Market Turbulence Continues, More Likely to Follow

Stock markets certainly have delivered a lot of movement this year. The S&P 500 gained nearly 5% during the last full week of May after intraday trading took the index into bear market territory (down 20% from the high) briefly, before the recovery put the market about where it started the month.

Last week, market gains were driven largely by upbeat guidance from several retailers, and by proxy, consumer health. The recent reports offset lower earnings from Walmart and Target earlier in the month. There was also talk that markets may have bottomed out with some notable investors voicing optimism regarding future stock prices. In addition, news that China's two-month lockdown in Shanghai is ending reassured investors. City officials reported on May 23rd that low-risk residential areas will reopen, and public transport will restart on June 1st.

Still, concerns abound. There are many projections that the volatile equity markets will continue until there is concrete evidence on significant progress on inflation, which notched 8.3% for April. Valuations also remain high. Jeremy Grantham, a famous Wall Street investor, noted that the S&P 500 would drop by another 45% or so if both margins and price/earnings multiples reverted to their long-run averages.

Fears of a coming recession are also growing. Conjecture from various bank leaders, economists and Fed officials are focused on hopes that a recession will be mild or delayed rather than completely avoided. In addition, realization is growing about what can happen if the Fed fails to deliver it's promised soft landing as there appears to be plenty of room for earnings estimates to plummet and stocks to fall hard.

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All the turmoil may be shocking investors back to reality. Heading into 2022, a Natixis survey of individual investors in 24 countries showed U.S. investors had the highest projections of the group with expectations of 17.5% annual returns going forward. This is phenomenally high compared to the 9.8% returns of the long-term market average, particularly with valuations sitting near record highs. Investor confidence is partially reflected by the high market participation of individuals often due to the COVID funds people received.

Looking forward, guessing the market's direction remains extremely challenging given competing views and contradicting information – hence, the market volatility. Still, at Asteria Wealth we offer various solutions depending on an individual's risk profile. The **Dividend Strategy** has a 20+ year track record of delivering slightly better returns than the stock market with about a third less volatility. The strategy was up over 2.5% for first quarter versus the market's decline of nearly 5%. Other strategies, such as our **Core Strategy**, have offered stronger performance with a bit more volatility than the Dividend Strategy.

Asteria also provides investors ways to diversify away from straightforward market exposure. Our **Liquid Endowment Model** and our **Alternative Funds** enable investors to make investments in sectors that perform quite differently than traditional equities. We also provide access to investments such as **Smart-Veta** that explicitly target lower volatility while maintaining a relatively higher percentage of the market's returns.

Given the challenges markets are facing domestically and abroad, rich valuations, high individual investor expectations, and a never-before attempted COVID recovery, continued volatility seems very likely. Investors should expect this year to continue to be challenging.

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