MARKET MINUTE
WITH McGAREL

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Why own equities?

How fast the world can change. Not long ago, in a world of extremely low and even negative interest rates around the globe, stocks flourished as investors claimed "there is no alternative" (the "TINA" acronym) to equities. Investors justified large equity overweights and applauded higher profits but ignored ever increasing valuations as stocks rose much more rapidly than those profits. It worked well. The Federal Reserve ("Fed") funds rate started 2019 at 2.50% and ended 2021 at 0.25%. Stock prices as measured by the S&P 500 Index rose 100% during those three years.

Rates began to climb in early 2022, with the Fed funds rate increasing from 0.25% to 5.50% in only 20 months. Stock prices have fallen 9% over those 20 months.

In today's world of higher interest rates, the most startling narrative we hear is not that equities are no longer the only game in town. That's certainly true. Cash and bonds and alternatives all have real returns today. These are fine places to invest today, in our view. No, what's surprising is those same investors who only owned stocks are now questioning whether to own the asset class at all. Talk about fair weather fans!

That is what a risk-free 5.50% Fed funds rate does to an investor focused on the short run, in our view. Why not sit and wait for more certainty? For anyone focused on creating wealth over time, however; we believe not owning equities is the greater risk. Timing the market rarely works as you have to get two decisions right. When to get out and when to get back in. Would you have bought stocks in March of 2020 as Covid-19 hit and the world shut down? Since March 11th, when the NBA walked off the court, you would have gained 62% if you bought stocks at the close that day through October 31, 2023. If you waited to buy until "Pfizer Monday", November 9, 2020, when Pfizer announced success in testing a vaccine against the virus, you would be up just 24% through today. Almost a 40% difference, or put another way, seven years of pre-tax T-bill returns. Stocks are also significantly superior to fixed-income investments over the long run for after-tax returns and as an inflation hedge.

What if we have a recession? History shows the time immediately prior to and during a recession is not catastrophic for equities. Going back to the 1940s, there have been 12 recessions in the U.S. The average S&P 500 Index return in the 6 months before the recession started was just -1%. During the recession the average return was positive, +3.8% [see table below]. Additionally, rallies often come swiftly and being out of the market can greatly impact your long-term returns.

We believe there is a pretty simple path for investors who plan to grow their wealth instead of celebrating short term market timing which rarely works. Stocks always win in the long run. While moving in and out of the market can create short term gains, it is almost always accompanied with long term underperformance. Instead, we believe the focus should be on maintaining equity exposure while tilting the odds in your favor. In the Market Minute over the course of the year, we have expressed our preference for quality stocks, getting broader in your allocation and focusing on valuation as ways to position within equities in this environment. Those ideas remain our preferred way to maintain equity exposure.

Recessions: Before and After

S&P 500 Index

		Before		After			
Recession Start	Recession End	6 Months	During Recession	1 Year	3 Years	5 Years	10 Years
11/30/1948	10/31/1949	-8.99%	19.01%	35.06%	92.80%	177.83%	510.36%
7/31/1953	5/31/1954	-3.53%	22.94%	36.07%	83.74%	145.16%	295.53%
8/31/1957	4/30/1958	6.52%	-0.94%	37.23%	66.38%	89.85%	211.22%
4/30/1960	2/28/1961	-3.83%	19.74%	13.64%	35.15%	68.41%	112.23%
12/31/1969	11/30/1970	-4.14%	-1.92%	11.25%	20.58%	25.10%	146.56%
11/30/1973	3/31/1975	-7.63%	-7.80%	28.33%	22.08%	55.64%	253.47%
1/31/1980	7/31/1980	12.99%	9.58%	13.00%	56.07%	100.53%	344.64%
7/31/1981	11/30/1982	3.59%	14.23%	25.57%	66.79%	102.96%	350.21%
7/31/1990	3/31/1991	10.12%	7.94%	11.00%	29.79%	98.08%	284.21%
3/31/2001	11/30/2001	-18.75%	-0.91%	-16.51%	8.42%	34.29%	33.17%
12/31/2007	6/30/2009	-1.29%	-35.01%	14.42%	57.66%	136.87%	293.76%
2/29/2020	4/30/2020	1.99%	-1.12%	45.96%	50.11%	N/A	N/A
Average		**-1.08%**	**3.81%**	**21.25%**	**49.13%**	**94.06%**	**257.76%**
Median		**-2.41%**	**3.52%**	**20.00%**	**53.09%**	**98.08%**	**284.21%**

Source: Bloomberg. As of 9/29/2023. This chart is for illustrative purposes only and not indicative of any actual investment. Index returns do not reflect any fees, expenses or sales charges. Index returns shown are total returns.

Past performance is no guarantee of future results.

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The **S&P 500® Index** is an unmanaged index of 500 companies used to measure large-cap U.S. stock market performance. Investors cannot invest directly in an index. **Treasury Bill** (**T-Bills**) is a debt obligation issued by the U.S. Department of the Treasury.

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