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After more than a decade of strong returns across most asset classes, rarely interrupted by sustained declines, investments turned rocky in 2022. While in previous years markets did encounter their share of challenges, 2022 brought a new litany of concerns.

Unlike the pandemic and the resulting shutdown, this time, with an overheating economy, the Fed was unable to ride to the rescue. Against this backdrop, declines were both deep and broad. The S&P 500 fell 18% for the year. The NASDAQ 100 index suffered even more with losses over 32%. Other equity indices, from small caps to international, also dropped.

The bond market was also left flat-footed by the sudden reversal. In January 2022, bond markets were predicting the upper limit of the federal funds rate would rise to 1% by the end of the year. Rates instead charged upward and currently stand at 4.5%. Bonds, which often hold up better during challenging times, dropped as the Fed ratcheted up rates, vowing to do whatever it took to tame inflation. The Barclays Aggregate, a measure of the total U.S. bond market, declined with a 13% loss.

With "cheap money" withdrawn, more speculative assets did far worse. Major cryptocurrencies, pumped by a volatile mix of social media, Super Bowl ads and leverage, lost over 60%. Some others went to zero. Many of the "hot" SPAC IPOs and meme stocks fell back to earth, often in dramatic fashion. The CNBC Post-SPAC index sank over 60% in 2022 and is down roughly 80% from 2021 highs.

Amid the declines, there seems to be a pattern. While most investment returns were disappointing, investments with short operating histories and hype were often hit the hardest.

Perspective on a negative year

As we enter 2023, the media has been busy reporting the performance of 2022. A headline that has been repeated many times is a jarring one: "Worst S&P 500 market decline since 2008." As usual, examining the numbers rationally can put the decline into perspective. During the thirteen calendar years between 2008 and 2022, the S&P 500 was down a total of… (brace yourself…) once. That was 2018, when the S&P 500 edged down 4.4%.

So, there are at least two ways to interpret the "worst decline since 2008" headline. One is that equities logged the worst annual returns since the Great Recession- so things must be really bad. The second, which we believe is correct, is even considering bad years that come along, stocks, driven by human resilience and ingenuity, have produced solid returns over time.

This concept was also displayed over the tumultuous markets of the last three calendar years. Investors were feeling pretty good at the end of 2019. The S&P 500 ended the year up over 30%. Inflation and interest rates were low. When 2020 rolled around, things went bad quickly. Investors were hit with unwelcome news on multiple fronts.

A pandemic spread throughout the world with tragic human consequences. Productivity and the supply chain buckled. Governments raced to inject massive stimulus to the system. While the stimulus worked, it eventually caused rampant

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inflation. Russia invaded Ukraine, causing a humanitarian crisis, and threatened to destabilize Europe. The Fed reacted to inflation by implementing giant interest rate hikes, causing bond yields to spike.

Many would be surprised to know that through these challenging events, the S&P 500 produced a 7.7% positive compound annual return over the trailing three-year period. We think this provides important lessons concerning discipline, restraint and proper portfolio construction.

Forecasters disappoint…again.

With these dramatic market movements, one would think the "experts" would have seen this coming. In December 2021, the Wall Street Journal reported a survey of leading New York-based investment banks, with three quarters of the respondents predicting a positive return for the S&P in the upcoming year. The most positive forecast was roughly a 7% increase, while the most bearish predicted a small 3% loss. So, with an 18% decline, the closest guess was off by 15 percentage points and the worst was off by 25 percentage points. These predictions were not some kind of uncommon outlier. They have been compiled and published regularly by the Wall Street Journal and others. They generally don't have a high level of accuracy.

Our path forward

We see several positives emerging among the declines. First, for markets to be healthy, excessive valuations and behaviors need to be periodically wrung out of the system. With the crushing declines in speculative investments and excessive risk-taking behaviors, that has definitely been happening. Secondly, bond yields have been artificially depressed for many years, robbing investors of future cash flow. The declines of bond prices have not been pleasant, but they likely portend higher returns in the future.

Investments have been great vehicles for building wealth over time. Markets are also volatile, unforgiving, and defy short-term predictions. Discipline and mathematics can help find the path. Common sense also helps. The goal is to carefully build risk-aware portfolios that can weather the inevitable declines and build wealth responsibly over time. We call that getting clients "all the way home." It is at the core of what we do.

We're right here

Part of our job is to do the math and manage capital. It is also our job to communicate, inform and most importantly, to listen. We're right here if you need us.

Sources: Hartford Funds, Forbes, CNBC, S&P Global, Wall Street Journal, The Economist, Federal Reserve Bank of St. Louis

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