The markets will advance

20 June 2022

The markets will advance

We saw a moment of optimism in the markets a week ago, with some reports claiming that inflation had reached its peak. However, this optimism soon vanished last week as the US Consumer Price Index reached a 40-year high of 8.6%. The response by the Federal Reserve was to raise interest rates by 75 basis points – the most significant rate hike since 1994 – and raised renewed concerns of rising prices and stagnant economic growth, better known as a period of stagflation.

This negative sentiment by the Federal Reserve was shared by other central banks, including the Bank of England and the European Central Bank, both of which indicated a continuing hawkish monetary policy for the foreseeable future.

This global monetary tightening has sparked a global asset sell-off over the last year across most asset classes. Global bonds (GBP hedged), which are meant to serve as a shock absorber during turbulent times, have not been unpunished with a year-to-date performance of -11.81%, according to the Bloomberg Global Aggregate Bond Index. The Russell 3000 index, an equity index which seeks to be a benchmark of the entire US stock market, has a year-to-date performance of -25%, as seen below.

Russell 3000 Index (Year to date Performance)

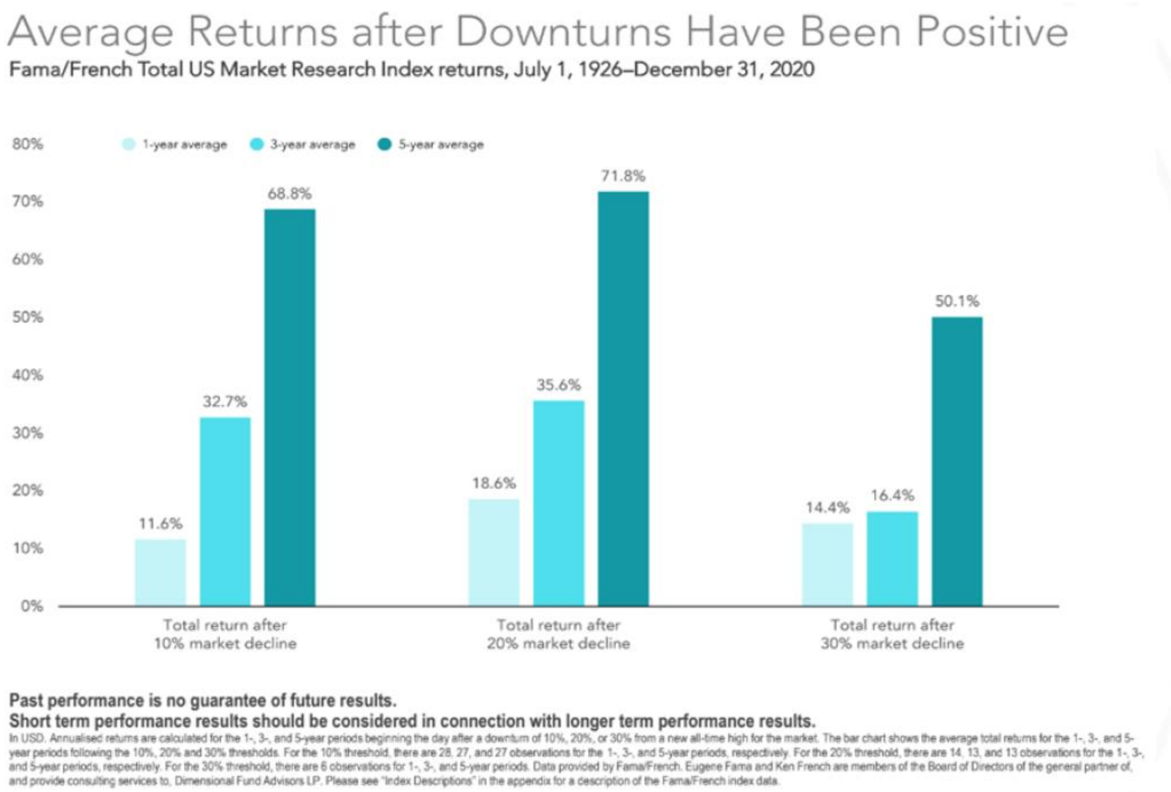
Source: Google Finance (2022)

This negative market news and downturn in asset prices are unavoidable topics which will, without a doubt, stir panic in most investors. So how do we manage to keep our clients, and myself, calm during these times, especially when some of our clients, and myself for my own investments, have recently received regulatory notifications that their portfolio has fallen by 10% or more over the last quarter?

Our advice would always be to zoom out and expand the point of reference, and what better way to do that than with some charts to add further context to the recent market downturn.

The chart at the end of this report visually illustrates the inferred growth of wealth over the last 50 years. A time filled with wars, significant recessions, terrorist attacks and a global health pandemic, all of which caused substantial market disruptions. It is impossible to predict the extent of the current market downturn or its turning point with precision. However, if you expand your point of reference and take a longer-term view, history suggests there will likely be another bull market, much stronger than the current downturn, which will steer the capital markets towards their permanent advance, reaching new heights repeatedly.

It is also vital to avoid fleeing the market in times of market downturn, which could result in missing significant gains when markets recover. Recent research by Dimensional Fund Advisors serves to highlights the importance of remaining invested. The research found that the average five-year returns after a 10% and 20% market downturn have been approximately 70% on average over the last ten decades.



Source: Dimensional (2022)

We, therefore, would advise to you to zoom out on your point of reference to calm your fears. Trust in your financial plans, have confidence in our investment philosophy and know that the markets will advance. As always if you need further assistance or wish to discuss anything please get in touch.

Important Regulatory Information

Thanks Wealth Planning Ltd® is registered in England and Wales. Company number: 10616529. Registered office: First Floor, Telecom House, 125-135 Preston Road, Brighton, England, BN1 6AF. Authorised and regulated by the Financial Conduct Authority. Reference: 840337.

Past performance is no guarantee of future return. The value of investments and the income from them can go down as well as up. You may get back less than you invest. Transaction costs, taxes and inflation reduce investment returns.

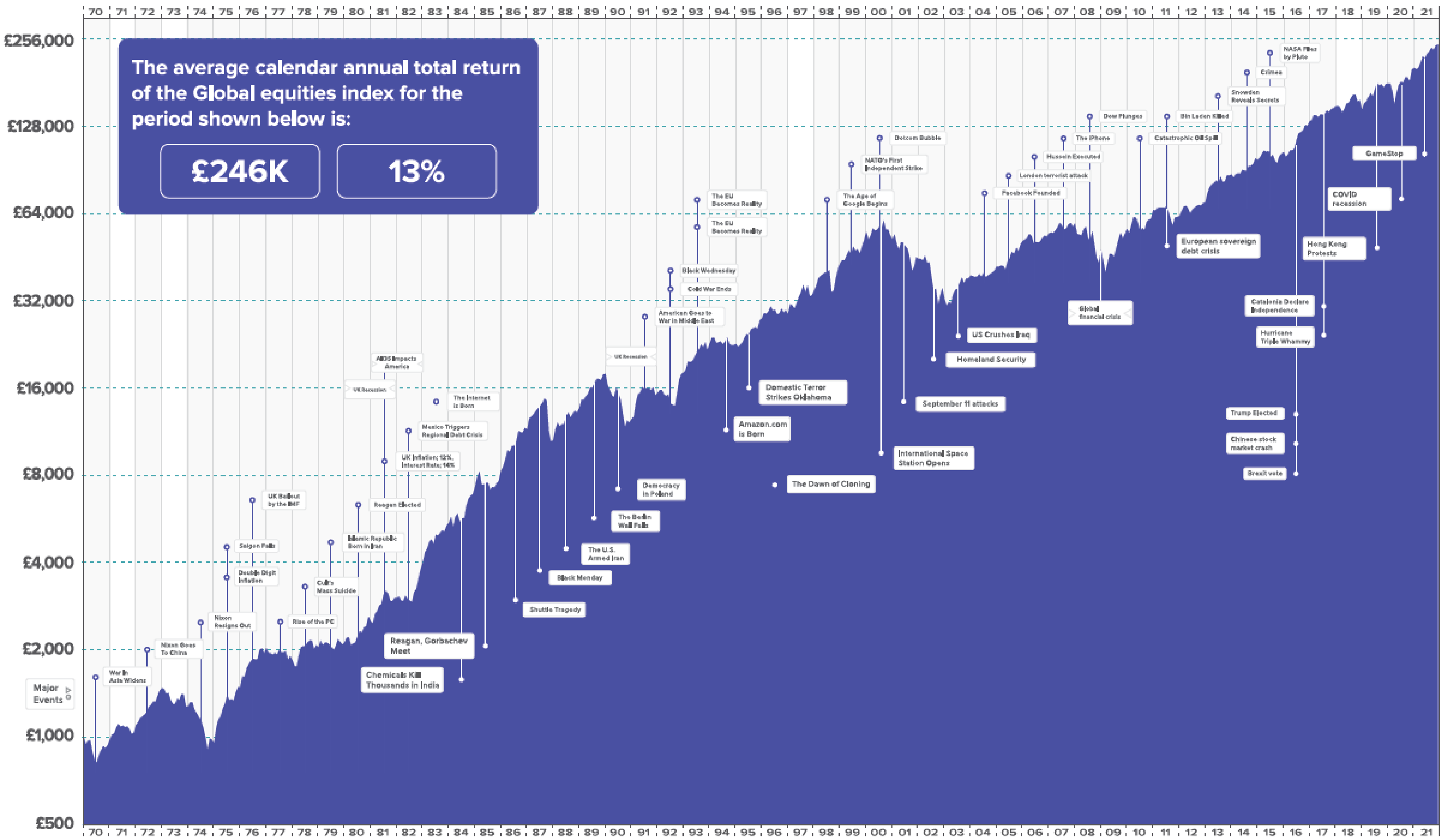
T: +44 (0)203 828 7107
M: +44 (0)756 352 9918
E: sam@thankswp.com
W: www.thankswp.com

Thanks Wealth Planning
3rd Floor
86-90 Paul Street
London
EC2A 4NE

THANKS®
WEALTH PLANNING

timeline

Crisis & Events – Global Equities Index: 1970 – 2021



This chart is for illustrative purposes only; it does not constitute investment advice and must not be relied on as such. The value of investments and the income from them can go down as well as up so you may get back less than you invest. Past performance is not a guide to what might happen in the future. Transaction costs, taxes and inflation reduce investment returns. All investment income is assumed to be reinvested, unless otherwise stated. No transaction costs or taxes are included. This chart shows the inferred growth of £1,000 invested in January 1970, over the last several decades. Sources: Global Equities: GFDatabase Developed World Return Index.