Five charts for a bear market

As of June 13, 2022
Sentiment is under pressure due to higher rates, elevated food & energy inflation, and concerns about recession. However, sentiment at these levels has historically coincided with healthy returns over the next 12 months. On average, buying at a confidence peak yielded an average return of 4.4% while buying at a trough yielded an average return of 24.5%. This is not to argue that U.S. stocks will rise 24.5% in the 12 months ahead. Many other factors will determine that outcome. However, it does suggest that investors should focus on valuations and fundamentals rather than how they feel about the world.
With the S&P now in bear market territory, forward returns are more attractive. If the S&P 500 were to return to its peak in a year, investors would enjoy returns of 29.6%. If it took two years, an investor would experience an annualized return of 14.8%. As such, forward returns are currently looking far more attractive than was the case at the start of the year, even if new all-time highs are not set in the short-term.
For bond investors, the move higher in Treasury rates and the widening in credit spreads has led to some of the most attractive yield levels in recent history. Given the very tight relationship between current yields and subsequent performance, bond investors can expect decent returns from the income/coupon these assets will generate over the next few years. Moreover, the move in yields now suggests bonds can provide more of a buffer in a market correction or an economic downturn. With recession risks elevated, stepping back into duration as a portfolio hedge seems appropriate.
The forward P/E ratio of the S&P 500 is now below its 25 year average; like fixed income, valuations are now looking more attractive. While it is very difficult to predict what the market will do in the coming year, over a 5-year period, valuations can be a more accurate predictor of returns. Based on a historical analysis of forward valuations and subsequent 5-year S&P 500 annualized total returns, a forward P/E ratio in the 15.5-16.5x range suggests an expected annual return of 7-9%.
Volatility is unavoidable in investing. There are many measures of market volatility including the standard deviation of returns, the VIX index, implied options volatility and dozens more. For long-term investors, the most meaningful measure may be the largest intra-year decline (or maximum drawdown) since it represents the largest loss an investor experiences during a given year. On average the S&P 500 falls by 14% from peak-to-trough during the course of the year. The volatility we are seeing this year is uncomfortable, but frankly more normal than what was observed in 2021. It may be difficult to get back into positive territory by year-end, but more clarity on inflation and the Fed should allow risk-assets to stabilize.
All indices are unmanaged and an individual cannot invest directly in an index. Indexes returns do not include fees or expenses.

Equities

The Dow Jones Industrial Average is a price-weighted average of 30 stock-market leaders, blue-chip U.S. stocks.

The MSCI Country World Index is a free-float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets.

The MSCI EMU (Europe, Middle East, and Africa) free-float-adjusted market capitalization index is designed to measure the equity market performance of developed and emerging markets.

The MSCI Europe Index is a free-float-adjusted market capitalization index that is designed to measure equity market performance in Europe.

The MSCI Pacific Index is a free-float-adjusted market capitalization index that is designed to measure equity market performance in the Pacific region.

The Russell 2000 Index measures the performance of the lowest 2,000 companies in the Russell 3000 Index.

The Russell 3000 Index measures the performance of the lowest 3,000 companies in the Russell 3000 Index.

The Russell Midcap Index measures the performance of the mid-sized companies in the Russell 3000 Index.

The Russell Smallcap Index measures the performance of the smallest companies in the Russell 3000 Index.

The S&P 500 Index is a widely regarded benchmark of the U.S. equity market. The index includes a broad mix of 500 large-cap companies, or blue chips, domestic and foreign.

The S&P 100 Index is a widely regarded component of the S&P 500 Index that includes larger-cap companies in the market. However, small includes a significant portion of the total market value of the index, it also represents the market.

Fixed Income

The Bloomberg U.S. Treasury Bond Index includes all public domestic debt issues (U.S. Treasury Bills that are either taxable or tax-exempt) of at least 1 year maturity value that have a maturity of less than 10 years in total outstanding. These securities must be denominated in U.S. dollars and must be fixed-rate and non-callable.

The Bloomberg Global High Yield Index is a multicurrency weighted measure of the global high yield debt market. The index is equal-weighted by market value of the three largest issuers and includes bonds issued by corporations based in the U.S., Europe, or Japan. The index is made up of bonds with a rating of less than or equal to Baa3/BBB, issued by governments, governmental agencies and related entities, as well as non-agency mortgage-backed structured products and select collateralized loan obligations. The index is made up of bonds with a rating of less than or equal to Baa3/BBB, issued by governments, governmental agencies and related entities, as well as non-agency mortgage-backed structured products and select collateralized loan obligations.

The Bloomberg Corporate High Yield Bond Index tracks the performance of the corporate high yield bond market. The index consists of all corporate high yield bonds, which are rated below investment grade (BB+/B+/B) and above junk grade (CC/C).

The Bloomberg Emerging Markets Bond Index (EMBI) is a broad market index that includes all emerging market sovereign and quasi-sovereign debt issued by emerging market countries and denominated in U.S. dollars. The index includes all sovereign debt, Brady bonds, loans, Eurobonds, and local market debt instruments issued by emerging market sovereigns and their quasi-sovereigns.

The Bloomberg Emerging Markets Bond Index (EMBI) includes all emerging market sovereign and quasi-sovereign debt issued by emerging market countries and denominated in U.S. dollars. The index includes all sovereign debt, Brady bonds, loans, Eurobonds, and local market debt instruments issued by emerging market sovereigns and their quasi-sovereigns.

The Bloomberg Emerging Markets Bond Index (EMBI) includes all emerging market sovereign and quasi-sovereign debt issued by emerging market countries and denominated in U.S. dollars. The index includes all sovereign debt, Brady bonds, loans, Eurobonds, and local market debt instruments issued by emerging market sovereigns and their quasi-sovereigns.

The Bloomberg Emerging Markets Bond Index (EMBI) includes all emerging market sovereign and quasi-sovereign debt issued by emerging market countries and denominated in U.S. dollars. The index includes all sovereign debt, Brady bonds, loans, Eurobonds, and local market debt instruments issued by emerging market sovereigns and their quasi-sovereigns.

The JPMorgan Global Emerging Markets Bond Index tracks the performance of all global emerging market bonds. The index consists of all emerging market sovereign and quasi-sovereign debt issued by emerging market countries and denominated in U.S. dollars. The index includes all sovereign debt, Brady bonds, loans, Eurobonds, and local market debt instruments issued by emerging market sovereigns and their quasi-sovereigns.

The JPMorgan Global Emerging Markets Bond Index tracks the performance of all global emerging market bonds. The index consists of all emerging market sovereign and quasi-sovereign debt issued by emerging market countries and denominated in U.S. dollars. The index includes all sovereign debt, Brady bonds, loans, Eurobonds, and local market debt instruments issued by emerging market sovereigns and their quasi-sovereigns.

The JPMorgan Global Emerging Markets Bond Index tracks the performance of all global emerging market bonds. The index consists of all emerging market sovereign and quasi-sovereign debt issued by emerging market countries and denominated in U.S. dollars. The index includes all sovereign debt, Brady bonds, loans, Eurobonds, and local market debt instruments issued by emerging market sovereigns and their quasi-sovereigns.

The JPMorgan Global Emerging Markets Bond Index tracks the performance of all global emerging market bonds. The index consists of all emerging market sovereign and quasi-sovereign debt issued by emerging market countries and denominated in U.S. dollars. The index includes all sovereign debt, Brady bonds, loans, Eurobonds, and local market debt instruments issued by emerging market sovereigns and their quasi-sovereigns.

The JPMorgan Global Emerging Markets Bond Index tracks the performance of all global emerging market bonds. The index consists of all emerging market sovereign and quasi-sovereign debt issued by emerging market countries and denominated in U.S. dollars. The index includes all sovereign debt, Brady bonds, loans, Eurobonds, and local market debt instruments issued by emerging market sovereigns and their quasi-sovereigns.

The JPMorgan Global Emerging Markets Bond Index tracks the performance of all global emerging market bonds. The index consists of all emerging market sovereign and quasi-sovereign debt issued by emerging market countries and denominated in U.S. dollars. The index includes all sovereign debt, Brady bonds, loans, Eurobonds, and local market debt instruments issued by emerging market sovereigns and their quasi-sovereigns.

The JPMorgan Global Emerging Markets Bond Index tracks the performance of all global emerging market bonds. The index consists of all emerging market sovereign and quasi-sovereign debt issued by emerging market countries and denominated in U.S. dollars. The index includes all sovereign debt, Brady bonds, loans, Eurobonds, and local market debt instruments issued by emerging market sovereigns and their quasi-sovereigns.

The JPMorgan Global Emerging Markets Bond Index tracks the performance of all global emerging market bonds. The index consists of all emerging market sovereign and quasi-sovereign debt issued by emerging market countries and denominated in U.S. dollars. The index includes all sovereign debt, Brady bonds, loans, Eurobonds, and local market debt instruments issued by emerging market sovereigns and their quasi-sovereigns.

The JPMorgan Global Emerging Markets Bond Index tracks the performance of all global emerging market bonds. The index consists of all emerging market sovereign and quasi-sovereign debt issued by emerging market countries and denominated in U.S. dollars. The index includes all sovereign debt, Brady bonds, loans, Eurobonds, and local market debt instruments issued by emerging market sovereigns and their quasi-sovereigns.

The JPMorgan Global Emerging Markets Bond Index tracks the performance of all global emerging market bonds. The index consists of all emerging market sovereign and quasi-sovereign debt issued by emerging market countries and denominated in U.S. dollars. The index includes all sovereign debt, Brady bonds, loans, Eurobonds, and local market debt instruments issued by emerging market sovereigns and their quasi-sovereigns.

The JPMorgan Global Emerging Markets Bond Index tracks the performance of all global emerging market bonds. The index consists of all emerging market sovereign and quasi-sovereign debt issued by emerging market countries and denominated in U.S. dollars. The index includes all sovereign debt, Brady bonds, loans, Eurobonds, and local market debt instruments issued by emerging market sovereigns and their quasi-sovereigns.
Investments in emerging markets are more volatile. The values of all investing in foreign countries are subject to exchange rate fluctuations, which are the result of many factors, including changes in political and economic conditions, differences in accounting and taxation policies outside the U.S. can raise or lower returns. Some overseas markets may not be as politically and economically stable as the United States and other nations. Differences in accounting and taxation policies outside the U.S. can raise or lower returns. Some overseas markets may not be as politically and economically stable as the United States and other nations.

Bond investment may be subject to a higher degree of market risk because of concentration in a specific industry, sector or issuer. As a result, foreign investments may be more sensitive to movements in global interest rates than comparable investments in domestic markets. They are also subject to the special risks of foreign investing, including:

- Political and economic instability in a country or region;
- Currency fluctuation and the risk of devaluation;
- Country-specific risks, including limited liquidity, higher capital gains tax rates and capital controls; and
- Possible restrictions on non-resident withdrawal of funds.

Global macro strategies trade a broad range of strategies in which the investment process is predicated on movements in interest rates and other indicators. Global macro managers attempt to identify market conditions, sometimes rapidly or unpredictably. These price movements may result from factors affecting individual companies, markets, industries and countries. Global macro strategies may involve leverage. The value of commodity investments may be more volatile than comparable investments in other asset classes. They are subject to a higher degree of risk because commodity prices may be influenced by many factors, including changes in economic conditions, the global political climate, and weather-related events such as drought, floods and adverse weather conditions. Commodity investments are also subject to the risks of a disparity in the relationship between multiple securities. They are also subject to the risks of inflation, deflation or high inflation. The value of commodity investments is also dependent on the price relationship between two or more related products. Commodity investments can also be more volatile than comparable investments in other asset classes. They are subject to the risks of inflation, deflation or high inflation.
The Market Insights program provides comprehensive data and commentary on global markets without reference to products. Designing it as a tool to help clients understand the markets and support investment decisions, the program explores the implications of current macroeconomic and changing market conditions.

For the purposes of MiFID II, the JPM Market Insights are not independent research, have not been prepared in accordance with legal requirements designed to promote the independence of investment research, nor are they subject to any prohibition on dealing ahead of the dissemination of investment research.

This document is a general communication being provided for informational purposes only. It is educational in nature and not designed to be taken as advice or a recommendation for any specific investment product, strategy, plan, action or other purpose or in any jurisdiction nor is it a solicitation from JPMorgan Asset Management (Europe) LLP to participate in any of the transactions mentioned herein. Any opinions, ideas, data, views or information expressed herein are based on sources believed to be reliable but no warranty of accuracy is given and no liability in respect of any error or omissions is accepted. It should not be construed as legal, tax, or investment advice or as a commitment from JPMorgan Asset Management or any of its subsidiaries, nor is it a commitment from JPMorgan Asset Management to purchase or sell any security. It should not be construed as legal, tax, or tax planning advice. This information is not an offer to buy or sell any financial product. The information provided is for general information purposes only. The information is believed to be appropriate to their personal goals. Investors should ensure that they obtain all available relevant information before making any investment. Any forecasts, figures, opinions or investment techniques and strategies set out are for information purposes only, based on certain assumptions and current market conditions and are subject to change. Past performance is not a reliable indicator of future performance and yields are not reliable indicators of current and future results.

JPMorgan Asset Management is the brand for the asset management business of JPMorgan Chase & Co. and its affiliates worldwide.

To the extent permitted by applicable law, we may record telephone calls and monitor electronic communications to comply with our legal and regulatory obligations and internal policies. Personal data will be collected, stored and processed by JPMorgan Asset Management (Europe) LLP. Further information is available on our website: https://am.jpmorgan.com/global/privacy.

For the purposes of MiFID II, the JPM Market Insights and Portfolio Insights programs are marketing communications and are not independent research, have not been prepared in accordance with legal requirements designed to promote the independence of investment research, nor are they subject to any prohibition on dealing ahead of the dissemination of investment research.