Truist Advisory Services, Inc.

Market Perspective from the Investment Advisory Group

Historical review of years following strong gains and shallow pullbacks support our 2022 outlook

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Key takeaways:

- Stocks had robust gains and unusually shallow pullbacks in 2021.
- After 25%-plus total return years, the S&P 500 rose the next year in 14 of 17 instances, or 82% of the time.
- Likewise, a price-based momentum signal for the S&P 500 was recently triggered that has been followed by positive one-year returns in 35 out of 36 past instances, or 97% of the time.
- Following the 10 years with the shallowest intra-year pullbacks, stocks tended to see deeper setbacks and more modest annual gains in the next year.
- These studies are supportive of our recently released 2022 outlook, *positive yet realistic.*

What happened

Stocks truly had a remarkable year in 2021—not only in terms of the robust gains generated but also in the lack of any significant pullbacks for the S&P 500 in a year of an ongoing pandemic.

Indeed, the S&P 500 is currently up 29% on a total return basis (including dividends) for 2021. This is only the 18th time since 1950 that the market has risen by at least 25%. Equally impressive, the deepest intra-year market pullback was only 5% versus a historical average of 14%.

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

Looking forward

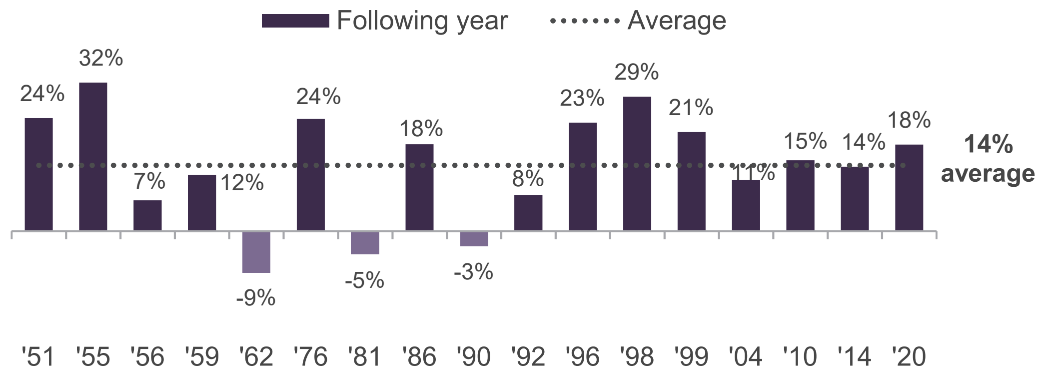
The question becomes what, if anything, can the past year tell us about the market's potential in 2022. In today's note, we provide three studies for perspective. **The results are generally supportive of the 2022 outlook we laid out in early December, *positive yet realistic*.**

In our first study, we review all years since 1950 in which the S&P 500 had a total return of at least 25%. In the following year, stocks rose in 14 of those 17 instances, or 82% of the time, with an average gain of 14%.

Two of the three years where stocks failed to rise, 1981 and 1990, coincided with recessions. Our work suggests near-term recession risk remains low. The other downside market outlier was 1962, which was challenged by a flash crash and deteriorating investor confidence. Still, overall, stocks have shown a strong tendency to rise in the year following robust market gains, albeit at a more modest pace.

*Following 25%-plus total return years, the S&P 500 rose the next year in **14 of 17 instances***

S&P 500 total returns following 25%-plus up years



Data source: Truist IAG, FactSet. Study based on total returns (including dividends).
Past performance does not guarantee future results

In our next study, we review a price-based momentum signal that was just triggered, which has a stellar track record. With the sharp rebound since December 20th, more than 90% of stocks in the S&P 500 recently traded above their 20-day moving averages. This is a sign of broad-based participation and underlying strength.

This signal has only been triggered 36 previous times since 1990, with the last instance occurring in the middle of 2020. One year later, stocks rose 35 times, or 97% of the time, with an average price return of 15%. **While there were periodic pullbacks along the way, this indicator suggests a high probability of positive returns over the next year.**

*A price-based momentum signal for the S&P 500 was recently triggered, which has been followed by **positive one-year returns in 35 of 36 past instances***

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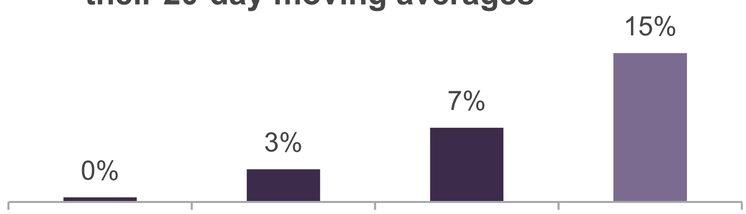
S&P 500 average price returns after >90% of stocks trade above their 20-day moving averages



	1-Month Later	3-Months Later	6-Months Later	12-Months Later
% of positive periods	64%	75%	83%	**97%**
max loss	-13%	-16%	-14%	-3%

Data Source: Truist IAG, FactSet. Overlapping signals over one-month period removed.
Past performance does not guarantee future results

The deepest pullback for the S&P 500 in 2021 was only 5.2%, the 9th smallest intra-year pullback since 1950

In our final study, we review stock market performance following years which saw unusually shallow pullbacks. As mentioned, the deepest intra-year pullback in 2021 for the S&P 500 was only 5.2%, the 9th smallest such decline since 1950.

Following the 10 years with the shallowest intra-year pullbacks, stocks tended to see deeper setbacks and more modest annual gains in the next year. The S&P 500's largest intra-year pullbacks averaged 13% (9% median), while the benchmark posted an average total return for the year of 7% (10% median).

Following the 10 years with the shallowest intra-year pullbacks, ***stocks tended to see deeper setbacks and more modest annual gains in the next*** **year**

S&P 500 drawdowns and returns in years following shallow market pullbacks

Years with shallow drawdowns			Following year		
Year	**Largest intra-year pullback**	**Calendar year total return**	**Year**	**Largest intra-year pullback**	**Calendar year total return"**
1995	-3%	37%	1996	-8%	23%
2017	-3%	22%	2018	-20%	-4%
1964	-4%	16%	1965	-10%	12%
1958	-4%	43%	1959	-9%	12%
1954	-4%	53%	1955	-11%	32%
1961	-4%	27%	1962	-27%	-9%
1993	-5%	10%	1994	-9%	1%
1972	-5%	19%	1973	-23%	-15%
1991	-6%	31%	1992	-6%	8%
2013	-6%	32%	2014	-7%	14%
2021*	-5%	29%		?	?
Average	**-4%**	**29%**		**-13%**	**7%**
Median	**-4%**	**29%**		**-9%**	**10%**

Data source: Truist IAG, FactSet, Morningstar. *As of 12/30/21.
Past performance does not guarantee future results

The worst follow-on calendar performances for stocks were 1973, which coincided with the onset of a U.S. recession, and the previously mentioned 1962 decline (non-recession related). More recently, stocks struggled in 2018, as markets sold off late in the year primarily due to concerns the Federal Reserve (Fed) was hiking short-term rates too aggressively.

A shift in Fed policy is likely to inject volatility into markets again in 2022 and poses a risk. That said, monetary policy remains largely accommodative, especially when one considers that yields after inflation, known as real yields, remain in deeply negative territory. This stands in sharp contrast to 2018.

Bottom line

History is only a guide and should be used alongside other factors, such as the business cycle and fundamentals. Still, the studies reviewed on performance following years with robust market gains, strong price momentum, and shallow pullbacks lend further support to our base case outlook for 2022.

That is, we still favor stocks and expect the bull market to extend, though at a much more modest pace relative to 2021. The data also suggest investors should anticipate more normal and deeper corrections relative to the unusually shallow pullbacks seen over the past year. Thus, we remain *positive yet realistic* entering the new year.

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