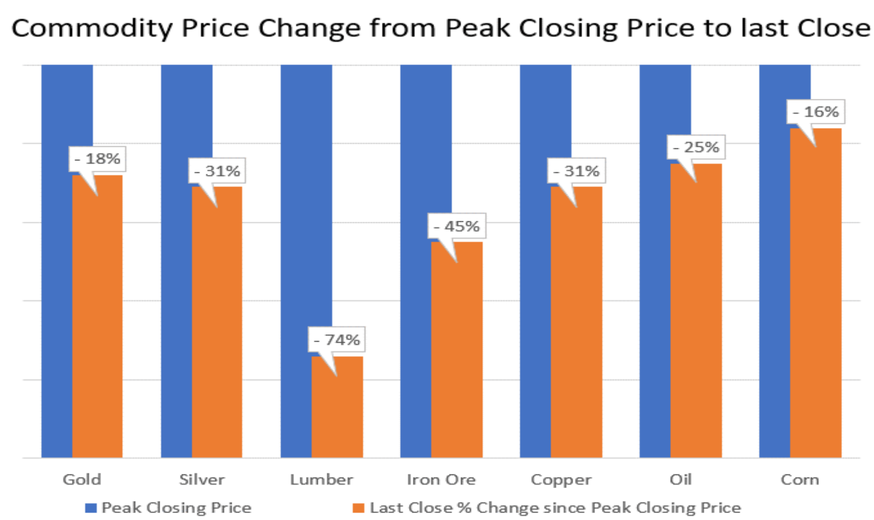
BARNES-PETTEY
FINANCIAL ADVISORS, LLC
Independent Registered Investment Advisor

Fear Rules

There is so much to hate about this market environment: politics, Russia, inflation, interest rates and the Fed. Once again, the human behavior of fear has proven to be much more of a market motivator than greed!

Now it looks like we are headed into a recession. Most of our experts expect a mild one with the peculiar aspects of the period as consumers are flush with cash, companies have earnings growth, and employment is high. Do you remember a time when the economy was punished for LOW unemployment? That's what the Fed wants now; for unemployment to increase, for housing prices to cool and even decline, and for commodities to decrease in value. As the chart below indicates, commodities are already in decline.

Wages and food costs are proving to be stickie inflation and they need to flatten out and decline as well. Most recently consumer prices rose .4% in September and were up 8.2% from a year ago, according to BLS data. Excluding food and energy the core consumer price index accelerated .6% and 6.6%, respectively. The yearly gain for core inflation was the highest since August 1982.



Source: ARK Investment Management LLC, 2022. Data from Bloomberg as of last close, 10/7/2022.

Cart Before the Horse?

Recession Start	Recession End	Length (Months)	Market Low During Recession?	Distance from Recession Start (Months)	Distance from Recession End (Months)
Nov. 1948	Oct. 1949	11	Yes	6	-5
July 1953	May 1954	10	Yes	1	-9
Aug. 1957	April 1958	8	Yes	2	-6
April 1960	Feb. 1961	10	Yes	6	-4
Dec. 1969	Nov. 1970	11	Yes	5	-6
Nov. 1973	March 1975	16	Yes	10	-6
Jan. 1980	July 1980	6	Yes	2	-4
July 1981	Nov. 1982	16	Yes	12	-4
July 1990	March 1991	8	Yes	2	-6
March 2001	Nov. 2001	8	No	18	10
Dec. 2007	June 2009	18	Yes	14	-4
Feb. 2020	April 2020	2	Yes	1	-1
Average:		10.3		6.6	-3.8

- **Historically, market lows have come around the 2/3 mark during recessions.**
- **The strength of the labor market would suggest this point is not yet on the immediate horizon.**

If a recession is coming in 2023, how do markets generally respond? As the chart indicates recessions tend to be short and almost 100% of the time, the markets bottom long before the recession ends. With the S&P 500 already down about 25% and the average recession taking the market down 30%, we should be close to a market bottom even now.

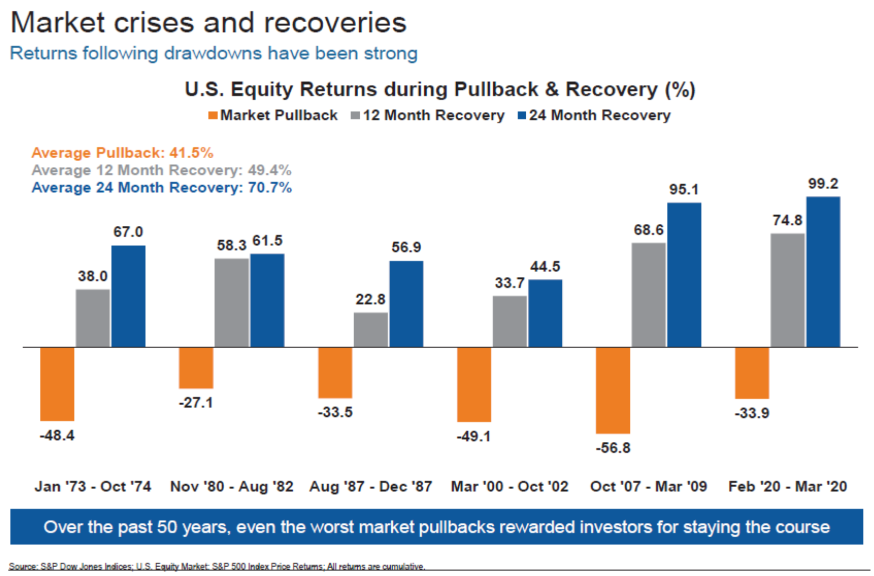
ClearBridge Investments

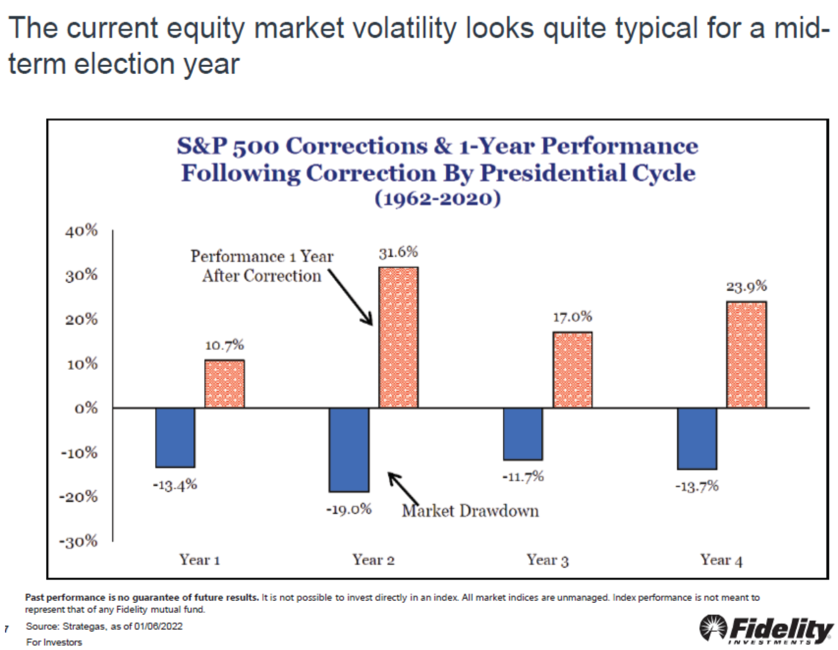
Note: Distance from Recession Start and Distance from Recession End do not add to Length due to rounding. Source: S&P, FactSet, and Bloomberg. Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

We have mid-term elections soon. Look below at how the markets react in the second year of the presidential cycle. This chart represents both Republican and Democratic presidents. The second year is a disappointment regardless of the party and has historically produced a big decline followed by a big increase. Since 1945, according to Larry Adam, Chief Market Strategist at Raymond James, the market has been positive 12 months after the mid-term election 19/19 times and positive 18/19 times six months later.

Recessions are a normal part of the business cycle and we all hate them since we all hate market pain. As one of my clients says "I only like to see green, not red!" On the right, you can see the major recessions of my career. They all have common characteristics - a big down move followed by two big recovery years! Will this happen again? Remember the market has a 100% recovery record and, believe it or not, there are only 6 years since 1926 that the market closed down over 20% and 3 of those were in the Great Depression!

I have a quote on my desk by Morgan Housel, "Every past decline looks like an opportunity, every future decline looks like a risk!"





The stock market is a discounting mechanism. It is priced for what it thinks will happen in the future 6 to 12 months out. It does seem to be pricing in a recession! And this will be one of the most telegraphed in history. So much talk by newscasters make it a self-fulfilling prophecy.

Inflation is cooling as supply chains ease. This time last year over 100 ships were offshore California waters waiting to unload. At this writing there are only six. The UN food index has declined for six consecutive months. The labor market has 1 million fewer jobs available and layoffs are increasing. Interest rates should peak and that will be an immediate boost to bonds. Overly pessimistic sentiment has been a good buy signal and when it has been this low in the past, 12 months later the market has been up 100% of the time!

I was influenced early in my career by John Templeton, a Christian, successful money manager, and philanthropist! His quotes have stayed with me especially this one… **Bull markets are born on pessimism, grow on skepticism, mature on optimism, and die on euphoria.**

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