Market Insights

ALTA
CAPITAL MANAGEMENT
A member of Guardian Capital Group Limited

August 2022

Feast or famine

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Feast or Famine

S&P 500® Index Stats Since 1926	
Total Years (1926-2021):	96
Positive Years	71 yrs (74%)
Negative Years	25 yrs (26%)
# of Years Gains >20%:	36 yrs
# of Years Losses <20%:	6 yrs

S&P 500® Average Annual Return: 10.5%

The S&P 500® Index has grown at its average annual rate in only 6 years since 1926

Less than -20%

2008	-37.0%
2002	-22.1%
1974	-26.5%
1937	-35.0%
1931	-43.3%
1930	-24.9%

-20% to -12%

1973	-14.7%

-12% to -8%

2001	-11.9%
2000	-9.1%
1969	-8.5%
1966	-10.1%
1962	-8.7%
1957	-10.8%
1946	-8.1%
1941	-11.6%
1940	-9.8%
1932	-8.2%
1929	-8.4%

-8% to 0%

2018	-4.4%
1990	-3.2%
1981	-4.9%
1977	-7.2%
1953	-1.0%
1939	-0.4%
1934	-1.4%

0% to 8%

2015	1.4%
2011	2.1%
2007	5.5%
2005	4.9%
1994	1.3%
1992	7.7%
1987	5.2%
1984	6.3%
1978	6.6%
1970	4.0%
1960	0.5%
1956	6.6%
1948	5.5%
1947	5.7%

8% to 12%

2016	12.0%
2004	10.9%
1993	10.0%
1968	11.1%
1959	12.0%
1926	11.6%

12% to 20%

2020	18.4%
2014	13.7%
2012	16.0%
2010	15.1%
2006	15.8%
1988	16.8%
1986	18.5%
1979	18.4%
1972	19.0%
1971	14.3%
1965	12.5%
1964	16.5%
1952	18.4%
1949	18.8%
1944	19.8%

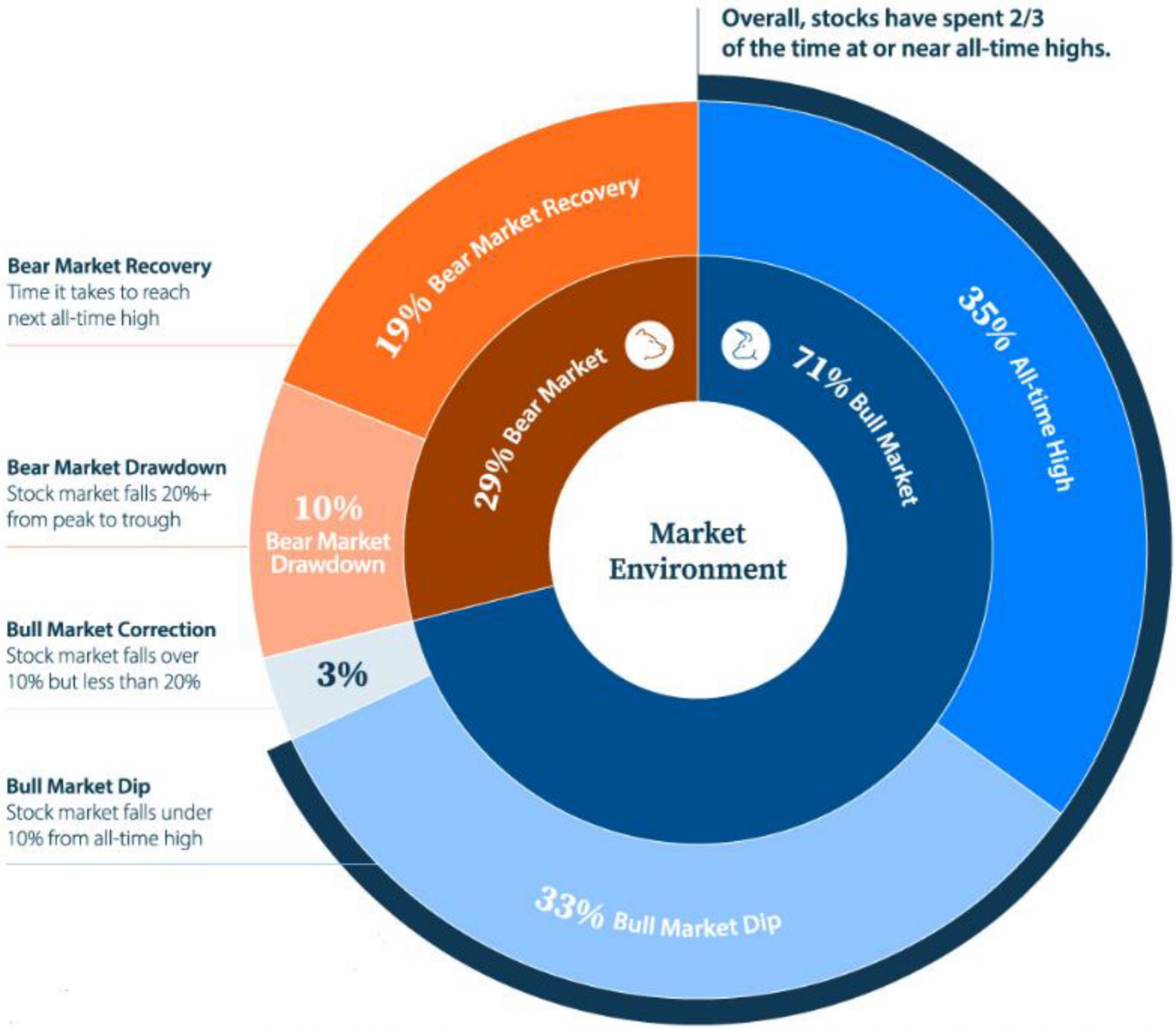
More than 20%

2021	28.7%
2019	31.5%
2017	21.8%
2013	32.4%
2009	26.5%
2003	28.7%
1999	21.0%
1998	28.6%
1997	33.4%
1996	23.1%
1995	37.4%
1991	30.5%
1989	31.5%
1985	32.2%
1983	22.5%
1982	21.4%
1980	32.4%
1976	23.8%
1975	37.2%
1967	24.0%
1963	22.8%
1961	26.9%
1958	43.4%
1955	31.6%
1954	52.6%
1951	24.0%
1950	31.7%
1945	36.4%
1943	25.9%
1942	20.3%
1938	31.1%
1936	33.9%
1935	47.7%
1933	54.0%
1928	43.6%
1927	37.5%

Lessons learned: 1.Markets are rarely 'average' 2. Returns have leaned very far to the right side of the ledger, rewarding investors with positive results 74% of the time. 3. Investors are rewarded for long-term behavior.

Source: FactSet, S&P Dow Jones Indices, AMG. Data calculated from 1926-2021 using total return.

Market environments



Play the odds – investors are rewarded for thinking long-term. Trying to time the market is the classic blunder. Own quality businesses and hold them for long periods of time.

Source: Morningstar Direct, Performance Analytics, UBS 4/30/22

Sources of volatility

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POLICY RATES

3.38%

Forecasted Fed terminal rate, reached by YE 2022

INFLATION

4.5%

Forecasted YE 2022 Core PCE, accelerating monetary tightening

GEOPOLITICS

109

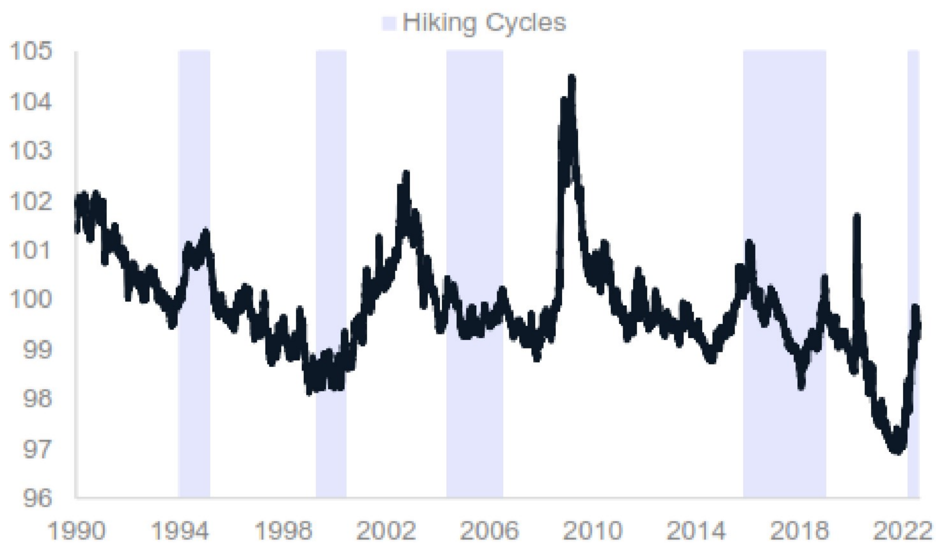
Elevated Geopolitical Risk index, above long-term average of 100

LIQUIDITY

$9.8mn

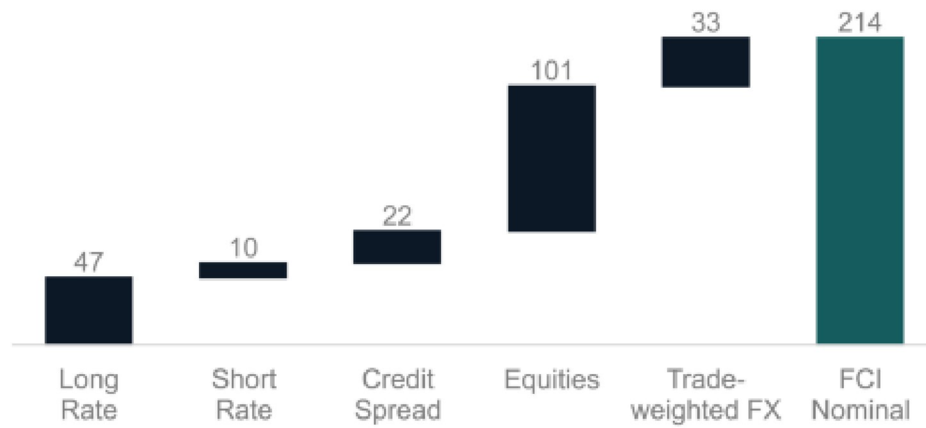
Five-day average S&P 500 Futures Top-of-Book Depth, among the lowest levels in recent years

US FINANCIAL CONDITIONS INDEX



TIGHTENING ACROSS COMPONENTS

US Financial Conditions Index Movement YTD (bps)



There are plenty of reasons to be concerned. This seems to always be the case. But certainly, serious geopolitical issues, combined with significant inflation pressures and an aggressive Fed, have put the market on watch.

Source: Goldman Sachs, Dario Caldara, Matteo Iacoviello 7/31/22

Sources of stability

BANKING

57%

Loan-to-deposit ratio near record lows

CORPORATES

4%

Of US high yield debt maturing in 2022 or 2023

CONSUMER

714

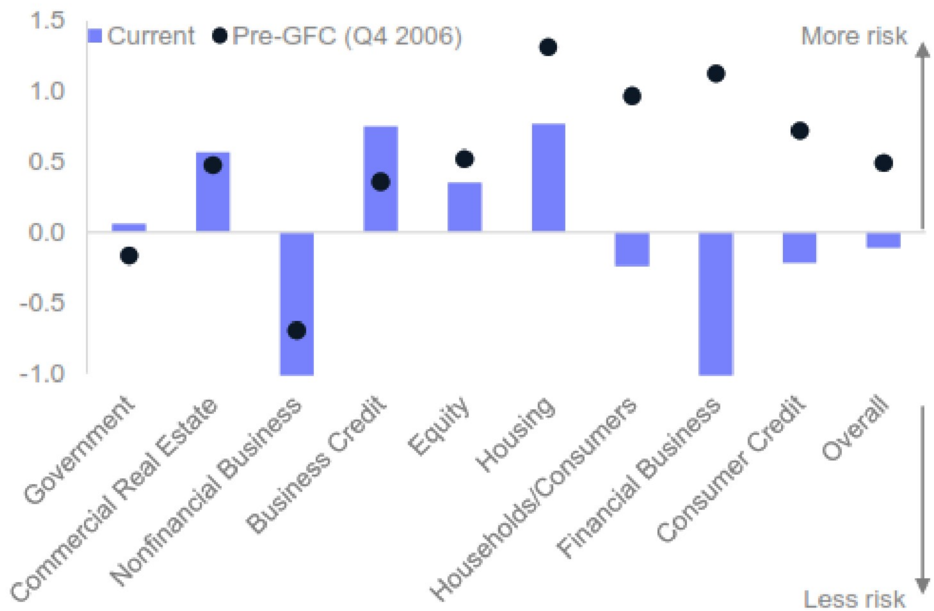
Average FICO score is near highest on record

CASH BALANCES

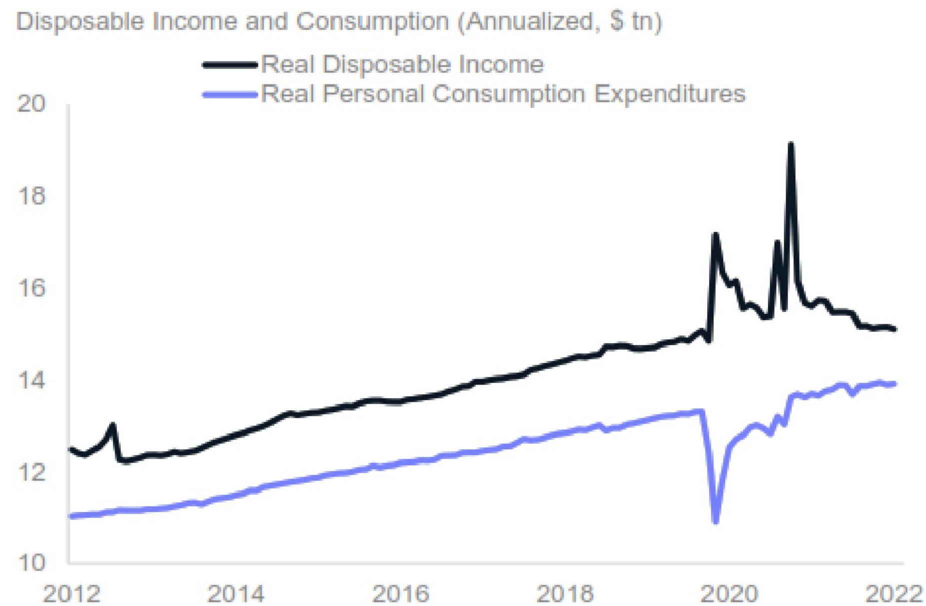
$5.6tn

Cash on the sidelines in US Money Markets

FINANCIAL EXCESS (Z-SCORE)



INCOME BUFFER



…but there are plenty of positives as well. Consumer balance sheets are not as horrible as many fear and there is a significant amount of cash needing to find a home. In addition, overall financial conditions are generally more favorable than the pre-covid period.

Source: Goldman Sachs, S&P Global Intelligence, Experian, Federal Reserve Economic Data 7/31/22

A chart for any case…

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For the Bulls

For the Bears

Charts are insightful, but they can tell almost any story you want to tell. The above charts are a classic example of using data to tell a powerful story for either side of a given argument. It is critical to understand the true fundamental story of any investment.

Source: Nautilus Investment Research, Factset, 8/19/22

Disclosure

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