Client Note

June 1, 2022

The S&P500, on the very last day of May was able to make May and "up" month, by 1 point. Year to date the S&P500 is down 13%, and during May had been down 19%. The tech-heavy NASDAQ is down 22% through May 31. Bond prices reflected in the Aggregate Bond Index also is down, almost 9.5%. On the upside, all these indices are up off their mid-May lows. The S&P500 has risen some 10% and bonds are up off their lows as well. For us, April was the bad month, wherein energy and precious metals fell with the broader market.

The economy has been slowing, really since the +40% GDP growth post Covid lock downs. For the first quarter of 2022, GDP fell by 1.5%. There will be one more revision to this number in late June. Current estimates for Q2 2022 are about 2.25%. When GDP is measured, they 'deflate' the number by an inflation rate. While more people are working at higher wages than pre-Covid, inflation is higher, resulting in these GDP figures. Long term, US population growth at 1% plus productivity growth of maybe 2%, gives us a potential long term growth rate of 3%.

But GDP isn't a guide for investing. **Earnings** per share growth, matches up better with long term stock market growth. Today we're seeing about 7% growth in earnings. ***Most interestingly***, with the decline in stock prices and increase in revenues and earnings***, valuations*** as seen in the market Price to Earnings Ratio (P/E), is about the same level as **early 2019**. IF, investors were paying for stocks at the P/E we saw in late 2019, there is **15% upside in the market** today. IF we paid at the same P/E in 2017 and 2018 there would **be 20% upside potential**. And that is if earnings don't increase. Earnings **are** increasing, and we have (probably) just completed a market correction.

While we are likely seeing the beginning of another run up in stock prices, to really unleash to the upside, we need to see inflation settle down. Prices don't need (nor will they) actually decline, but to stop going up so fast. There are signs of price increases slowing. Inflation for March was 8.5%, April was 8.2%, mid-June we will see May's report. That would go a long way to helping the poor consumer sentiment indicators.

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