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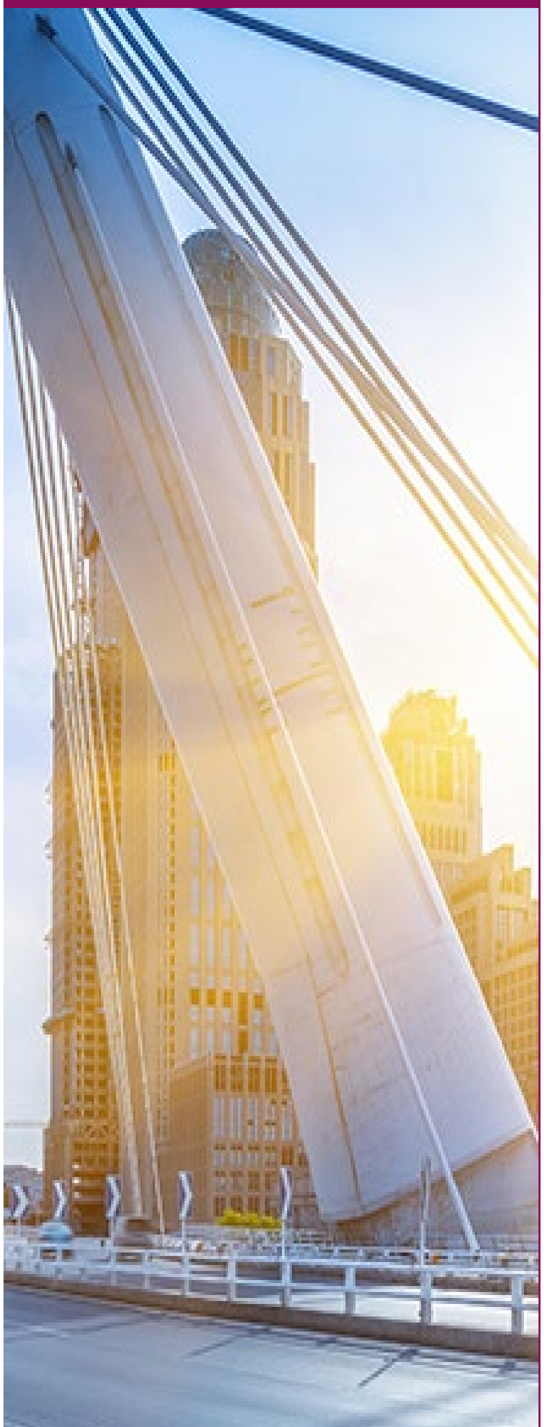
Market Ethos

The latest market insights from Richardson Wealth



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The year in review: Top 10 Market Ethos of 2022

It's that time of year again when market activity subsides, and many investors enjoy their holidays. This year we authored 39 Market Ethos publications, not including the Investor Strategy editions that come out at the start of every month. As the year wraps up and we review the data, it's interesting to look back over past releases to see our thoughts and whether we were on the right track. Some of the insights still have time to play out over the course of the next year or even a few years, but the process can still be worthwhile.

Here's a roundup of the top 10 most popular Ethos this year.

1. **Kapow! – November 14**

Well, what a week. A slight improvement in the news flow around US inflation, elections, China and earnings led to a HUGE up week. One thing is certain, market moves during bear markets are outsized, and best of luck trying to explain the magnitude. Still, as we have been highlighting for a long time now, this is an inflation-caused bear market, and any sign of improvement will likely result in a bear market rally. Enjoy it. The news flow slows in the coming weeks, which is good as well — in a world with mostly negative news, less is good.

2. **No white flag just yet – October 24**

Money has been flowing into cash and cash products at an astronomical pace. This raises the question: are these investors capitulating and going to cash? Most bear markets see investors capitulating and going to cash as the bottom nears. Unfortunately, history also points out that investors keep piling into cash long after the bottom. But this is not that. The flows into cash appear largely funded from other sources, such as deposits that don't pay anything, not from equity market selling.

3. **Do we believe in a Santa Claus rally? – November 28**

Equity markets have rallied about 10-12% since mid-October. A slight improvement on the inflation front kicked it off – a decent earnings season helped, as does the seasonal lift this time of year. Now that the S&P is bumping against its 200-day moving average, many companies have gone from oversold to overbought, and optimism has replaced pessimism. So, if this is a Santa Claus rally, will he make it all the way to Christmas?

4. **Is the other shoe going to drop? – October 12**

Every market cycle is different, and while every bear market is different, some patterns are common – excesses or 'bubbles' pop, which probably happened late last year with profitless tech. Then, broader markets have multiple contractions, and we have seen that. And now we have the emotional risk-off behaviour and strong inflows to cash products. This is an environment ripe for a capitulation-type event. Not good news, but it often marks a potential bottom or, dare we say, the start of a new bull cycle.

5. **Why is the market so happy? – August 9**

The NASDAQ has rallied +20%, the S&P 500 +14%, and the TSX +8%. This happened as inflation surprised to the upside, central banks continued to hike, and the US economy posted back-to-back quarters of negative growth. A common question is 'why?' or more importantly, is the bottom in? In this Ethos, we discuss the four drivers of this advance, which will prove fleeting … but could also endure.

6. **Defanging the FANGMAN – October 31**

The FANG+ stocks contributed 1/3 of the S&P 500 gains from 2009 to 2021. In 2022, the same seven names are responsible for 1/2 of the S&P 500's decline. Given that this appears to be the end of a cycle and a new cycle will begin, hopefully soon, leadership also tends to change. In this Ethos, we share why we believe investors should lean more towards equal weight, smaller cap, and active management over market cap-weighted strategies.

7. **Morphing market – November 21**

This week is a sneak peek at a sliver of content from our upcoming report *Preparing for the next Bull*. The last bull cycle enjoyed disinflation, low and stable economic growth, and central banks that would come to the rescue of any market or economic weakness. As a result, buy-and-hold or buy-the-dip was the dominant investment strategy. However, since 2018 and most certainly since 2021, the market appears to have changed. Flatter returns with bigger swings may require a different approach.

8. **Uncertainty is the name of the game – October 17**

With stronger US CPI, markets tumble then rally. Next day gains are given back, and now today, up strong. Welcome to the overcharged emotional phase of a bear market. Good luck trying to make sense of the daily gyrations. In this Ethos, we share what we think the markets already know – inflation is stickier, recession risk is high, earnings estimates are too optimistic, valuations are cheap, and credit spreads are high. So, while a capitulation-type event risk remains, this looks and feels like max bearishness.

9. **Searching for the bottom: it's all about inflation – September 26**

The markets turned down last week and appeared to be driven more by emotions at this point (often the final stage of a bear market). In this Ethos, we look at valuations that are starting to price in a recession, more so in Canada than the US Plus sentiment, which is very bearish (which is bullish). In the coming months, we expect inflation fears to begin to slow while recession fears rise. Likely to be a volatile finish to an already volatile year.

10. **The stock-bond correlation: it's not always simple – September 19**

One of the common complaints this year is the positive correlation between equities and bonds. Truth be told, the equity/bond correlation has been running positive for a few years, but nobody seemed to mind when both asset classes were moving higher in tandem. In this Ethos, we dive into this relationship and our thoughts going forward, as the stock/bond correlation does sit at the foundation of portfolio construction.

Special Report: Preparing for the next bull

This bear market is going to end one day; they always do. We don't think it is over yet, but at some point, the next bull cycle will begin, as this appears to be a cycle-ending bear. This is evident in a few factors, including changing leadership and changing market dynamics.

The next bull will be quite different than the last. There isn't a disinflationary blanket on the economy, allowing central bankers to stimulate freely. Economic growth and inflation are likely to be higher and much more volatile. There are simply so many differences in the coming cycle.

What worked in the last cycle may not work as well in the next. Even what didn't work well in the last cycle may work well in the next. In this report, we share our views on the cycle and discuss potential portfolio construction implications.

Source: Charts are sourced to Bloomberg L.P., Purpose Investments Inc., and Richardson Wealth unless otherwise noted.

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