the market has risen 21% from last year's market bottom, and 73% since the beginning of 2019, despite all the intervening events. These are figures that everyday investors would likely be unaware of if they only followed the day-to-day headlines.

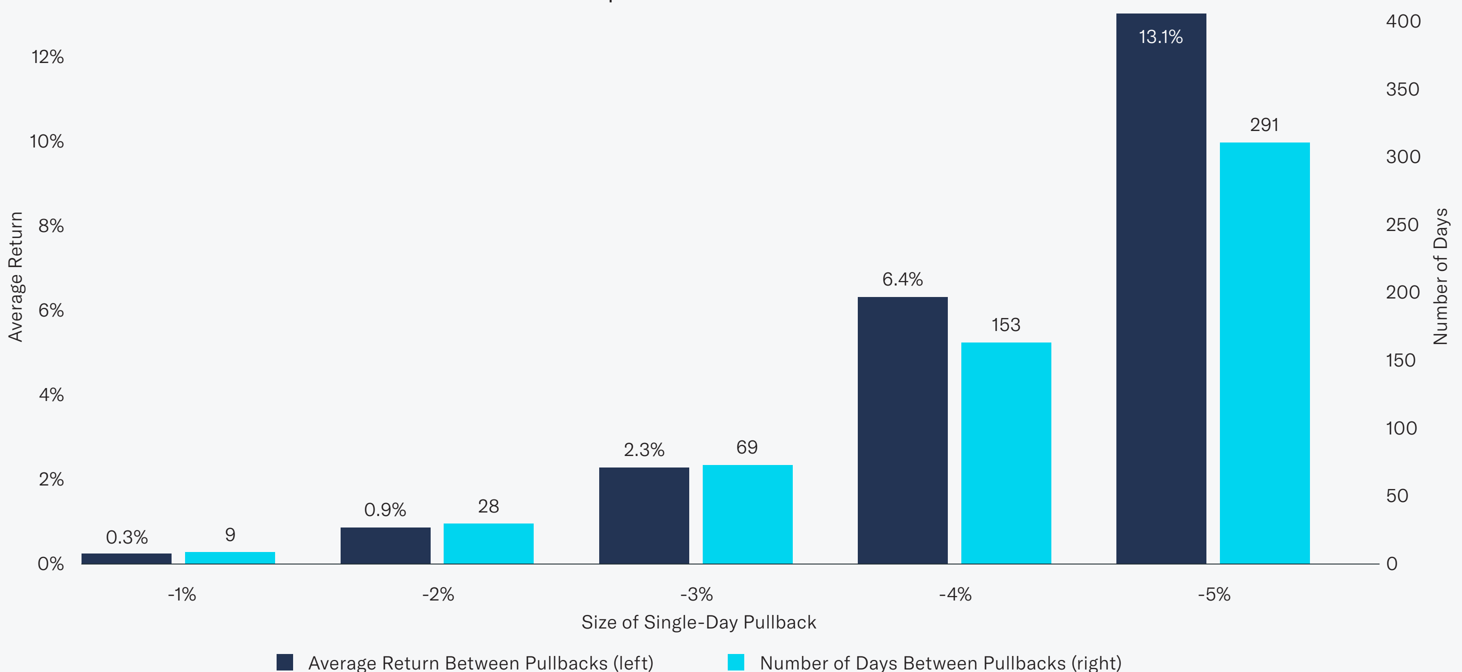
Of course, this is not to say that markets only go up or that there is never anything to worry about. Instead, these facts are a reminder for investors to stay disciplined, in both good and bad markets, and to stick with their financial plans. Just as pilots often remind passengers to keep their seatbelts fastened even when the air is calm, periods of positive market performance are the best times for investors to stay balanced and prepare for future uncertainty.

The latest data confirm that the economy is doing better than many feared just a few months ago. The recent jobs report showed that 339,000 new positions were created last month, many more than forecasted. Unemployment did tick up to 3.7%, but it has been fluctuating around these levels since last August. What's more, recent data show an increase in the number of job openings back above ten million across the country.

2. Getting invested is often better than trying to time the market

WAITING FOR PULLBACKS

The hypothetical returns missed by waiting for the next single-day pullback of each specified size using S&P 500 price returns since 1927



Sources: Clearnomics, Standard & Poor's, December 30, 1927 to present. Past performance is no guarantee of future results.

. . . the worst-case scenario of a government debt default has been averted.

Other issues that have been on investors' minds have also been resolved, if only temporarily. The latest debt ceiling bill was signed into law after months of posturing and last-minute negotiations. While many of these same issues will re-emerge in the future during budget talks, and again after the next presidential election, the worst-case scenario of a government debt default has been averted. Similarly, the banking crisis has stabilized after the failure and acquisition of First Republic Bank over a month ago.

The fact that there are risks for investors to navigate is not only normal but is always the case. The truth is that there are always reasons to be concerned when it comes to the economy and world events. However, this is also why investors are rewarded in the long run. As the accompanying chart shows, getting or staying invested, rather than trying to wait for the next big pullback, is still the best approach.

*Indexes are unmanaged and it's not possible to invest directly in an index. The **S&P 500 Total Return Index** is a market-capitalization-weighted index of the 500 largest U.S. publicly traded companies. The **Standard & Poor's (S&P) 500 Price Return Index** represents the returns generated by the prices changes of the 500 largest U.S. publicly traded companies.*

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