Staying confident during turbulent markets

By David Wynn, CFA®, Portfolio Manager

Financial markets often experience highly volatile conditions during periods of economic transition like we're currently experiencing. When market conditions appear to become unfavorable or economic news becomes unsettling, the uncertainty can prompt some investors to head for the exits and ask questions later. At Commerce Trust, we believe staying focused on long-term financial or retirement goals requires the ability to navigate through all market cycles.

History can provide some perspective. Here are five themes to demonstrate how the stock market — as represented by the S&P 500 Index — has continued a long-term upward trend, even following the most turbulent market settings.

Stay the Course

Through bull and bear markets, through recessions and wars, investing opportunities tend to reward patient investors. Since 1925, the S&P 500 has produced a 10.1% compound annual return. So, a hypothetical $1 investment in stocks made in 1925 would have a value exceeding $11,000 today despite all the declines the market has experienced in nearly 100 years (see chart.)

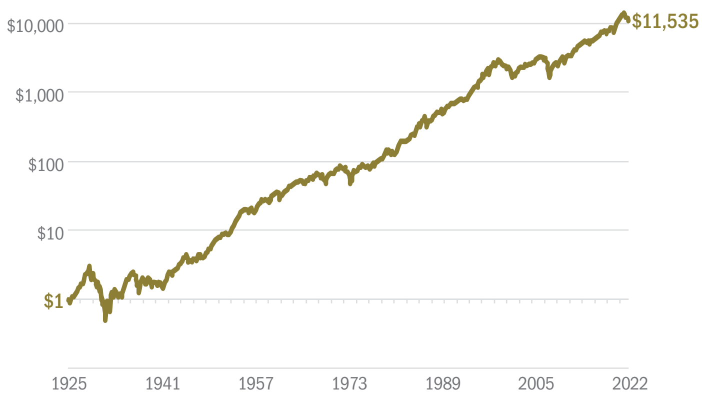
Think about what occurred over the past 100 years: The Market Crash of 1929 and Great Depression, World War II, the 1973 oil crisis, Black Monday in 1987, the dot-com bubble in the early 2000s, the subprime mortgage crisis of 2007 and most recently, the COVID-19 pandemic. Certainly, investors experienced unsettled feelings during these periods as we might today. This is a great example of how time can work for individuals who stay invested in the market.

Time in the Market

Some people believe investing is a matter of timing. As the saying goes, "Buy low, sell high." But there's a problem with this mindset: Even the smartest investment professionals can't accurately predict the exact timing of market moves.

Value of $1 invested in the S&P 500 Index

(12/31/1925 – 12/31/2022)



Source: Ibbotson.

We believe long-term investment success is more likely the result of a consistent approach, based on time in the market — not market timing. For example, selling when markets decline can put you on the sidelines when stocks change direction. Turnarounds often happen quickly and typically are strong during the early stages.

Let's look at the S&P 500 over the past 20 years. In virtually all years, market volatility resulted in intra-year drawdowns, with some being painful. It's common for the market to recover some of those losses during the year, with annual returns that typically are more positive than the worst declines. It's worth noting the three years with the most dramatic drawdowns typically delivered higher annual returns.

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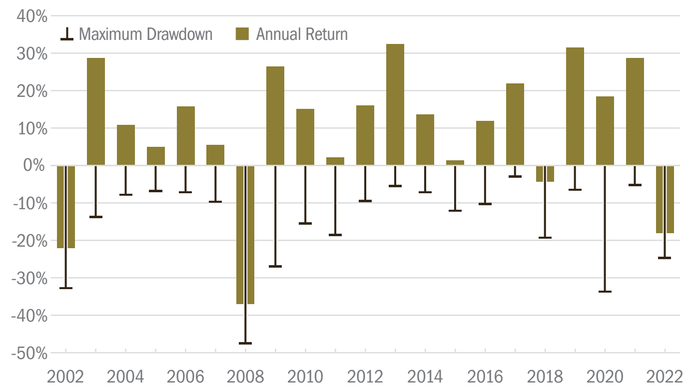
S&P 500 Index intra-year drawdowns vs. annual total returns *(2002 – present)*



Source: Commerce Trust, with daily data from Morningstar.

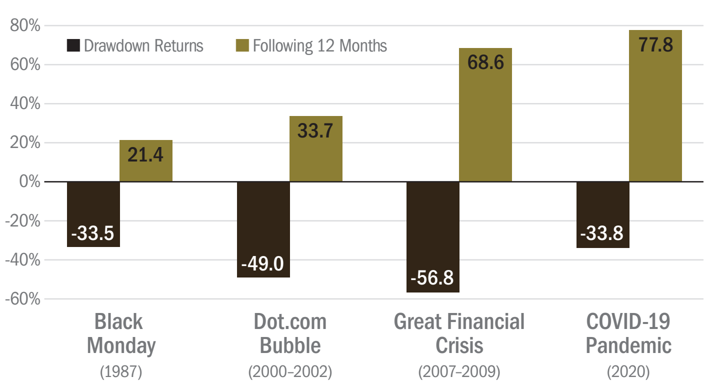
Bulls Follows Bears

A bear market is defined as a decline of 20% or more of a major stock market index for a sustained period amid widespread pessimism and negative investor sentiment. Bear markets like we're currently experiencing can test even the most steadfast long-term investors. However, these conditions don't last forever. In fact, the most memorable short-term declines over the past 35 years all produced double-digit returns within 12 months from the market bottom.

Despite the economic challenges of those difficult years, a patient and committed investor could have had a positive return on money invested in the stock market.

Past bear market declines and subsequent rallies

S&P 500 Index drawdowns and total returns from market bottom



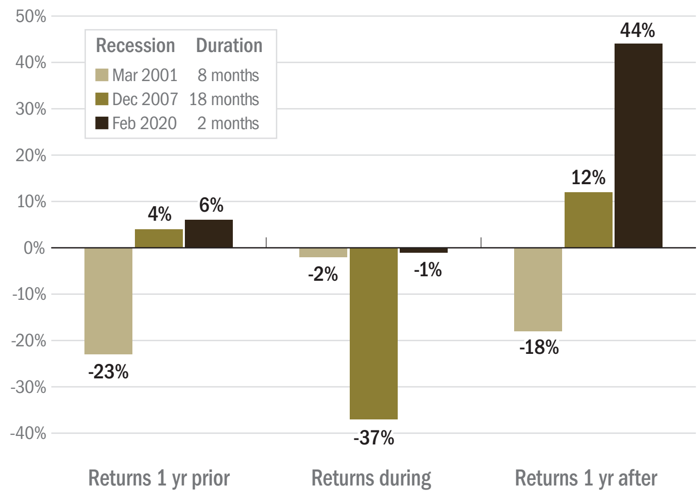
Source: Commerce Trust, BlackRock.

Stocks Performance Around Recessions

Looking at our current economic environment, there's little doubt the U.S. economy is cooling. The pace of growth as measured by gross domestic product (GDP) was negative for the first two quarters of 2022. While the economy rebounded in the second half of the year, we believe the odds have significantly increased that the U.S. economy slips into a recession at some point in 2023, most likely the latter half of the year.

How do stocks perform around recessions?

S&P 500 Index performance before, during and after the past three recessions



Source: Commerce Trust, Morningstar.

What does this mean for investors? Using recent history as a guide, stock performance often begins to decline before the official start of a recession and frequently begins to rebound before it ends. More importantly, the S&P 500 tends to bounce back sharply within the following year of a recession, with the 2001 dot-com bubble contraction being the exception. Remember: being out of the market when turnarounds happen can be costly.

Perspective and Resilience

Working with a financial professional, there are actions investors can take during turbulent markets. A diversified portfolio may help smooth returns when certain areas of the market are underperforming. Periodically rebalancing a portfolio during extended periods of market stress may present buying opportunities. In addition, taking the steps to de-risk a portfolio during downturns may reduce exposure to more volatile asset classes. A diversified portfolio invested in quality investments will allow the opportunity to not miss out when the market recovery begins.

Another important consideration is to remember an investment timeline probably extends longer than next week or next year. The time horizon to retirement could be even five, 10 or even 20 years for some investors. At Commerce Trust, we help clients focus on investments through retirement. If you have questions about your portfolio, contact a Commerce Trust financial advisor to be sure your investments are properly aligned with your goals.

Remember these key concepts:

- **Follow a solid investing strategy rather than emotion.**
- **Don't let a short-term reaction overtake long-term plans.**
- **Invest regularly and stay committed to your goals.**
- **Work closely with a financial advisor to consider all investment options.**

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David is a portfolio manager with Commerce Trust Company. Upon gaining a thorough understanding of a client's needs and goals as well as assessing the client's entire financial situation, he works with our investment research team to construct a portfolio to help clients achieve their long-term goals. David comprehensively represents our research- and goals-based investment process, from the initial assessment and creation of an investment objective to ongoing evaluation and adjustments based on changing market and life circumstances. With a deep knowledge of the market and experience in investment management, he serves clients with thought leadership, insight, and consulting services. Prior to joining Commerce, David created and implemented the equity investment process and was responsible for individual security selection and allocation at Cole Taylor Bank. Before Cole Taylor Bank, he worked at Harris Bank as an investment officer with responsibility of investment management for the firm's high net worth clients. David also worked in the investment unit at the Kemper Insurance Companies. David earned his Bachelor of Science in finance at Brigham Young University in 1996. He has successfully completed the Chartered Financial Analyst program and has earned the Chartered Financial Analyst® designation. David is also a member of the Association for Investment Management and Research and the Investment Analysts Society of Chicago. He currently serves on the Community Foundation Investment Committee.

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