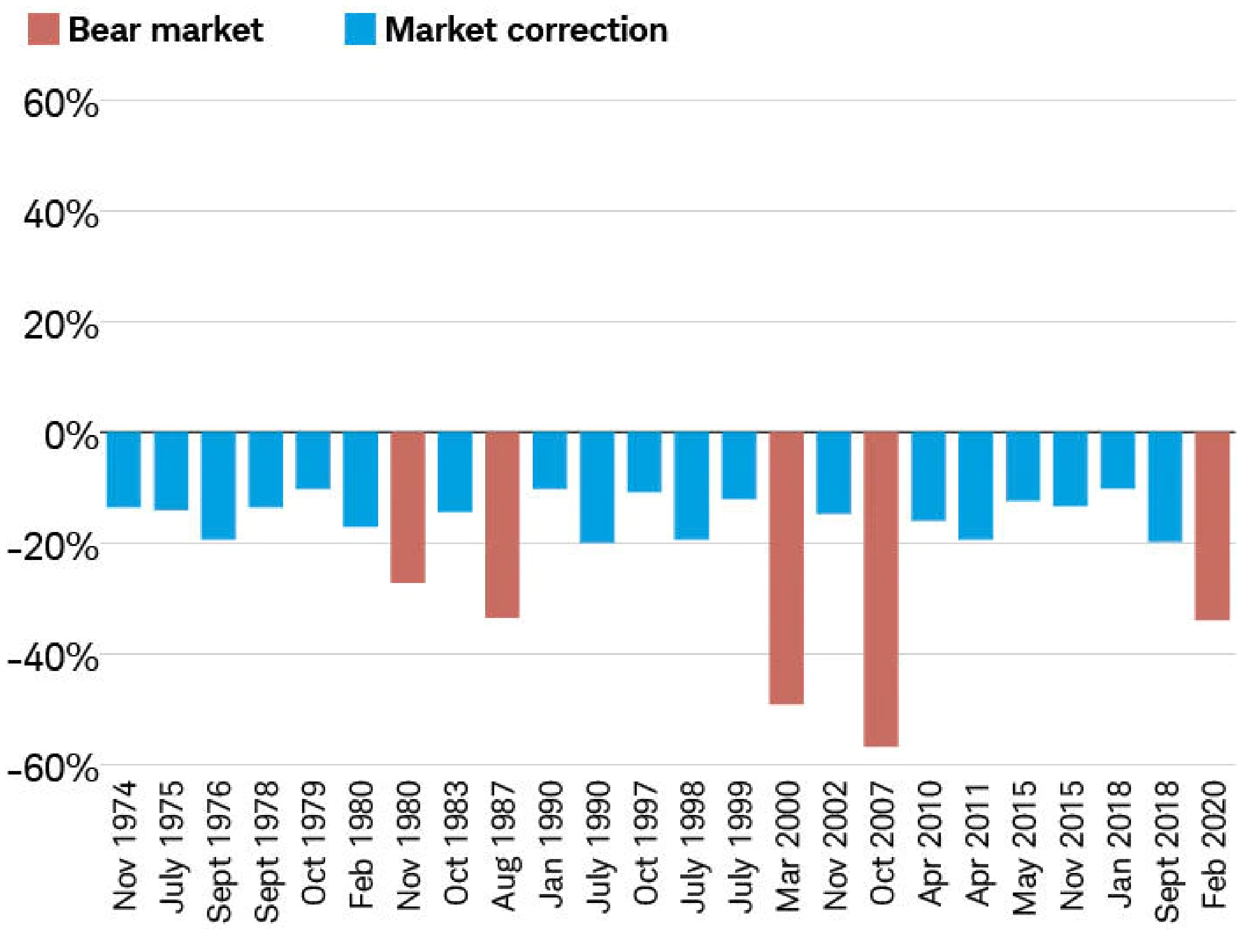
In our Quarterly Commentary, we outlined our belief that 2022 was going to be more volatile than 2021. Sure enough that is what is playing out so far. With news that inflation is not abating and a Russian invasion of Ukraine, it's not a surprise that the S&P 500 Index has pulled back more than 10%. However, when you think about this in terms of being 10% off all-time highs it seems less scary. Here at Surevest we utilize a data driven framework to drive our decision-making process. With this in mind, we thought it would be a good time to review past market corrections to see if we can learn anything from previous corrections.

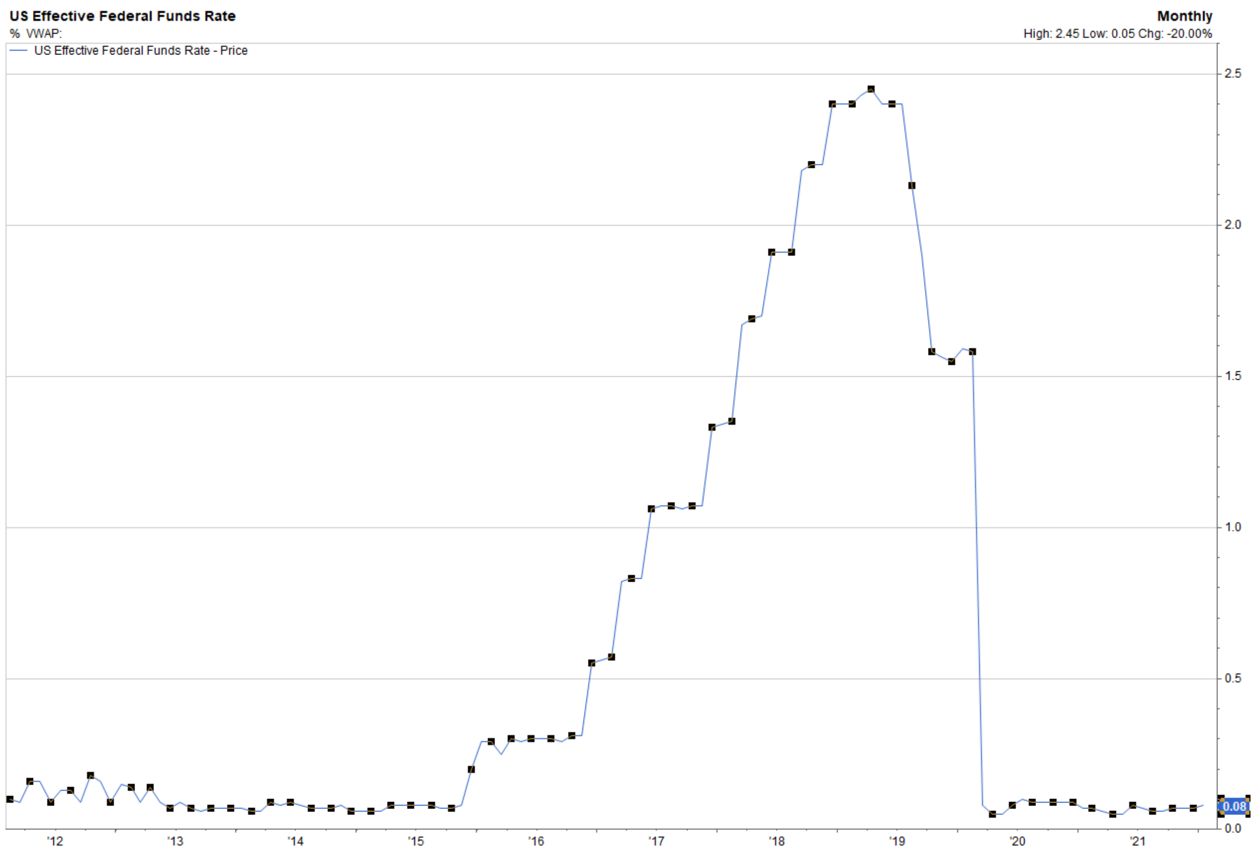
First, we should define a market correction. The general definition of a correction is a decline of 10% but less than 20%. A market decline of 20% would be considered a bear market. According to our partners at Schwab there have been 24 market corrections since 1974 and only five of these became bear markets[1]. The most recent bear market being 2020 when COVID caused mass lockdowns.



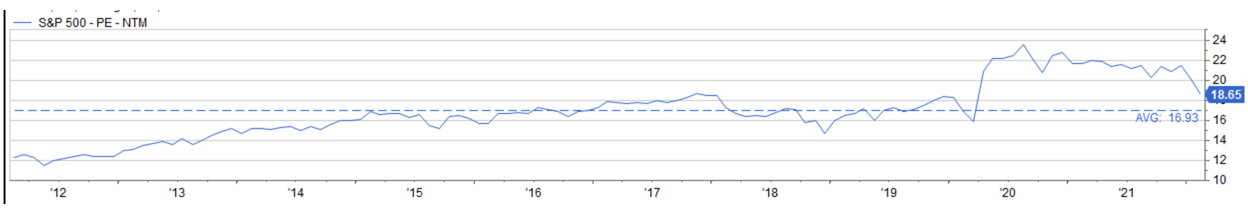
Source: Schwab Center for Financial Research with data provided by Morningstar, Inc. Each period listed represents the beginning month/year of either a market correction or a bear market. The general definition of a market correction is a market decline that is more than 10%, but less than 20%. A bear market is usually defined as a decline of 20% or greater. The market is represented by the S&P 500 index. **Past performance is no guarantee of future results.**

As I mentioned above, the recent headlines are focused on rising rates and Russia's invasion of Ukraine. I think it may be helpful to revert to past market impacts of rising rate environments and Russian invasions. Let's start with Russia and their recent history of invading Ukraine. In 2014 Russia invaded and annexed the Crimea peninsula from Ukraine. According to CNBC this was a situation that started in late 2013 and resulted in Russia invading in February 2014[2]. This resulted in NATO nations sanctioning Russia, similar to what is going on now[3]. These sanctions worked in terms of punishing Russia, by putting their economy into a recession. However, you'll notice that there wasn't even a 10% pull back in 2014. It wasn't until 2015 when the market presented two buying opportunities via corrections.

Take a shift towards rising rates we can look at 2015 through 2019. Prior to this period, Fed had a 0% rate policy on the fed funds rate. This is the benchmark short-term borrowing rate for banks. They made the first-rate hike in Q4 2015, and the markets went into correction. They started with gradual increases as you can see below. However, when the Fed accelerated the rate at which they increased rates, the markets corrected. This makes it no surprise that markets are correcting as markets are anticipating a Fed rate hike in the coming month.

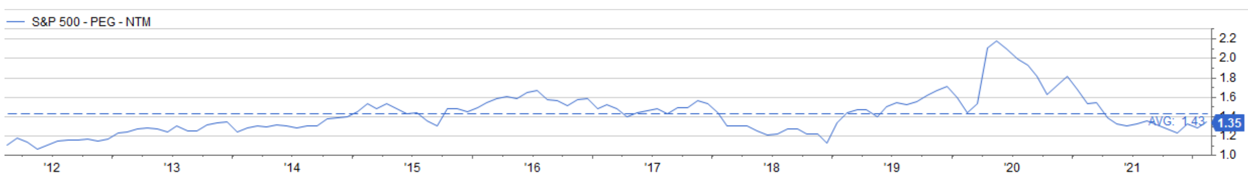


With the S&P 500 Index down, roughly 10.6% year-to-date, and the Nasdaq Composite Index down, 14.9% year-to-date, we believe this may present a good buying opportunity, for long term investors. One of the key metrics used to analyze markets is the Price-to-earnings (P/E) ratio. Being forward looking we like to analyze the next-twelve-month (NTM) P/E ratio because it focuses on expected future earnings rather than historical earnings. As you can see below, for the S&P 500 Index we are currently at 18.65x, which is approximately 10% higher than the 10-year average of 16.93x.



Now you may be asking if this means there is more downside to come. If we consider what a P/E ratio represents, it's the price you pay for a dollar of earnings. What it doesn't consider is how fast the earnings are growing. You should expect a higher P/E ratio for companies that have earnings that are growing fast than for companies where earnings are growing slow. To normalize this, we should analyze the PEG ratio. this looks at the P/E ratio and divides it by the projected growth.

Looking below, we can see the current PEG ratio for the S&P 500 Index is currently at 1.35, this is below the 10-year average of 1.43. With this we can conclude that markets make be slightly undervalued based on the recent past.



Although the broader indexes are in correction territory, there are stocks that have dropped by much more, presenting great opportunities for long-term investors to deploy new capital into the markets. When markets are down, that is when investors need to be opportunistic rather than panic. Most people are familiar with Warren Buffett's saying, "Be fearful when others are greedy and greedy when others are fearful." We know that on average we see a market correction every two years, so they are actually not uncommon. Since we implement a disciplined investment approach, we look for opportunities during market selloffs rather than panic.

This Tuesday, March 1st at 1p PT, the Surevest Investment Committee will host a webinar to discuss where we are seeing investment opportunities in today's environment. You can register HERE. We look forward to seeing you on the webinar.

1) https://www.schwab.com/resource-center/insights/content/market-correction-what-does-it-mean#:~:text=The%20general%20definition%20of%20a,by%20the%20S%26P%20500%20index.

2) https://www.cnbc.com/2022/01/27/how-russia-invaded-ukraine-in-2014-and-how-the-markets-tanked.html

3) https://www.nato.int/docu/review/articles/2015/07/13/sanctions-after-crimea-have-they-worked/index.html