



CAPITAL INVESTMENT COUNSEL

# The Columns

**May 2022**

Growing up in Charlotte, I often went to Carowinds. There was a ride called the oaken bucket. You stood up against a rounded wall and then the floor started spinning. Once critical mass was reached, the floor dropped out beneath your feet, and you were pinned against the wall by centrifugal force. Eventually, the spinning slowed, the floor rose, and the ride was over. Your stomach was queasy, and things were just a bit off. It was great fun as a kid.

Markets have felt like that for most of 2022. This year was almost always going to be tricky. Sure, there are plenty of headline events. Putin's Ukrainian invasion rocked the world in late February and midterm elections are notorious for volatility. Rising interest rates added another challenge. But let's not forget that things were rocky *long before* Putin stepped a foot into Ukraine. The Dow had already peeled off 4000 points in the first three weeks of January.

My point is the selling has gone on for a long, long time: 120 plus days if you're wondering. It's interesting to see opinions on Twitter. Many so-called experts say we can't possibly have bottomed because we've not had a capitulation—a big down move that flushes everyone out. I'm not so sure about that.

This 2022 decline evaporated \$7.6 trillion in market value. The Covid selloff only took out \$4.4 trillion and the dot-com bubble erased \$4.6 trillion. Last Thursday, May 12, the NASDAQ 100 had three *intraday* drops of greater than 2%, and that's just for last Thursday. For perspective, consider the NASDAQ 100 only had four 2% declines for the *entire year* of 2017! As of May 9th, the NASDAQ was down 25%, the NASDAQ's worst start on record. So yes, I feel stocks have been flushed and markets may start recovering.

2022 has been rough, but I feel we're making progress. By March 2022, the broader based S&P 500 was down 12% for the year. That made 2022 the fourth worst start ever. Maybe not what you wanted to hear but let's look further. Digging into the top ten worst starts, I see that the market finished the year negatively only twice: 2001 and 2008. That's the aftermath of 9/11 and the Housing crisis respectively so I feel we're in better shape in 2022. The other eight years finished the year strongly with an average gain of 37%.

Jay Kaepfel at Sentiment Trader had a great slant on inflation last week. He looked at how stocks performed when inflation, as measured by the CPI, was greater than 8% but less than the month before. In simple terms, has inflation peaked? April CPI measured inflation at a hot 8.3%, but the silver lining is that inflation was down from March's even hotter 8.5%.

Maybe the supply chain issues are finally loosening up and prices may even trend down. Stocks have done well when extreme inflation has moderated in the past. We only have five occurrences going back to 1916, but stocks were higher two years later in all five instances with an average gain of 31%. We should be glad there's only five instances as we've all found out, 8% inflation is no joke.

My overall sense is that as tough as 2022 has been, we may have seen the worst. I'll leave you with a parting gift from Jason Goepfert, another Sentiment Trader analyst. Last Thursday, May 12<sup>th</sup>, the NYSE showed 29% of all stocks hit a fresh yearly low. That's brutal but what happens next may not be. We've had 18 occurrences over the last 38 years. The market was higher a year later 17 out of 18 with an average gain of 32%. History may throw us another curve ball, but I'm leaning to the positive and feel markets have discounted most of the bad news. In my experience, mid-term election years can be back in loaded with the bulk of the gains taking place in the 4<sup>th</sup> quarter. I think 2022 may do the same and have a positive surprise for us all. If you have any comments, feel free to contact me at [heddins@capital-invest.com](mailto:heddins@capital-invest.com) or call me at 919-656-0836.

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