Market Perspective from the Investment Advisory Group

Why we expect a positive year, despite a negative January

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Key takeaways

- Despite a down January, our work suggests the likelihood of positive gains for the year remains.
- The January barometer has been less reliable over recent years, and our analysis shows that the business cycle matters for returns.
- Moreover, recent depressed investor sentiment readings and the sharp contraction in valuations seen over the past month have tended to be followed by positive market returns on an intermediate basis.
- Therefore, we still anticipate solid, albeit more modest, gains for markets this year, alongside more normal pullbacks, especially given the transition in monetary policy.

What happened

An old Wall Street adage is, “As January goes, so goes the year.” With the S&P 500 down 7% through Friday — which places its performance as the fourth worst January since 1950 — the January barometer would appear to bode ill for the rest of the year.

Since 1950, there have been 29 previous Januaries where the S&P 500 fell. Following these instances, stocks averaged a relatively tepid gain of just 2.7% over the remaining 11 months of the year, and were positive 62% of the time.

Conversely, when January was a positive month, the S&P 500 rose an average of 11.9% the rest of the year and posted gains 86% of the time.

Our take

While these are notable stats, the January barometer has been less reliable more recently. Moreover, this indicator should not be viewed in a vacuum.

Indeed, after providing a helpful signal in 2008, **the S&P 500 has risen in seven straight instances following down Januaries since 2009, with an average rest of the year gain of 18.6%.** This includes both 2020 and 2021.

Furthermore, **the business cycle matters**. *Continued on next page*

- When isolating the 11 down Januaries which were followed by further losses by year end, seven of those years coincided with recession. Our team's work continues to suggest near-term recession risk is low, even while we expect first quarter economic growth to be relatively weak given the emergence of the omicron variant.

- **If we exclude these seven recessionary years from the study**, **the S&P 500 rose in 18 out of 22 instances, or 82% of the time**, following down Januaries, with returns for the rest of the year averaging 8.6%.

S&P 500 returns following a negative January

Date	January return	1 month later	3 months later	6 months later	11 months later	Notes
Jan-53	-0.7%	-1.8%	-6.7%	-6.2%	-6.0%	recession
Jan-56	-3.6%	3.5%	10.4%	12.7%	6.5%	
Jan-57	-4.2%	-3.3%	2.3%	7.1%	-10.6%	recession
Jan-60	-7.1%	0.9%	-2.2%	-0.2%	4.5%	
Jan-62	-3.8%	1.6%	-5.2%	-15.4%	-8.3%	
Jan-68	-4.4%	-3.1%	5.8%	6.0%	12.6%	
Jan-69	-0.8%	-4.7%	0.7%	-10.9%	-10.6%	recession
Jan-70	-7.6%	5.3%	-4.1%	-8.2%	8.2%	
Jan-73	-1.7%	-3.7%	-7.8%	-6.7%	-15.9%	recession
Jan-74	-1.0%	-0.4%	-6.5%	-17.9%	-29.0%	recession
Jan-77	-5.1%	-2.2%	-3.5%	-3.1%	-6.8%	
Jan-78	-6.2%	-2.5%	8.5%	12.8%	7.7%	
Jan-81	-4.6%	1.3%	2.5%	1.1%	-5.4%	recession
Jan-82	-1.8%	-6.1%	-3.3%	-11.1%	16.8%	
Jan-84	-0.9%	-3.9%	-2.1%	-7.8%	2.3%	
Jan-90	-6.9%	0.9%	0.5%	8.2%	0.3%	
Jan-92	-2.0%	1.0%	1.5%	3.8%	6.6%	
Jan-00	-5.1%	-2.0%	4.2%	2.6%	-5.3%	
Jan-02	-1.6%	-2.1%	-4.7%	-19.3%	-22.2%	
Jan-03	-2.7%	-1.7%	7.2%	15.7%	29.9%	
Jan-05	-2.5%	1.9%	-2.1%	4.5%	5.7%	
Jan-08	-6.1%	-3.5%	0.5%	-8.1%	-34.5%	recession
Jan-09	-8.6%	-11.0%	5.7%	19.6%	35.0%	Stocks have seen positive gains following each of the seven past down Januaries
Jan-10	-3.7%	2.9%	10.5%	2.6%	17.1%	
Jan-14	-3.6%	4.3%	5.7%	8.3%	15.5%	
Jan-15	-3.1%	5.5%	4.5%	5.5%	2.5%	
Jan-16	-5.1%	-0.4%	6.4%	12.0%	15.4%	
Jan-20	-0.2%	-8.4%	-9.7%	1.4%	16.4%	
Jan-21	-1.1%	2.6%	12.6%	18.3%	28.3%	
All years						
Average	**-3.6%**	**-1.0%**	**1.1%**	**0.9%**	**2.7%**	
% Period	**0.0%**	**41.4%**	**58.6%**	**58.6%**	**62.1%**	
All years excluding rest of year down periods that coincided with recession						
Average	**-3.9%**	**-0.6%**	**2.1%**	**3.1%**	**8.6%**	
% Period	**0.0%**	**50.0%**	**59.1%**	**68.2%**	**81.8%**	

Data Source: Truist IAG, FactSet. Past performance does not guarantee future results

Other factors remain relevant to the current market backdrop. Investor sentiment is very depressed. This is a positive from a contrarian perspective as markets are primarily about how data comes in relative to expectations. The bar for positive surprises is currently low.

- Over the past four weeks, the percentage of individual investors holding a bearish market outlook has outnumbered those with a bullish view by more than 17 percentage points, according to the American Association of Individual Investors (AAII) survey.

- Since the survey's inception in 1987, there have only been five other periods where this spread averaged more than 10 percentage points in the month of January – 1991, 2003, 2008, 2009, and 2016.
- While markets generally remained choppy over the short term following such readings, the S&P 500 **climbed over the next three months by an average of 7%** and posted strong gains for the rest of the year in four of those five instances.
- The one glaring exception was 2008. However, today's market backdrop is much different compared to the global financial crisis. Back then, the economy was in the midst of a deep recession, unlike the current expansion which is on solid footing.

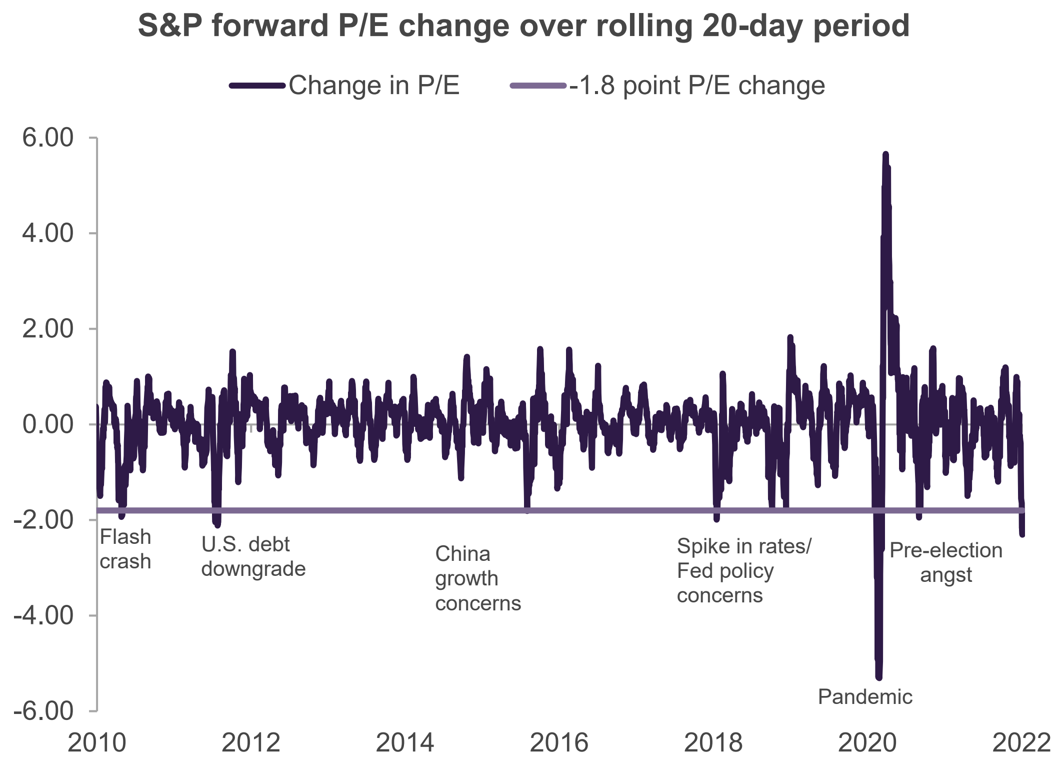
S&P 500 performance when % AAII bears outnumber bulls by >10% (4-week average)

Date	1-Month Later	3-Months Later	6-Months Later	12-Months Later
Jan-91	8%	13%	13%	24%
Jan-03	-1%	8%	17%	34%
Jan-08	-3%	2%	-8%	-40%
Jan-09	-17%	3%	15%	28%
Jan-16	2%	10%	15%	21%

Data Source: Truist IAG, FactSet, American Association of Individual Investors (AAII).
Past performance does not guarantee future results

From a fundamental perspective, even though market valuations are still at a premium relative to history, **the sharp contraction in the S&P 500's P/E seen over the past month appears overdone**.

- The S&P 500's forward price-to-earnings (P/E) ratio fell sharply from 21.5x to begin the month to the current level of 19.6x.
- **Since 2010, we have only seen a similarly sharp P/E contraction (>1.8-point P/E decline over 20-days) six other times**. While volatility remained high in most cases, stocks climbed in each instance on a forward 3, 6, and 12-month basis (table on next page).
- Notably, **each of the six periods coincided with stress points** for the market, including the 2010 flash crash, 2011 U.S. debt downgrade, 2015 China and global growth concerns, the start of the pandemic, and ahead of the 2020 elections.
- The other instance in the study, and **perhaps the most relevant period, is 2018 as stocks sold off at the beginning of the year on rising rate and Federal Reserve (Fed) policy concerns**. This also suggests a Fed policy mistake is among the key risks to the market. This is not our base case outlook, but the transition in monetary policy is among the reasons we entered 2022 expecting more normal and frequent market pullbacks. That continues to be the case.



S&P 500 returns following sharp declines in the forward P/E
(>1.8 point decline over 20 day periods since 2010)

Date	1-Month Later	3-Months Later	6-Months Later	12-Months Later
05/20/10	3.9%	2.1%	10.0%	24.0%
08/10/11	3.0%	13.8%	20.6%	25.2%
08/25/15	3.5%	11.7%	4.5%	16.5%
02/08/18	7.8%	5.5%	10.6%	5.0%
03/06/20	-10.4%	7.5%	16.2%	28.6%
09/24/20	6.7%	13.7%	22.4%	37.2%
01/25/22				
Average	**2%**	**9%**	**14%**	**23%**

Data Source: Truist IAG, FactSet. Past performance does not guarantee future results

Bottom line

Despite a challenging start to the year, the weight of the evidence suggests the likelihood of positive gains this year remains. Consistent with our 2022 outlook, we still expect more modest gains alongside more normal and frequent pullbacks, especially given the transition in monetary policy. Still, as we discussed during the heart of the selloff last Monday, our work suggests the pullback has improved the market's risk/reward.

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