June 2022 | Alexis Investment Partners, LLC | 925-457-5258

Alexis Investment Partners, LLC

Practical ◊ Tactical

Summary

The stock market correction **paused in May as stocks and bonds recorded modest gains, but not before pushing the S&P500 into a bear market (decline of -20% from the recent peak to intra-day low - more on page 3). Our portfolios have generally continued to outpace benchmarks through this difficult period.**

The **S&P500** ETF **(SPY) gained +0.23% in May** but is down -12.8% year-to-date. The tech-heavy Nasdaq ETF (QQQ) lost -1.6% in May, while the Small Cap Russell 2000 ETF (IWM) gained +0.19%.

Global stocks outperformed. The All Country ETF (ACWI) gained +0.45% in May. **REITs (ICF) fell -4.8% last month while Gold (GLD) dropped -3.3%. Bonds gained as yields fell**, with the aggregate bond ETF (AGG) up +0.76%. More insights about year-to-date performance are on page 2.

The Fed and government have provided extraordinary stimulus since March 2020 to help offset the economic fallout of COVID and associated shutdowns and economic disruptions. Regardless of one's political views, the decision to shut down businesses and limit activity in response to the COVID pandemic was made and without replacing lost income and providing credit and support to businesses, few would have been able to sustain themselves. **Injecting income without producing goods and services has led to inflation as supply chains and productivity have been unable to keep pace with demand as economic activity resumes.**

This is much better than having allowed a depression, but the Fed is overdue to remove stimulus, restore interest rates to more normal levels and allow the economy to re-take the reins. Markets have been quick to adapt by reducing duration, leading to lower PE multiples and higher dividend yields for stocks and higher interest rates for bonds and loans including mortgages. This adjustment has been painful, sparking fear of a slowdown and potential recession (not my base case, but possible) and may not be over – but it is necessary and should eventually lead to a more sustainable recovery.

What to Expect in Portfolios

Last month we wrote: "With significant interest rate hikes priced in, expectations of slow growth and potential recession elevated, and stocks testing recent lows, **we are cautiously optimistic**."

May started weak but finished strong with stocks and bonds earning modest gains but still well below recent highs.

As stocks declined into bear market territory, our indicators improved and we took advantage of widespread selling to add to some of our highest conviction holdings, add equity exposure to our tactical portfolio and position for eventual recovery (or at least a strong bounce).

Despite recent strength, stocks remain in a downtrend and we expect to remain active as we continue to watch for signs of a durable recovery or continued bear market and adapt accordingly.

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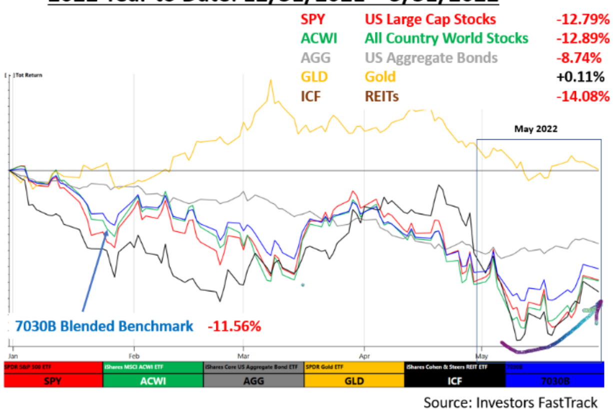
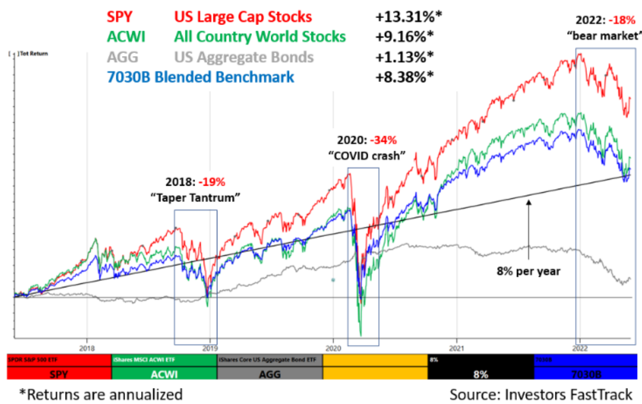
Stocks and Bonds enjoyed modest gains in May. Gold and REITs also rebounded off early losses but finished in the red. All asset classes are trending down, prompting us to shift our Market Pulse from "Correction" to "Bear Market". Is the worst over? More on page 3…

The last 5 years included the current -18% decline, the -34% COVID crash and a -19% Fed induced pullback in 2018. The black line shows a flat +8% per year return (most financial plans assume long-term annualized returns between 6% and 8%). Overall results have been surprisingly normal.

2022 Year to Date: 12/31/2021 – 5/31/2022



Trailing 5 years: 5/31/2018 – 5/31/2022



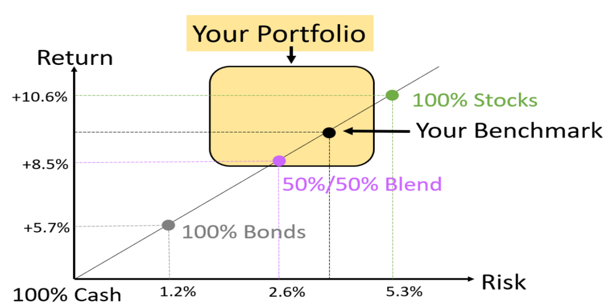
Insights and Commentary

Investing can be an emotional roller coaster leading to costly mistakes. To navigate effectively as we seek greater participation in advances than declines, we have found it helpful to monitor a series of indicators and models based on 3 key tenants summarized in the chart below:

The May lows checked several encouraging boxes among our trend, valuation, and sentiment indicators. Markets became extremely "oversold", breadth indicators showed investors throwing out the baby with the bath water, valuations fell as earnings grew while stock prices fell, and investors expressed extreme pessimism (implying that many have sold out or are holding back from investing – creating fuel for a potential rebound).

As extraordinary support is scaled back by the Fed by raising interest rates and reducing their balance sheets, **monetary conditions are getting tighter.** That said, these **conditions are still more accomodating than restrictive.** In other words, interest rates are below inflation, banks are lending, businesses have very strong balance sheets, most mortgages are fixed at very low rates and there is still a lot of cash on the sidelines fueling consumption – especially of services.

Risk/Return Expectations



Based on historical data from 1990-2020

We kept this graphic as an important reminder that our goal is to add value (generate higher risk-adjusted returns) through full market cycles by allowing our portfolios to deviate from benchmarks. **We base allocation decisions on an assessment of both risk and return potential.**

Bond yields remain below inflation but have improved. We still favor a diversified portfolio of stocks, REITs and gold but appreciate that bonds now offer a reasonable yield. Portfolios are based on client needs, goals and preferences.

The Deeper the Stock Market Decline, the Longer the Recovery[1]

Declines in the S&P 500® (Since 12.31.1945). Historically, the majority of market pullbacks have registered declines under 20%.

Decline %	Number of Declines	Average Decline %	Average Length of Decline in Months	Average Time to Recover in Months
5-10	84	(7)	1	1
10-20	29	(14)	4	4
20-40	9	(28)	11	14
40+	3	(51)	23	58

Source: Guggenheiminvestments.com

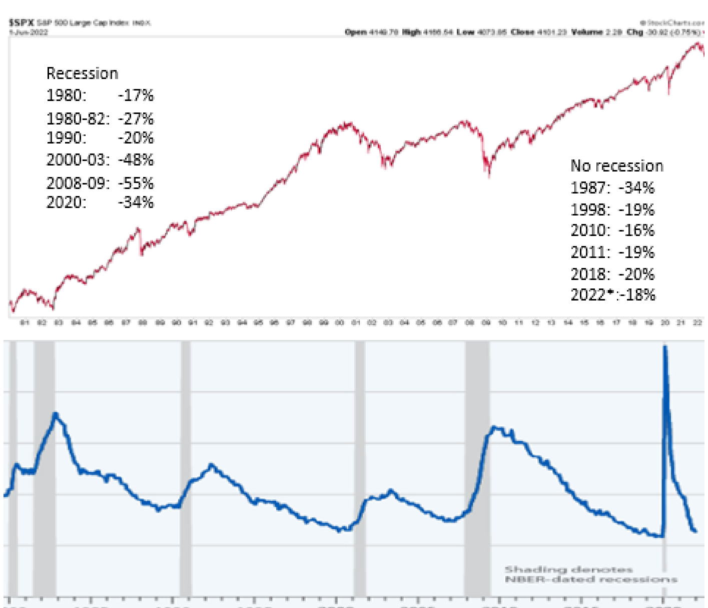
Update, Observations, Indicators and Outlook:

Our market pulse continues to highlight a "bottoming process", but we shifted from "Correction" to "Bear Market" to acknowledge that although stocks finished May with modest gains, they remain in a down trend that has pushed many stocks deep into bear market territory. Measured on an intra-day basis, the S&P500 index briefly reached -20% before rebounding to close -18% and finish the month -13%.

As shown on the chart above, **Corrections of -10% to -20% are much more common than declines of -20% or more and tend to recover relatively quickly.** Even when stocks have declined between -20% and -40%, they have historically recovered in an average of 1-2 years.

I see little evidence of near-term recession, but respect that risks are elevated while the Ukraine war persists, inflation is high, and the Fed is aggressively removing its extraordinary support. I find the chart below comforting.

The chart below from 1980 – May 2022 shows the S&P500 index (Stockcharts.com - top) and recessions (gray bars) and unemployment rate (NBER - bottom). **The tables show the 12 declines greater than -15% over that 42-year period. Half occurred in or around a recession, while the other half were simply sharp declines with no recession.** The S&P500 gained +11.73% annualized over this time (officialdata.org).



Market Pulse:

We try to avoid jargon, but a few terms are helpful when describing financial conditions.

Bull Market: markets trending up (making higher highs on rallies and higher lows in periods of decline).

Consolidation: after a period of strong gains or steep declines sometimes markets become range bound, moving up and down by 3-5% over several weeks. After consolidation, the prior trend resumes.

Pullback: a decline of 3-5% that generally happens at least twice per year. Pullbacks often resolve within a few weeks.

Correction: a decline of 5% to 10% that typically happens once per year. Like pullbacks, markets recover quickly after corrections, generally within 3-6 months.

Bear Market: a decline of 20% or more. Many bear markets are fully recovered within 18- 24 months, but severe bear markets like 2000-2003 and 2007-2009 can take 5-7 years or longer to recover from. **The S&P500 fell briefly into a bear market before a month-end rally. On a closing basis, the maximum loss has (so far) been contained at -18%.**

Bottoming Process: After a correction or bear market, stocks often bounce and re-test lows multiple times before recovery. **May brought fresh lows but finished flat. We respect the downtrend but are investing opportunistically as we await further evidence of a durable low.**

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Closing Comments:

Several clients have recently been speaking with friends who are looking to make a change either because they are nearing a life transition or have been unhappy with their current advisor. We appreciate your referrals and are pleased that our company continues to enjoy steady growth. Our focus is always on providing exceptional service and performance and we are very grateful for your confidence and support!

Although our focus is on financial planning and investments, we also help with life and LTC insurance and annuities. And, we have resources and relationships that can help with employee benefits, lending needs, accounting, estate planning and other important decisions.

As an Accredited Investment Fiduciary (AIF), Jason acts as a 3(38) Fiduciary Advisor to 401k plans and has been able to help several small business owners reduce costs, significantly improve their plans and offload some of their liability as plan sponsors while creating a better experience for employees.

Please call and/or email me personally for most of your account servicing needs and especially when you have questions or concerns.

Disclosures

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