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My Returns are Disappointing, is Something Broken?

When did the US stock market peak?

US stocks as measured by the most popular index (the S&P 500) peaked mid-day January 4, 2022. Since that date, they've moved pretty much straight down. There's nothing unusual, abnormal, or unexpected about this. Investing is all about making money . . . about making a fair and reasonable return. But investing is also about losing money. One can't have one without the other . . . that's just not possible. Never has been and never will be.

Is there anything unusual about the period since January 4th?

But why didn't my portfolio perform better? Afterall, it has the ability to move across asset categories . . . ideally accessing those specific investments (perhaps bonds or gold or international or even real estate) that are going up, or at least holding steady?

From a historical standpoint, the last 262 days (Jan 4th through Sep 23rd) has been fairly unusual and quite rare. Unusual in the sense that there's been no place to shelter from the storm. Pretty much everything (and I mean everything) has been going down at the exact same time . . . and down big. Yes, this simultaneity has happened before, but it's downright rare!

The simple truth is that no portfolio, no matter how active, no matter how thoughtful, no matter how brilliantly managed . . . can make something out of nothing. And if there are no positive returns to be had, then no active portfolio will be able to hold up.

What have asset class returns been since the January 4th market peak?

Stocks, both domestic and international, are down big. The most conservative bonds, US Treasuries, are all down (unless you kept your average maturity under seven months, in which case you earned between 0% and 0.1%). Investment grade corporate bonds are all down big. International bonds of every type are all down even bigger. TIPS bonds which protect you against rising inflation are all down double-digits. Real estate has been crushed. Gold and all other precious metals are down. Base metals such as aluminum, copper, zinc, and tin are all down. The only areas to deliver positive returns have been oil, natural gas, coal, and some but not all agricultural foods.

The next page shows the returns for 23 different asset types. Adding insult to injury, the last row of the table reports what inflation did over the last 262 days (since Jan 4th) . . . consumer prices rose +6.1%.

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Total returns since mid-day Jan 4, 2022 (as of Sep 25th)

US stocks		
Large cap	-22.5	S&P 500
Mid cap	-21.3	S&P midcap
Small cap	-23.8	S&P smallcap
Technology	-29.2	SPDR technology
International stocks		
Developed country	-27.2	FTSE index
Emerging markets	-23.0	FTSE index
Real estate		
REITs	-26.5	MSCI REIT index
US Treasury bonds		
Almost cash	0.0	1-12 month Treasuries
Ultra-short Treasury bonds	-4.5	1-3 year Treasuries
Intermediate Treasuries	-14.1	7-10 year Treasuries
Ultra-long Treasury bonds	-33.0	25+ year zero coupon
Inflation protected bonds		
TIPS bonds	-11.2	Treasury Inflation Protected Securities (TIPS)
US investment grade bonds		
Aggregate bond	-13.0	Barclays aggregate bond index (Gvt and Corp)
Short-term corporate	-6.9	1-5 year corporates
Corporate bonds	-18.6	Intermediate-term
Municipal	-9.9	Intermediate muni bonds
International bonds		
Diversified investment grade	-12.1	All bonds, currency hedged
Emerging market	-15.3	Local currency bonds
Precious metals		
Gold	-9.8	Bullion
Diversified precious metals	-10.2	Gold, silver, platinum, palladium
Industrial & agricultural commodities		
Diversified commodities	13.3	All commodities
Oil	16.5	West Texas intermediate light crude
Base metals	-19.2	Aluminum, zinc, copper
Inflation		
CPI	6.1	Consumer price index

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The good news

No one can forecast future returns. But we can make two important and well-founded observations.

First - There have been periods like this in the past (the last 125 years). But they are extremely rare and have never lasted for more than nine months. So based on history, it's reasonable to expect that the current episode, defined by **everything** going down at the same moment, is nearing its end.

Second - The factor that's driven the current unpleasantness, has been rapidly rising interest rates. Back on March 9, 2020 interest rates stood at just 0.499% (for the 10-year Treasury bond). Today, interest rates are at 3.68%. So, interest rates rose by +3.18% in absolute terms. But that's the wrong number to look at. Instead, you want to focus in on the proportionate change, in other words, interest rates rose by +637% proportionately. This was a big deal. Just how big? Well, we haven't seen anything this extreme since about 1850. Thankfully the large proportionate rise is over. Sure, are interest rates likely to continue to rise, and perhaps over the long-run, **yep**. But now in a slow and gradual fashion. No more extreme proportionate moves. Interest rates aren't going up another +637%. It's just not possible.

So soon, although nobody knows exactly when, there will be asset categories that provide shelter from the storm, even offering quite attractive returns. Bottom line . . . **no, your portfolio is not broken**.

Your financial advisor has a menu of possible investment solutions that are directly relevant to the issues discussed above. But the solution that is most appropriate to your unique needs and circumstances can only grow out of a meaningful discussion with your advisor. Reach out to them, talk with your advisor.

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