INVESTMENT STRATEGY INSIGHTS

Is the Bear Market Over?

June 27th, 2022

How Bear Markets End

- Historically, the ends of bear markets have been marked by a dovish turn in Fed policy and improving fundamentals

Under the Hood of Market Fundamentals

- Sentiment is low enough to see a bounce, but will likely remain under pressure long-term due to economic risks

Insight from the Fed

- The Fed will likely maintain a firm tightening path to re-establish its inflation fighting credibility

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How Bear Markets End

- **Sentiment Signals.** Glenmede's Market Sentiment Index has picked up on oversold conditions in domestic equity markets but has not yet signaled a full capitulation moment that is typically a hallmark of major market bottoms. A component of the sentiment index, the VIX, currently sits at 27 with forward returns at these non extreme levels being more mixed, with an average return of 0.2% in the next month and only a 59% incidence of positive returns.
- **The Move to Fair Value.** Extreme sentiment appears to have dissipated to some extent. The recent correction has been quite large, but certain asset classes such as large cap growth stocks have yet to fully reach fair value. Glenmede's Global Expected Returns model indicated 99th percentile valuations for growth stocks to start the year, which have since dropped to the 80th percentile. Similarly, large cap value stocks, though falling below growth, are priced at the 67th percentile. While considerable volatility remains in the short-term, cheaper valuations should lead to higher expected returns in risk assets.
- **Insights to a Market Bottom.** The empirical record tracing back to the mid 1950's suggests that bear markets have a history of further downside after crossing the -20% mark, with the ten prior bear markets averaging a decline of 36%. Historically, bottoming PMIs alongside a dovish shift in Fed policy have both had to occur within a close time frame of a market bottom itself. Markets have typically bottomed 0.5 months following a shift to easing policy, with PMIs bottoming 0.8 months after. Although recent flash PMI readings signal slowing growth, the Fed is not likely to ease its monetary tightening until early next spring which suggests there's still a way to go.

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Chart of the Week:

Historically, Fed easing or improving fundamentals mark bear market ends

S&P 500 Bear Markets (20%+ Declines Since 1950)

Peak	Bottom	Drawdown	Recession?	Federal Reserve Begins Easing	Manufacturing Sentiment Improves
Aug-56	Dec-57	-22%	Yes	Nov-57	Jan-58
Dec-61	Jun-62	-28%	No	-	Aug-62
Feb-66	Oct-66	-22%	No	Dec-66	Feb-67
Nov-68	May-70	-36%	Yes	Mar-70	May-70
Jan-73	Oct-74	-48%	Yes	Jul-74	Dec-74
Nov-80	Aug-82	-27%	Yes	Aug-82	May-82
Aug-87	Oct-87	-33%	No	Oct-87	-
Mar-00	Mar-03	-49%	Yes	-	Apr-03
Oct-07	Mar-09	-57%	Yes	-	Dec-08
Feb-20	Mar-20	-34%	Yes	Apr-20	Mar-20
Average		**-36%**		**0.5 months before**	**0.8 months after**
Frequency			**70%**	**70%**	**90%**

Source: Glenmede, Piper Sandler Data through 6/27/2022
The returns shown are for the S&P 500 Price Index during periods shown. The S&P 500 is a market capitalization weighted index of large cap stocks. Manufacturing sentiment is a measure of the prevailing direction of economic trends in manufacturing based on the Institute for Supply Management's Purchasing Managers Index (PMI), a monthly survey of supply chain managers across 19 industries, covering both upstream and downstream activity. Past performance may not be indicative of future results. One cannot invest directly in an index.

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Under the Hood of Market Fundamentals

- **Bear Bounce.** Markets ended last week with the S&P 500 up 6.5%, marking its second-best weekly performance year-to-date. Extending Tuesday's broad rebound, U.S. equities rose sharply higher in particularly quiet Friday trading. The Index finished near session highs, capping off big weekly gains after suffering the largest pullback since the depths of the pandemic in March 2020 in the prior week.
- **Growth Expectations.** Some leading indicators in the U.S. are beginning to show signs of slowing economic growth. The Atlanta Fed's forecast for GDP growth in the second quarter of 2022 currently sits at 0.0%, recently revised from its previous estimate of 1.3%. The revision was likely driven by May's release of retail sales, import and export prices as well as inventories, where all three components showed monthly declines. Following a 1.5% drop in the first quarter, the indicator suggests that the economic expansion, now in the late stage of its cycle, is quickly progressing to a more likely recession.
- **Slowing Housing Market.** The housing market continues to show signs of softening as sales of newly built homes fell 14.4% in May from April. Rising mortgage rates are reducing buyer demand as the average rate on a 30-year fixed mortgage shot up to 5.8% earlier this month, up from 3.1% at the start of the year. Despite the collapse in sales volume, home prices remain high with the median new-home sales price rising 14.8% year-over-year in May. While the housing market may continue to cool as demand falls, home prices may remain elevated in the near-term as the housing market remains undersupplied.

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Insight from the Fed

- **Testimony Takeaways.** Powell testified to Congress last week where he further reiterated his commitment to curb inflation and acknowledged the risk of recession. Powell has clarified that the Fed would continue to be data driven, noting that any projections were at best indicative and would be decided meeting by meeting. The testimony highlighted the Fed's focus on front loading rate hikes given that the longer it takes to bring inflation to heel, the odds of achieving a soft landing become incrementally more challenging.
- **The Fed's Path**. In the wake of the latest CPI report, FOMC members signaled a much stronger path of rate increases following its 75-bps rate hike earlier this month. While Powell indicated that he does not expect "moves of this size to be common," an increase of 50 or 75 bps is expected at the subsequent meeting in July. Further, the Fed's newest dot plot now projects a total of 13 rate hikes for '22, a clear sign that the Fed recognizes it's still behind the curve on bringing inflation under control and is willing to take a more aggressive tack to defend its price stability mandate.
- **Oil Vs. Inflation.** Core PCE (excluding food and energy prices), which will post its May's print later this week, is expected to decline to 4.8% on a month-over-month basis and slow to 4% by year-end. The decline likely reflects consumers' pullback in spending as inflationary pressures further weigh on recent trends. Notably, oil prices continued to retreat last week heading for a second weekly fall as investors reassessed the impact of rising rates pushing the economy into recession. However, the oil market is likely to see high demand amid tight supply in the coming months, thereby limiting the downside.

The Fed will likely maintain a firm tightening path to re-establish its inflation-fighting credibility

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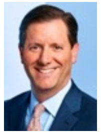

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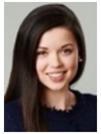

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