Are You in Position for the Next Market Rebound?

On March 9, 2009, the economic news of the day was about as terrible as it could get. The S&P 500 was down almost -60% from its 2007 peak, and the U.S. jobs report that came out just three days before—on March 6, 2009—painted a very bleak picture.¹

Employers had shed 651,000 jobs in February 2009, with job losses across nearly every major industry in the U.S. February’s job losses brought the 4-month total of layoffs to 2.6 million, bringing the total number of unemployed Americans to 12.5 million. The unemployment rate rose from 7.6% to 8.1%.²

The economic picture was bad and all signs pointed to more pain, which is exactly what happened. The unemployment rate kept rising throughout 2009 and would eventually cross 10% in the fall, with well over 15 million Americans out of work. As you can see in the chart below, new jobless claims would stay elevated throughout the year. The labor-force participation rate would also fall throughout the year, as many people gave up looking for a new job. It was one of the more challenging economic times in history.

For many people, early 2009 probably felt like an awful time to be an investor. But the opposite turned out to be true. Three days after the ugly February 2009 jobs report, with many more months of rising job losses still left to go, the bear market officially ended. In this case, as in just about every other in history, positioning for a market rebound meant being invested when everything looked and felt its worst.

There is no clear formula for what will ultimately constitute the ‘worst’ of the economic cycle or the bottom of the bear market. If we look historically at valuations, interest rates, inflation, unemployment, etc., there are no distinct levels or patterns that have indicated a
bottom every time. Bond yields have been rising when a bear market ends, but they have also been falling. Valuations have sometimes fallen back to previous cycle lows, but not always. The only factor that has been consistent throughout history is that bear markets end when news is bad.

In the current environment, the bad news has been coming in the form of elevated inflation readings and rapidly rising interest rates. In the not-too-distant future, in my view, we are likely to see a precipitous drop in job openings and perhaps more layoffs, falling earnings estimates (which is already happening), and a rising likelihood of confirmation that the U.S. is in recession. This is all bad news that has not happened yet, but if/when it does, investors should see it as a contra-indicator to get positioned for the bear market to end and the new bull to begin.

**Bottom Line for Investors**

Being positioned for the market rebound in March 2009 meant having the opportunity to participate in the +451.3% gains over 10.8 years that U.S. stocks would deliver (S&P 500). It is rarely easy—in the early days of the new bull market, the news will be bad and market commentators will routinely call it another bear market rally. Investors should expect to see and hear this negativity in this cycle, too.

If you are having a hard time being patient amidst the negativity, just remember what’s potentially at stake in the handoff between bear and bull markets. From 1942-present, the average bear market lasted approximately 11.1 months with an average magnitude of -31.7%. Over the same time period, however, the average bull market lasted 4.4 years with an average magnitude of +155.7%. Bull markets are longer and stronger than bear markets.

---


One of the most common questions retirees and future retirees ask themselves is: *how much money will I need to retire comfortably?* Everyone’s answer is different, depending on individual circumstances and preferences. But a new survey from Northwestern Mutual provides some insight into where the average American stands, in terms of how much they think they’ll need. This so-called “magic number” is $1.25 million, but perhaps the most interesting finding from the survey is that the magic number is up 20% from where it was just one year ago.

Inflation is up slightly less than 10% over the same period, which speaks to other anxieties many folks are having about the economic environment and the future. Meanwhile, the average balance in retirement accounts in the U.S. fell to $86,869 this year, marking a decline of -11% from a year ago. The expected retirement age also rose from 62.6 to 64, signaling that Americans expect to have to work longer to become retirement-ready. The disconnect between how much the average American has saved and how much they think they’ll need is somewhat harrowing, and also underscores why 40% of Americans surveyed do not think they will have enough money when they retire.¹

**The U.S. Economy Grew 2.6% in the Third Quarter**

Following two consecutive quarters of GDP declines in Q1 and Q2 of this year, the U.S. economy posted annual growth of 2.6% in Q3, according to the Commerce Department. Interestingly enough, one of the bigger detractors of U.S. GDP—the trade deficit—reversed course in Q3 with exports far exceeding imports. The U.S. exported a much greater quantity of oil and natural gas in Q3, driving the figure higher. Consumer spending, which accounts for close to two-thirds of total economic activity, also edged up slightly in the quarter, underscoring the U.S. consumers’ resilience in the face of rising inflation. Another key metric that measures underlying demand in the economy, called the final sales to private domestic purchasers, moved 0.1% higher in Q3 as compared to Q2. This data point has been in steady decline, however, after moving 2.1% higher in Q1 and 0.5% higher in Q2. The boost from exports in Q3 is not likely to persist in Q4 and beyond, as the stronger dollar makes U.S. exports more expensive overseas.²

**S&P 500 Corporate Earnings: Good, But Not Great**

Many economic forecasters had been anticipating an earnings “cliff” sometime in the back half of 2022, but we aren’t seeing signs of it yet. Q3 earnings season to date has largely been a replay of what we saw in the Q2 reporting cycle when estimates and sentiment had weakened so much that the actual results ended up looking a lot better in comparison (a mismatch that stocks tend to respond positively to). Having seen results from about a third of S&P 500 members by now, we can see that results are by no means great, but they are not bad either. For the 170 S&P 500 members that
have reported Q3 results as we write, total earnings are down -3.2% from the same period last year on +9.7% higher revenues, with 76.5% beating EPS estimates and 67.6% beating revenue estimates. The earnings and revenue growth rate for these 170 companies compare modestly favorably to what we had seen from the same group of companies in the first half of the year. Looking at the calendar-year picture, total S&P 500 earnings are expected to be up +6.3% in 2022 and +5.1% in 2023. Not so bad for an economy that many thought would be in freefall by now.
ZACKS INVESTMENT MANAGEMENT, INC.
www.zackspcg.com


DISCLOSURE

Past performance is no guarantee of future results. Inherent in any investment is the potential for loss.

Zacks Investment Management, Inc. is a wholly-owned subsidiary of Zacks Investment Research. Zacks Investment Management is an independent Registered Investment Advisory firm and acts as an investment manager for individuals and institutions. Zacks Investment Research is a provider of earnings data and other financial data to institutions and to individuals.

This material is being provided for informational purposes only and nothing herein constitutes investment, legal, accounting or tax advice, or a recommendation to buy, sell or hold a security. Do not act or rely upon the information and advice given in this publication without seeking the services of competent and professional legal, tax, or accounting counsel. Publication and distribution of this article is not intended to create, and the information contained herein does not constitute, an attorney-client relationship. No recommendation or advice is being given as to whether any investment or strategy is suitable for a particular investor. It should not be assumed that any investments in securities, companies, sectors or markets identified and described were or will be profitable. All information is current as of the date of herein and is subject to change without notice. Any views or opinions expressed may not reflect those of the firm as a whole.

Any projections, targets, or estimates in this report are forward looking statements and are based on the firm's research, analysis, and assumptions. Due to rapidly changing market conditions and the complexity of investment decisions, supplemental information and other sources may be required to make informed investment decisions based on your individual investment objectives and suitability specifications. All expressions of opinions are subject to change without notice. Clients should seek financial advice regarding the appropriateness of investing in any security or investment strategy discussed in this presentation.

Certain economic and market information contained herein has been obtained from published sources prepared by other parties. Zacks Investment Management does not assume any responsibility for the accuracy or completeness of such information. Further, no third party has assumed responsibility for independently verifying the information contained herein and accordingly no such persons make any representations with respect to the accuracy, completeness or reasonableness of the information provided herein. Unless otherwise indicated, market analysis and conclusions are based upon opinions or assumptions that Zacks Investment Management considers to be reasonable.

Any investment inherently involves a high degree of risk, beyond any specific risks discussed herein.

It is not possible to invest directly in an index. Investors pursuing a strategy similar to an index may experience higher or lower returns, which will be reduced by fees and expenses.

The ICE U.S. Dollar Index measures the value of the U.S. Dollar against a basket of currencies of the top six trading partners of the United States, as measured in 1973: the Euro zone, Japan, the United Kingdom, Canada, Sweden, and Switzerland. An investor cannot directly invest in an index. The volatility of the benchmark may be materially different from the individual performance obtained by a specific investor.
Zacks Investment Management, Inc. is a wholly-owned subsidiary of Zacks Investment Research. Zacks Investment Management is an independent Registered Investment Advisory firm that acts as an investment manager for individuals and institutions. Zacks Investment Research is a provider of earnings data and other financial data to institutions and to individuals.

This material is being provided for informational purposes only and nothing herein constitutes investment, legal, accounting or tax advice, or a recommendation to buy, sell or hold a security. Do not act or rely upon the information and advice given in this publication without seeking the services of competent and professional legal, tax, or accounting counsel. Publication and distribution of this article is not intended to create, and the information contained herein does not constitute, an attorney-client relationship. No recommendation or advice is being given as to whether any investment or strategy is suitable for a particular investor. It should not be assumed that any investments in securities, companies, sectors or markets identified and described were or will be profitable. All information is current as of the date of herein and is subject to change without notice. Any views or opinions expressed may not reflect those of the firm as a whole.

Any projections, targets, or estimates in this report are forward looking statements and are based on the firm’s research, analysis, and assumptions. Due to rapidly changing market conditions and the complexity of investment decisions, supplemental information and other sources may be required to make informed investment decisions based on your individual investment objectives and suitability specifications. All expressions of opinions are subject to change without notice. Clients should seek financial advice regarding the appropriateness of investing in any security or investment strategy discussed in this presentation.

Certain economic and market information contained herein has been obtained from published sources prepared by other parties. Zacks Investment Management does not assume any responsibility for the accuracy or completeness of such information. Further, no third party has assumed responsibility for independently verifying the information contained herein and accordingly no such persons make any representations with respect to the accuracy, completeness or reasonableness of the information provided herein. Unless otherwise indicated, market analysis and conclusions are based upon opinions or assumptions that Zacks Investment Management considers to be reasonable. Any investment inherently involves a high degree of risk, beyond any specific risks discussed herein.

The S&P 500 Index is a well-known, unmanaged index of the prices of 500 large-company common stocks, mainly blue-chip stocks, selected by Standard & Poor’s. The S&P 500 Index assumes reinvestment of dividends but does not reflect advisory fees. The volatility of the benchmark may be materially different from the individual performance obtained by a specific investor. An investor cannot invest directly in an index.

The Russell 1000 Growth Index is a well-known, unmanaged index of the prices of 1000 large-company growth common stocks selected by Russell. The Russell 1000 Growth Index assumes reinvestment of dividends but does not reflect advisory fees. An investor cannot invest directly in an index. The volatility of the benchmark may be materially different from the individual performance obtained by a specific investor.

Nasdaq Composite Index is the market capitalization-weighted index of over 3,300 common equities listed on the Nasdaq stock exchange. The types of securities in the index include American depositary receipts, common stocks, real estate investment trusts (REITs) and tracking stocks, as well as limited partnership interests. The index includes all Nasdaq-listed stocks that are not derivatives, preferred shares, funds, exchange-traded funds (ETFs) or debenture securities. An investor cannot invest directly in an index. The volatility of the benchmark may be materially different from the individual performance obtained by a specific investor.

The Dow Jones Industrial Average measures the daily stock market movements of 30 U.S. publicly-traded companies listed on the NASDAQ or the New York Stock Exchange (NYSE). The 30 publicly-owned companies are considered leaders in the United States economy. An investor cannot directly invest in an index. The volatility of the benchmark may be materially different from the individual performance obtained by a specific investor.

The Bloomberg Global Aggregate Index is a flagship measure of global investment grade debt from twenty-four local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers. An investor cannot invest directly in an index. The volatility of the benchmark may be materially different from the individual performance obtained by a specific investor.
The ICE Exchange-Listed Fixed & Adjustable Rate Preferred Securities Index is a modified market capitalization weighted index composed of preferred stock and securities that are functionally equivalent to preferred stock including, but not limited to, depositary preferred securities, perpetual subordinated debt and certain securities issued by banks and other financial institutions that are eligible for capital treatment with respect to such instruments akin to that received for issuance of straight preferred stock. An investor cannot invest directly in an index. The volatility of the benchmark may be materially different from the individual performance obtained by a specific investor.