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Sandpiper Capital

Gleanings

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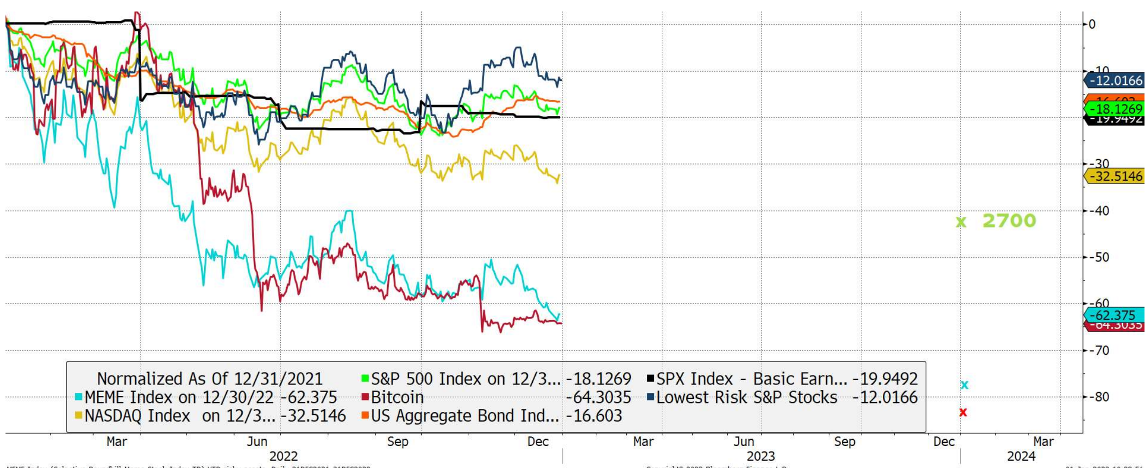
"Holding onto your stock portfolio during a down market is much easier if you have confidence that the downturn is just temporary".

Changing regimes

Market Returns Annually

Index	2019	2020	2021	2022
S&P 500	31.5	18.4	28.7	-18.3%
ML 1-5 yr Gov't/Corp	5.1	4.7	-.9	-5.5%
EAFE (Dev Fgn Mkts)	22.0	7.8	11.3	-14.4%
Emerging Markets	1.0	18.5	-2.5	-20.9%

The history of government policy since 2000 has been the subsidization of the economy and financial markets with reduced corporate taxes, below market interest rates and reduced regulation. The result has been a growing bubble in risky assets in spite of real wage and economic growth rates dropping almost in half. If the economy won't grow because incomes are flat then at least we can inflate the value of portfolios and homes. The limits of easy money came clearly into sight last year as crypto billionaires and pharma charlatans came under indictment and asset inflation made cars, homes, energy and groceries so expensive that households reduced their savings rate to the second lowest number in the last 77 years. There is a significant likelihood that current fiscal and monetary discipline will need to be extended for more quarters than the markets expects and the flight from the most risky assets will continue. Bonds down 16%, the NASDAQ down 32% and Meme stocks and Bitcoin off by 64% will likely be the pattern as the markets continue to adapt to the changed environment.



To illustrate the change in risk appetite that occurs when the economy slows, I've added an index of the 20 lowest risk S&P stocks (the blue line) to the chart above. Also below is a chart showing the relative performance of S&P's high volatility stock index to its low-risk equivalent. When the economy is booming, high risk does best. When it slows, low risk is better. The Purchasing Manager's manufacturing index (light blue line) does a good job of predicting the direction. I would say "down" is a good description currently.