630 Business Center Drive, Third Floor, King of Prussia, PA 19406 • www.tp-advisory.com
Phone: 610-254-0451 Fax: 484-580-8482 email: thomaspadilla@comcast.net

Fed Fed Go Away

Global Markets and Regions

	4th QTR	2022 YTD
US	7.10%	-19.50%
Developed Europe	19.50%	-14.50%
Asia	7.10%	-18.30%
Emerging Markets	9.80%	-26.90%

US Markets

	3rd QTR	2022 YTD
Dow 30	16.20%	-6.90%
Large Cap Cos.	7.57%	-18.14%
Mid. Cap Cos.	10.65%	-13.21%
Small Cap Cos.	9.02%	-16.20%
Bonds	3.04%	-13.95%

The Federal Reserve has had quite a year in 2022. Their mission is to control inflation and stabilize monetary conditions to support employment in the economy, which are the conditions that are necessary for markets and investors to thrive. We have seen historic inflation rates this year and the Fed response to that inflation has been equally historic. When they begin the process of addressing inflation, they negatively alter investment conditions for investors.

They have set records for the number and magnitude of interest rate increases. The havoc that those increases have caused to investment results have been epic. Stocks declined dramatically, but so did fixed income, which is supposed to be a lower risk asset class. Diversified and balanced portfolios experienced severe losses. Markets can't move higher as long as the Federal Reserve is tightening monetary conditions.

The "tools" the Fed has at their disposal, raising Fed Funds rates and reducing monetary liquidity, are both simple and complex in their effects, but they are blunt instruments. There is not much subtlety in their operation's impact on markets. In stable environments, which fortunately is most of the time, we don't notice the Fed, because the investment environment is "stable", or in a bull market. Their current activity is the proximate cause of the bear market we've been in. Until the Fed "pivots" to become either a neutral force by no longer raising/tightening monetary conditions or a supportive force by cutting rates and loosening monetary conditions, investors are going to have issues.

Bear market conditions are what we are dealing with. The formal definition is a decline in the major indices of at least 20%. We've experienced a decline in the S&P 500 of 26%. The Nasdaq, dominated as it is by some of the largest technology stocks such as Apple, Microsoft, Amazon Google and Netflix, has had a decline of 50%.

Bear markets have been as short as 45 days and as long two and a half years. The average length of bear markets has been a little over a year. Drawdowns in the modern era have been between 20% and 56%. By historic standards, we've met most of these benchmarks.

This bear market, statistically, most resembles the Great Recession of 2007-2009 in magnitude and length so far. While the conditions and circumstances around bear markets are always different, the Federal Reserve's response to those circumstances triggered the resulting bear market. They cause recessions in economic activity and a resulting decline in corporate revenues and earnings. Is the recession part of this monetary process next on the agenda? If so, will it be deep or shallow? Which sectors and industries will be most damaged by the recession? The market is trying to find those answers and determine a path from here.

If this current bear market follows the path of the last two major bear markets in 2000 to 2002 and 2007 to 2009, then maybe we have seen the worst and the recovery starts soon. Unseen outside events can always make an appearance, think the 9/11 attacks in the midst of the 2000 bear market decline. Unseen outside events are, by definition, unseen and impossible to anticipate.

The 1970's witnessed a series of bear markets at relatively short intervals. It was a particularly frustrating period for investors as interest rates soared and stock prices stagnated for an entire decade. What the Federal Reserve had to do to eliminate the inflation of that era was, at the time, historic. The other part of that story was an equally historic response of government in the early 1980's to implement and promote polices that complimented what the Fed was doing to address the conditions and circumstances that had become the poor investor environment of the 70's.

Today the Fed is doing their part to get us to a stable monetary environment. The Government, on the other hand, we're still waiting for. The historic record shows that as bad as things have devolved for investors in the past, they always have gotten better. We've absorbed the worst that markets have been able to deliver in the past. Maybe this current condition is as bad as it gets. Maybe 2023 will be when markets begin to heal and deliver the prosperity for which they exist. We'll be watching.

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