

Stocks & Bonds Both Decline More Than -10% During 2022

Susan Smith, CFA
Chief Investment Officer

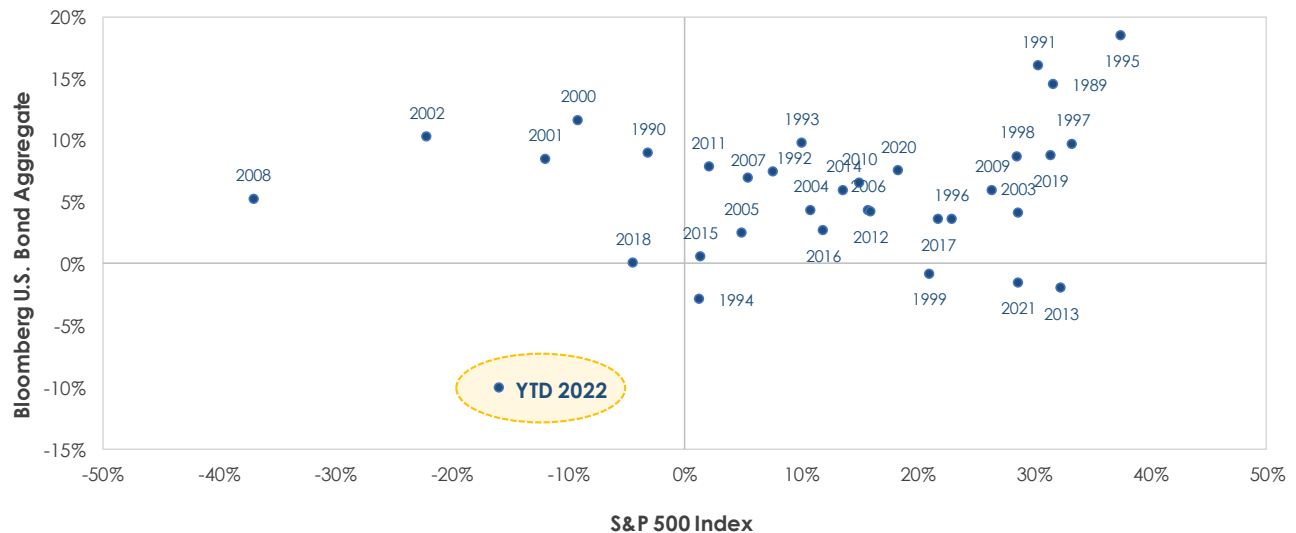
John Smith, CPA
Head of Financial Planning

The scatter plot below compares annual stock and bond returns since 1989. The dots represent the intersection of the S&P 500's total return and the Bloomberg U.S. Bond Aggregate's total return for each calendar year. The analysis highlights the challenging and unusual start to 2022. The 'YTD 2022' dot is in the lower left quadrant with stocks and bonds both declining more than -10% this year. If 2022 ended today, it would mark the S&P 500's third worst year and bond's worst year since 1989.

How unique is the current market environment? You will notice every year since 1989, except for 2022, is outside of the lower left quadrant. This indicates it is extremely rare for both stocks and bonds to produce negative returns during a calendar year. Why are stocks and bonds declining together? The Federal Reserve is raising interest rates and shrinking its balance sheet by selling bonds, which pressures both stock and bond valuations. On the credit side, most bonds pay a fixed interest rate, which means bond prices must decline to offer a higher interest rate. On the equity side, interest rates represent the cost of money and are used as an input to value company shares. A higher interest rate typically decreases stock prices.

This year's parallel stock and bond selloff highlights the importance of portfolio diversification not only across asset classes, but within asset classes. When you diversify your portfolio, you aim to invest in different asset classes that may react differently to the same event. The same principle applies within stocks and bonds. On a price return basis, S&P 500 Growth stocks are down -24.1% YTD, while S&P 500 Value stocks are only down -7.6%. In the corporate investment grade bond universe, Long-Duration (+10 Years) bonds are down -23.7% YTD on a price return basis, while Short-Duration (1-5 Years) bonds are only down -6.2%.

FIGURE 1 - Scatter Plot of Stock & Bond Total Returns Since 1989



Source: MarketDesk. Note all above total returns include dividends and income reinvested.