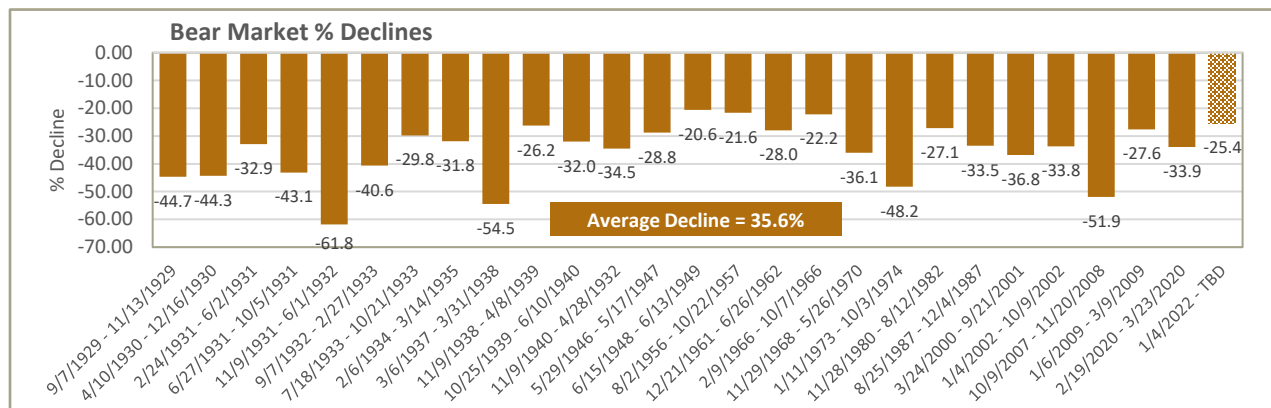


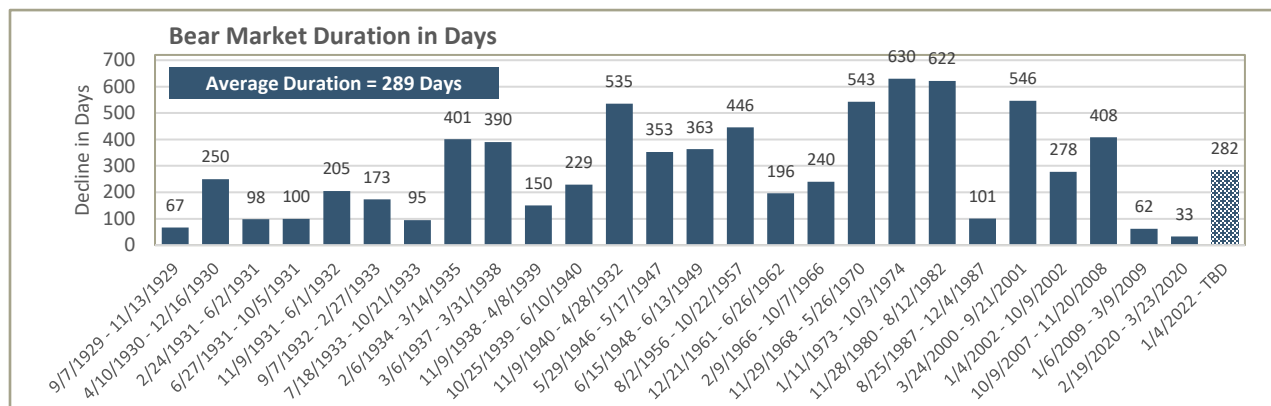
*“Financial markets suffer from a deep inability to price patience and compounding because of their dominant short-termism.”*

- James Anderson

Since its first week, 2022 has offered investors little reason for optimism. From a financial standpoint most major asset classes and geographies are deeply negative YTD and have steadily trended down for much of the year. As unsettling as this has been, it is made even more difficult by the troubling geopolitical and economic developments that we are experiencing in real-time. Investor sentiment is near historic lows and cash levels are extremely elevated. It is in these moments, with pervasive fear and uncertainty, that the duration and depth of a selloff really begins to make investors question their own conviction.



As we know, and have written about several times in the past, the correct decision is to remain invested and not try to time the market. This is one lesson history has repeatedly taught us. It doesn't make the day-to-day experience of seeing portfolio totals decline any easier, but markets do go up over time. This is not the first bear market (a price drop of at least 20% from the most recent market high) we have experienced, and it will not be the last. In fact, since 1928 there have been 27 bear markets in the S&P 500. Unsurprisingly, since you need a bull market to end a bear market and vice-versa, there have been just as many bull markets. Fortunately, those tend to last longer.



If you own high quality companies with strong balance sheets that can continue to reinvest in their business, it is likely you will be rewarded for your patience once the market begins to focus more on future growth potential. But when will we get there? No one knows for sure, but we thought it might be helpful to provide some historical context for the current bear market, both in terms of severity and length.

As mentioned, we are currently experiencing our 27<sup>th</sup> bear market since 1928. On average, the previous bear markets lasted 289 days and resulted in a 35% selloff in the S&P 500. By comparison, through October 15<sup>th</sup>, the current bear market has lasted 282 days and resulted in a 25.4% selloff. Based on this data, we believe we're probably closer to the end than the beginning. While there could be an additional leg to the selloff, remember that market bottoms and rebounds often happen very quickly.

We do not envy the Fed their predicament. Getting inflation under control without causing a recession is a tall order. When you compare the current economy (strong job market, healthy consumer spending, continued earnings growth) against the YTD stock market returns, it is clear that investors are pricing in a high likelihood of the Fed causing a recession. But we should remember there is the potential for positive catalysts lurking out there as well. Examples of some of these include: 1) backward looking inflation data catching up real-time data on softening prices, 2) positive developments in the Ukraine war, 3) a change in China's zero-COVID policy stance, or 4) progressively less hawkish Fed commentary.

From a longer-term perspective, the current selloff has lowered annualized returns for stocks. However, for periods 5-years and longer they remain very similar to the long-term average of  $\approx 10\%$ . As the table below highlights, stocks remain an asset class of choice over time. It also points out that for the recent 10-years, bonds have provided significantly lower returns than stocks and lost ground to inflation.

Asset Class	Annualized Return (periods ending 9/30/2022)					
	1 Year	3 Year	5 Year	10 Year	20 Year	30 Year
<b>Stocks</b> (S&P 500)	-15.5	8.2	9.2	11.7	9.8	9.6
<b>Bonds</b> (Bloomberg US Aggregate)	-14.6	-3.3	-0.3	0.9	3.1	4.5
<b>Cash</b> (Treasury Bills)	0.4	0.6	1.1	0.7	1.3	2.4
<b>Inflation</b> (CPI)	6.6	4.1	3.4	2.6	2.3	2.4

That said, prospectively, bond yields are at their most attractive level since 2008, and may warrant closer consideration than they have in the past decade. For stocks, we continue to believe that the long-term return prospects remain promising.

To repeat the closing of previous *Investment Perspectives*, at Aureus, we seek to construct a portfolio of high-quality, growing companies that can sustainably compound earnings per share at growth rates greater than those of the broader stock market. We do so with the knowledge that stocks follow earnings, over time. We also submit that the ability to accurately "time" bear markets, or bull markets, is not a strategy for long-term investing success.