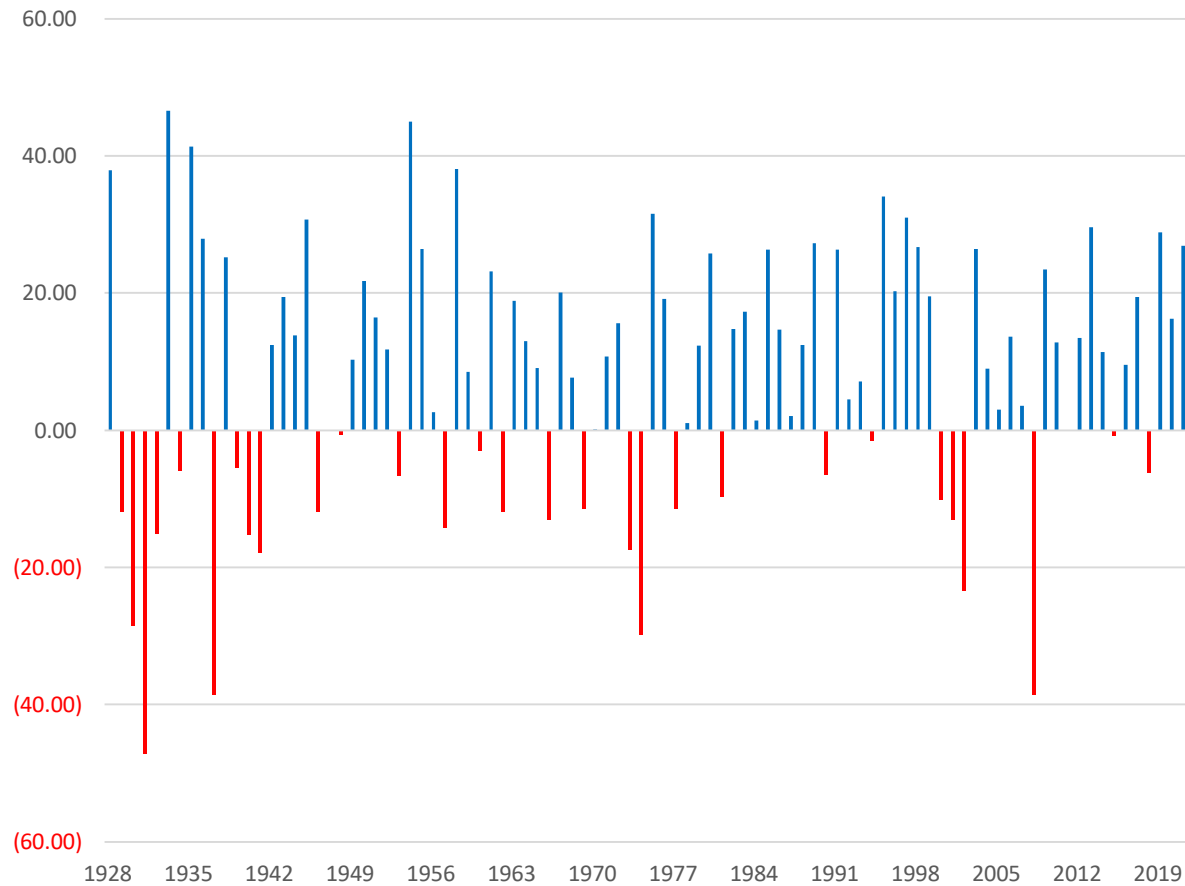


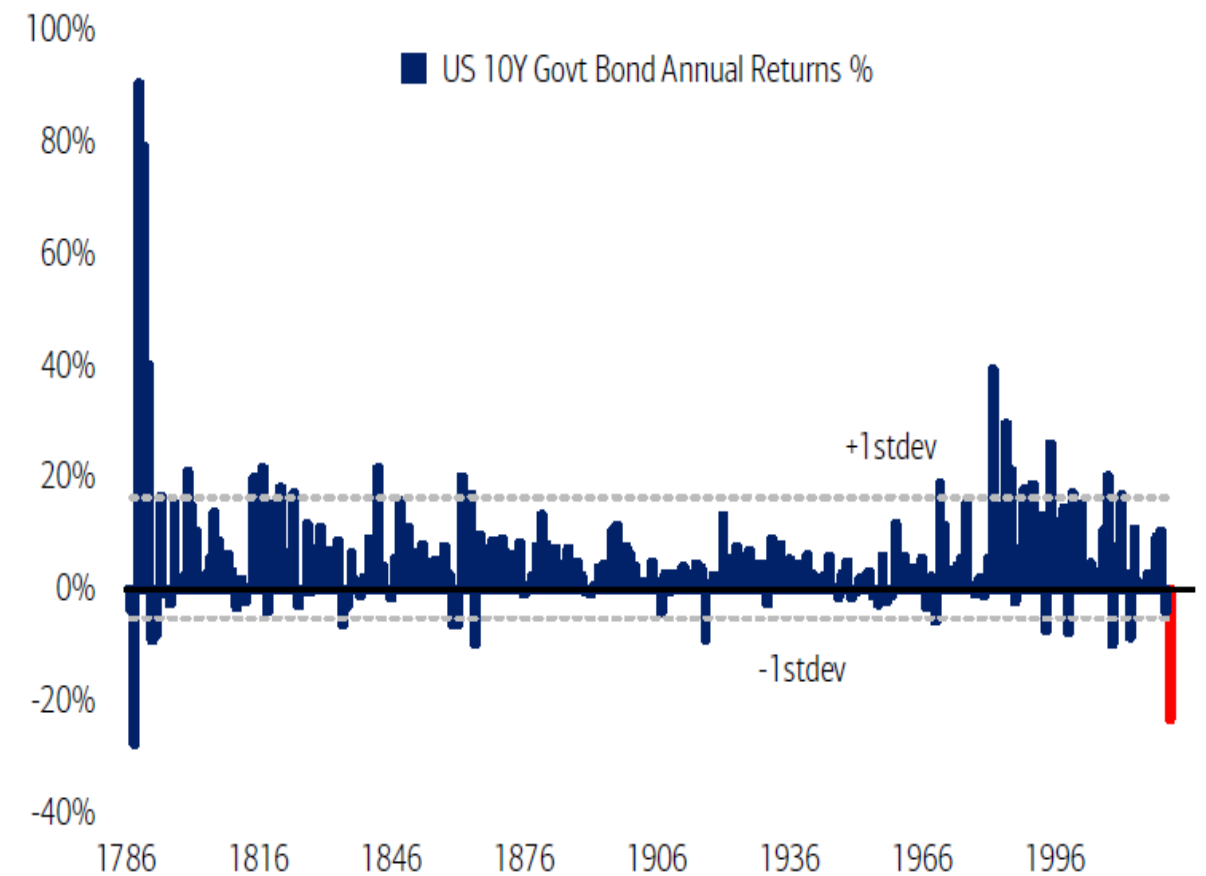
Fat Bear Market

Annual Returns S&P 500 Index, 1928-2022



Source: Standard & Poor's

Annual Returns US 10Y Gov't Bonds, 1786-2022

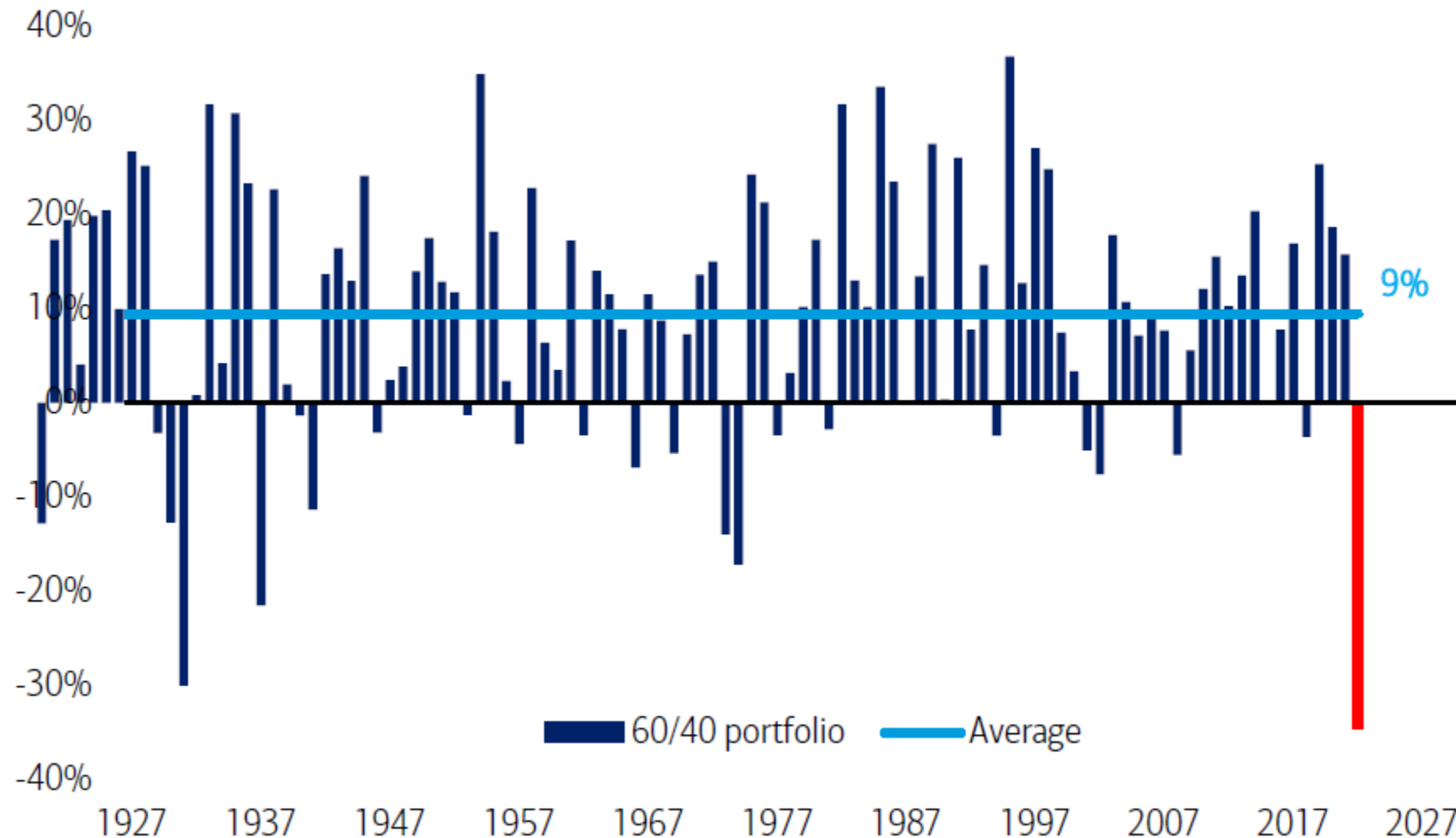


Source: BofA



Fat Bear Market

Annualized Returns “60/40” Portfolio, US, 1920-2022

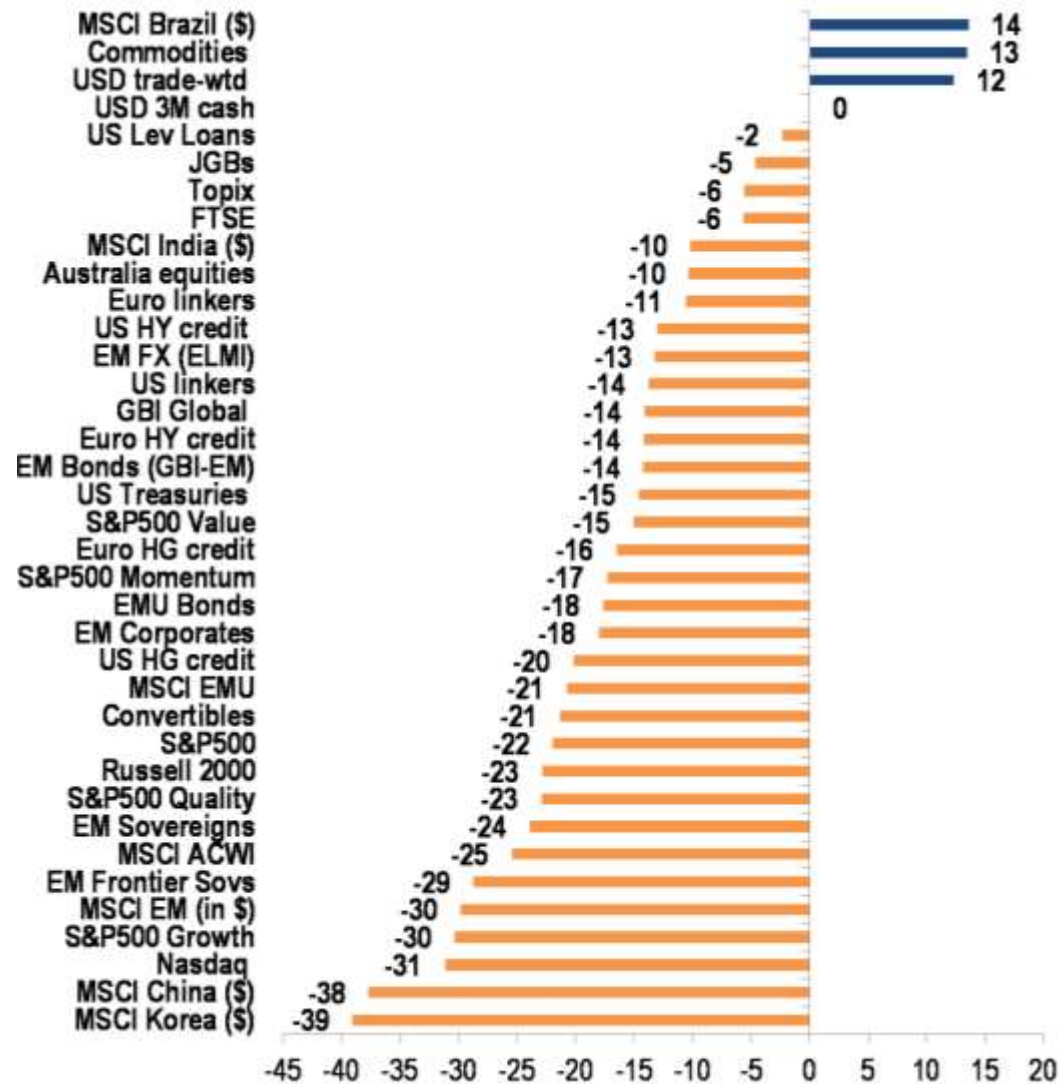


Source: BofA



Fat Bear Market

2022 YTD Returns Selected Assets

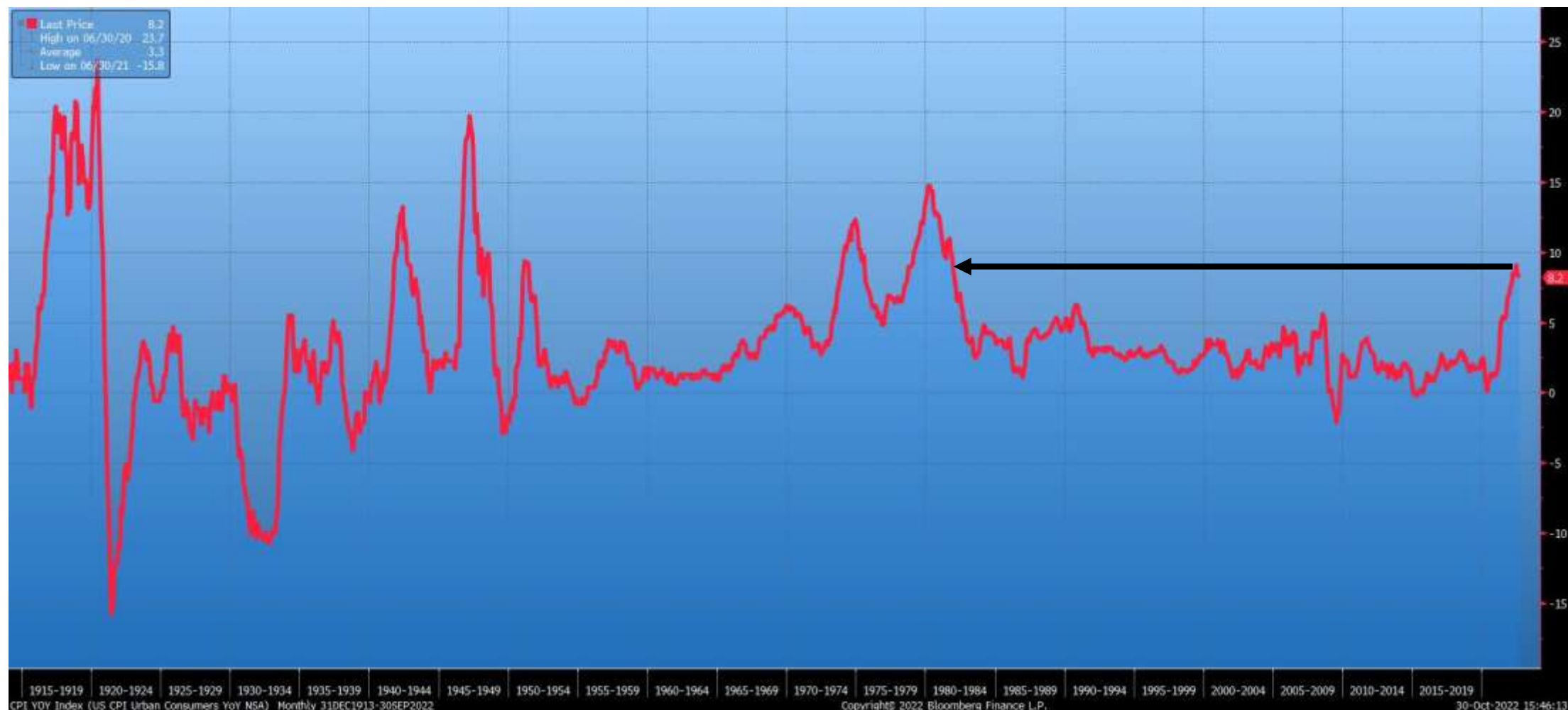


Source: JP Morgan, 24 October 2022



The Root of All Evil — Inflation

US CPI, 1913-2022, Ann. Pct. YOY

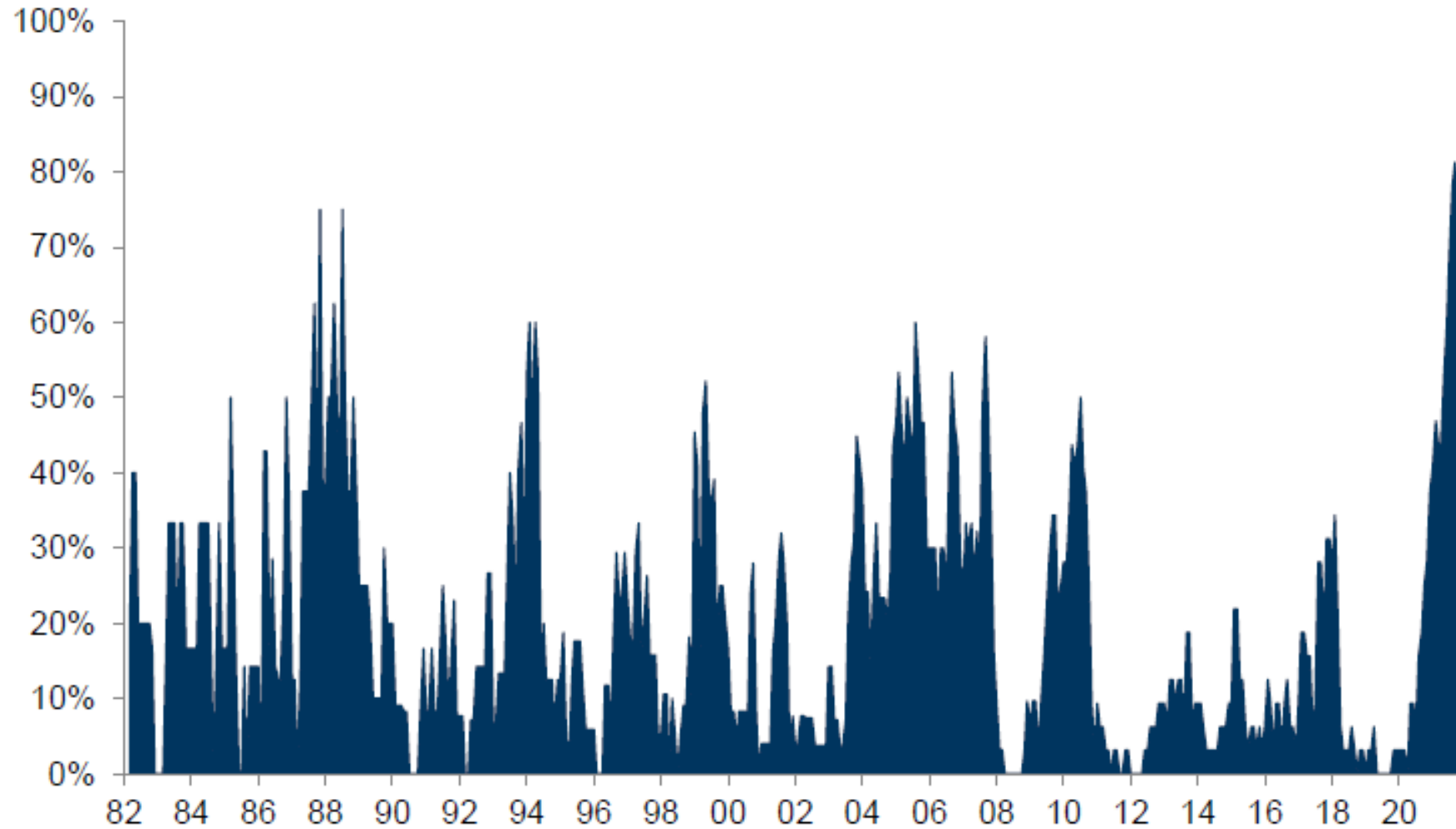


Source: IMF



Central Banks Playing Catch-Up

Proportion of Global Central Banks Raising Rates, 1982-2022

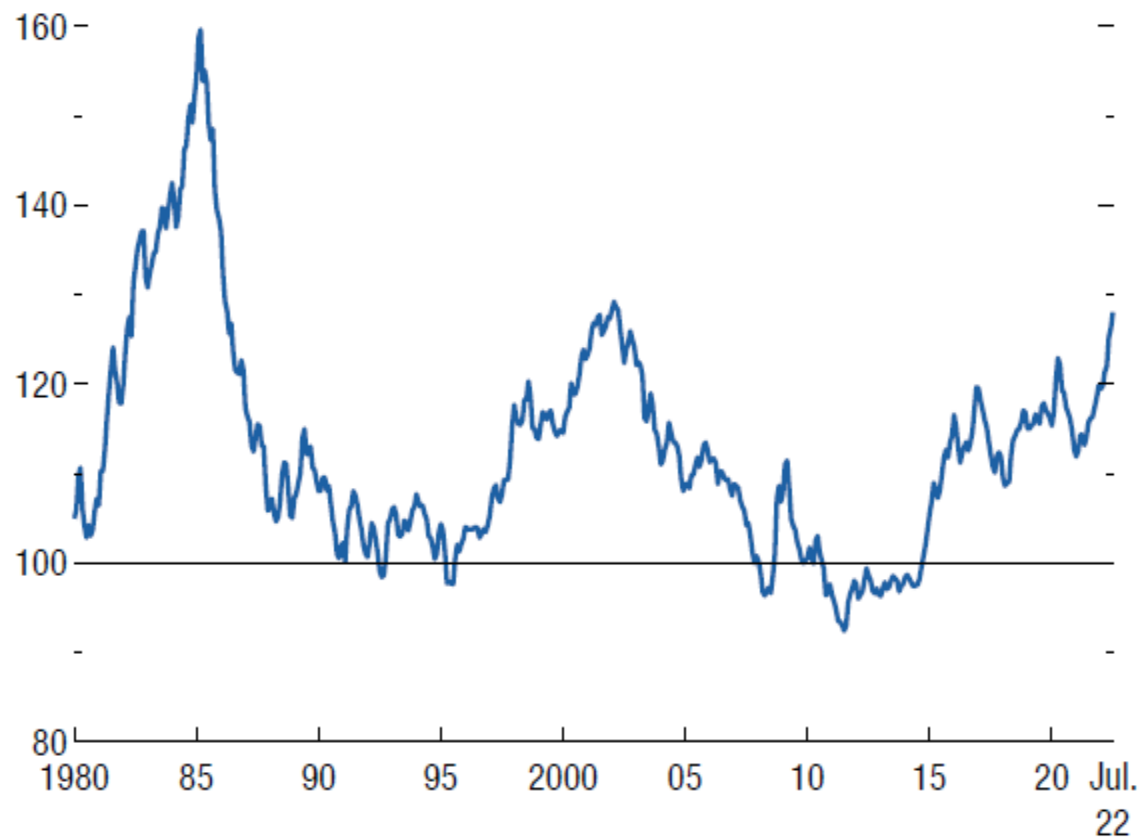


Source: Goldman Sachs



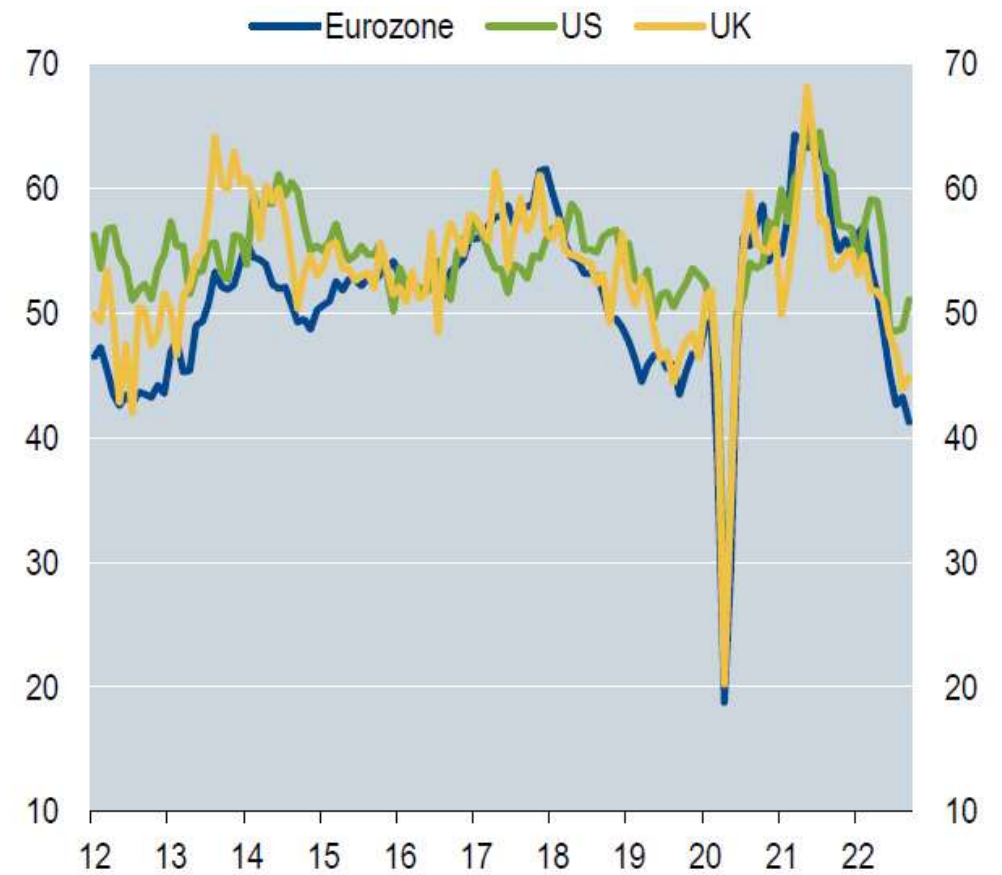
Consequences of Monetary Tightening

Broad-Based US Dollar Appreciation
Index, 2010 = 100



Source: IMF

Manufacturing PMI New Orders, 2012-2022

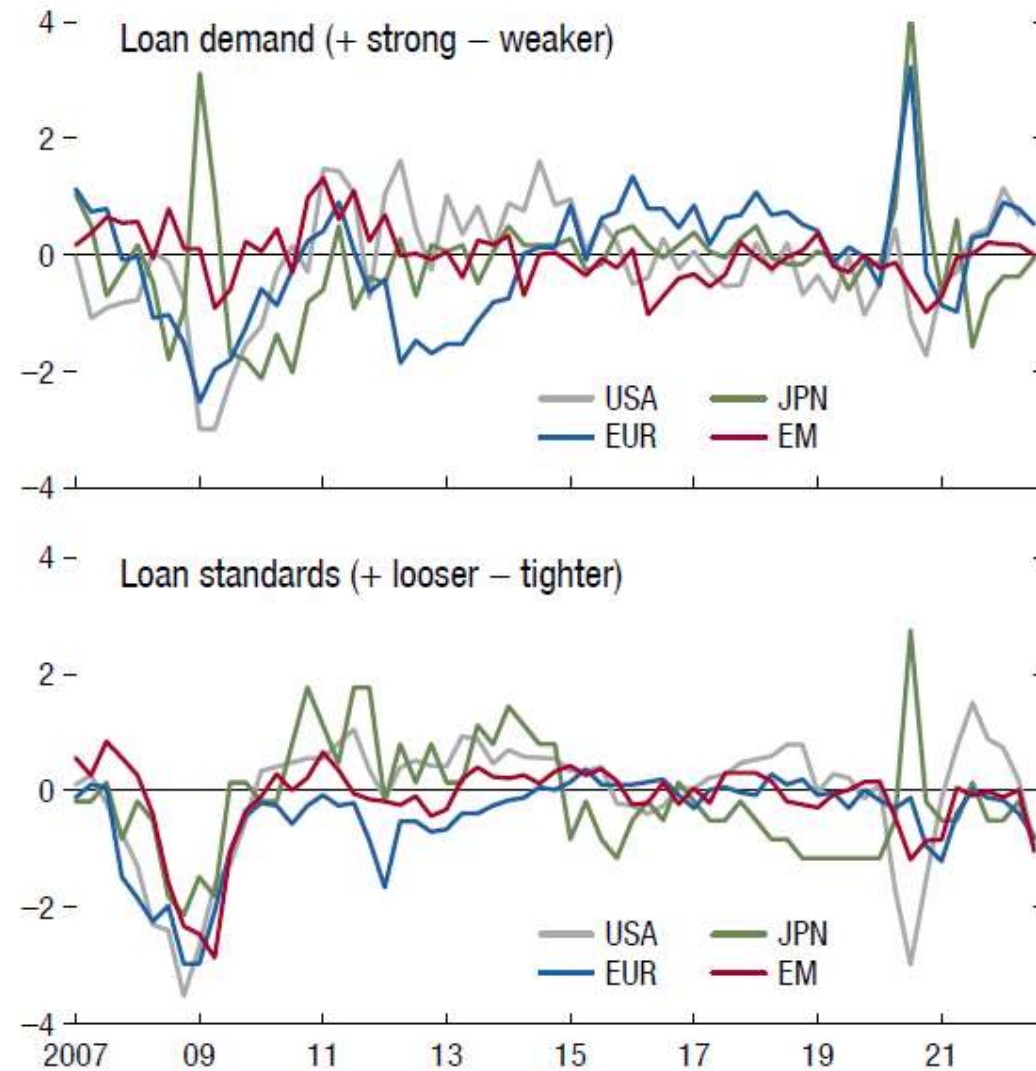


Source: Western Asset, 30 Sep. 2022



Consequences of Monetary Tightening

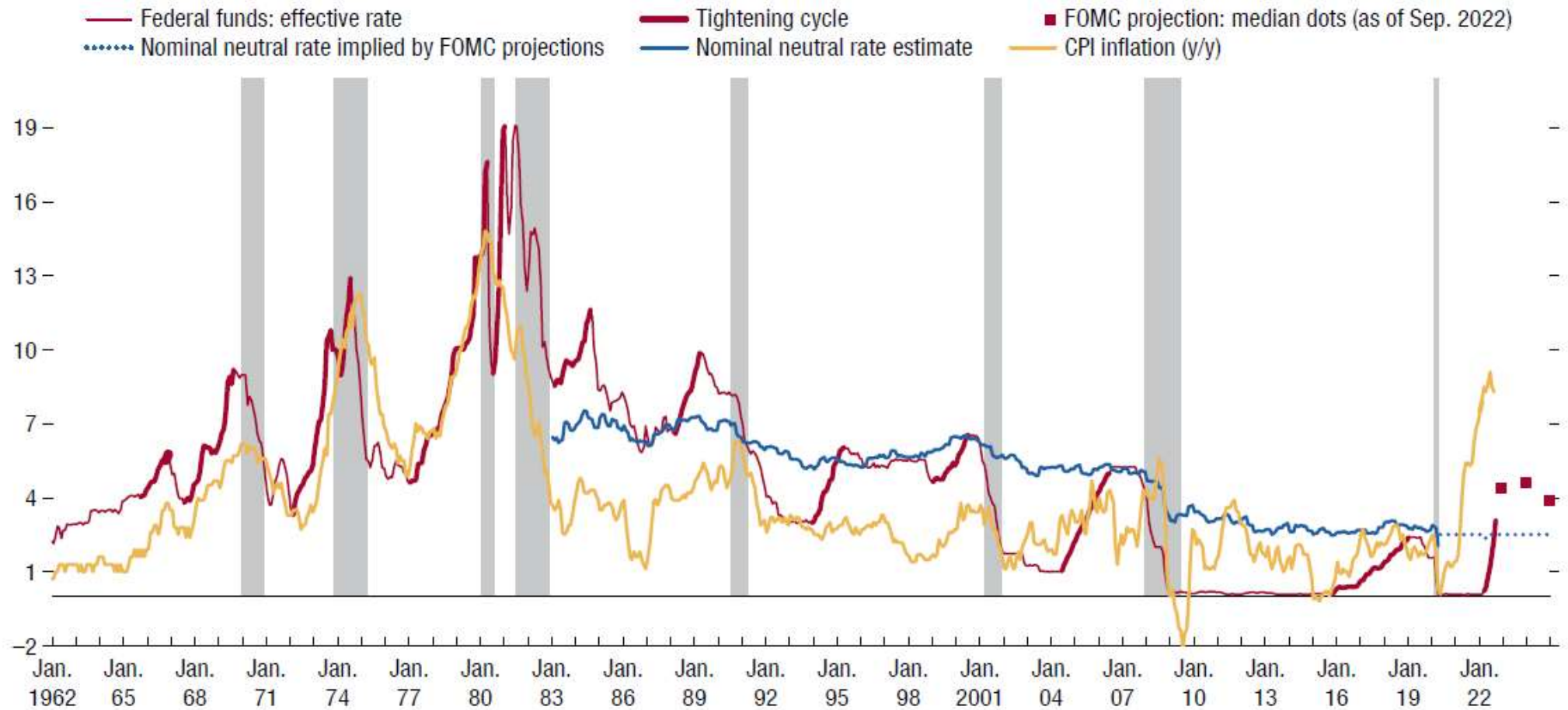
Lending Standards Tightening



Source: IMF



Consequences of Monetary Tightening — Recession



Source: IMF



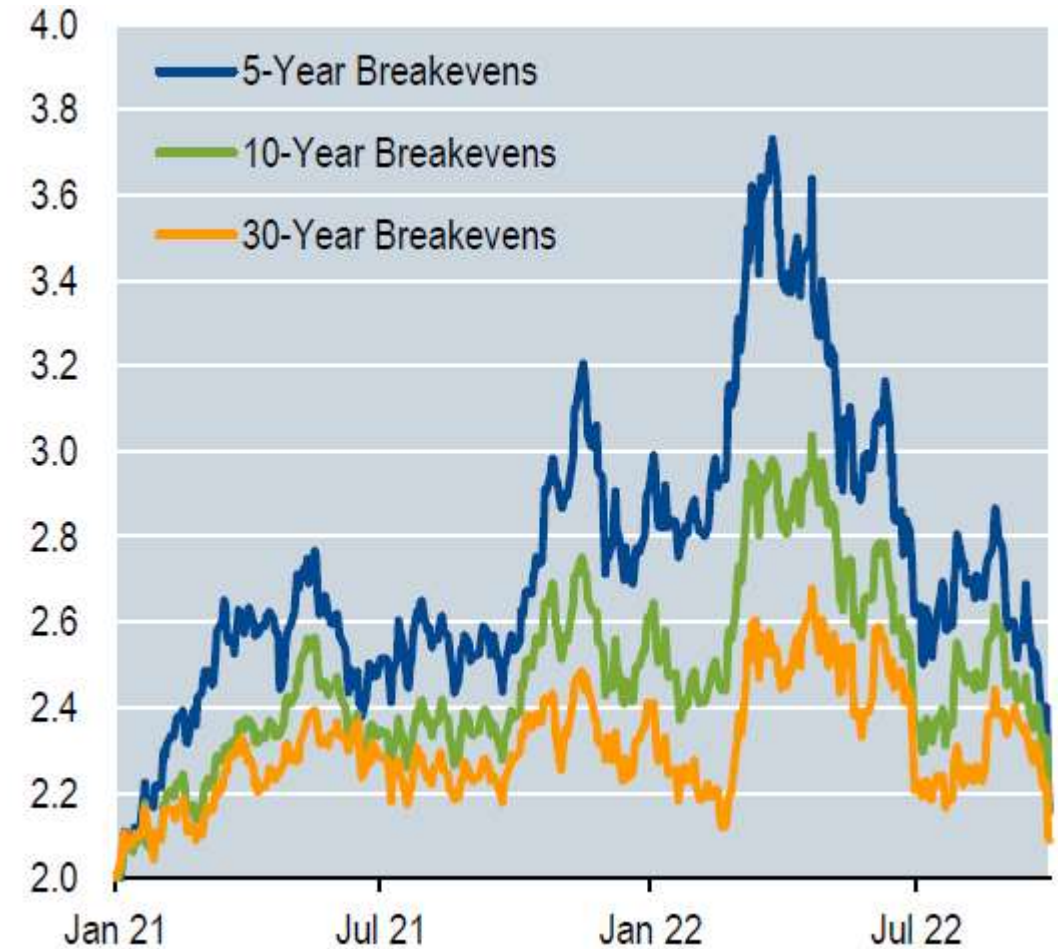
Consequences of Monetary Tightening — Inflation Will Fall

M2, Pct. Change From A Year Ago



Source: Federal Reserve System

Breakeven Inflation Rates



Source: Western Asset, 30 Sep. 2022



Bear Market History

Peak	Trough	Decline	Event (s)	Returns from trough	
				1-year	2-year
09/1929	06/1932	86.2%	Crash of 1929, 1st part of Great Depression	121.4%	113.2%
03/1937	04/1942	60.0%	2nd part of Great Depression, WWII	53.7%	58.9%
10/2007	03/2009	56.8%	Global Financial Crisis	68.6%	95.1%
06/1911	12/1920	51.0%	WWI, Post-War Auto Bubble Burst	14.6%	46.4%
03/2000	10/2002	49.1%	Dot-com bubble burst	33.7%	44.5%
01/1973	10/1974	48.2%	Inflationary Bear Market, Vietnam, Watergate	38.0%	67.3%
11/1968	05/1970	36.1%	Start of Inflationary Bear Market	43.7%	59.7%
01/1906	10/1907	34.2%	Panic of 1907	31.4%	69.6%
02/2020	03/2020	33.9%	COVID-19 Crash of 2020	74.8%	99.2%
08/1987	10/1987	33.2%	Black Monday	23.2%	54.4%
4/1899	06/1900	30.4%	Cornering of Northern Pacific Stock	50.5%	54.2%
05/1946	06/1949	29.6%	Post-war Bear Market	42.1%	59.0%
12/1961	06/1962	28.0%	Height of Cold War, Cuban Missile Crisis	32.7%	55.7%
10/1892	07/1893	27.3%	Silver Agitation	6.6%	23.7%
01/2022	-	24.1%	Great Bond Bear Market	-	-
11/1886	03/1888	22.0%	Depression, Railroad strikes	6.5%	12.6%
04/1903	09/1903	21.7%	Rich Man's Panic	18.3%	54.5%
08/1897	03/1898	21.1%	Outbreak of Boer War	42.4%	43.9%
09/1909	07/1910	20.6%	Enforcement of the Sherman Anti-Trust Act	17.0%	22.4%
05/1890	07/1891	20.1%	Barings Brothers Crisis	20.9%	-4.7%

Source: BofA



Bear Market History

1929-1932



1937-1938



1968-1970



Source: BofA

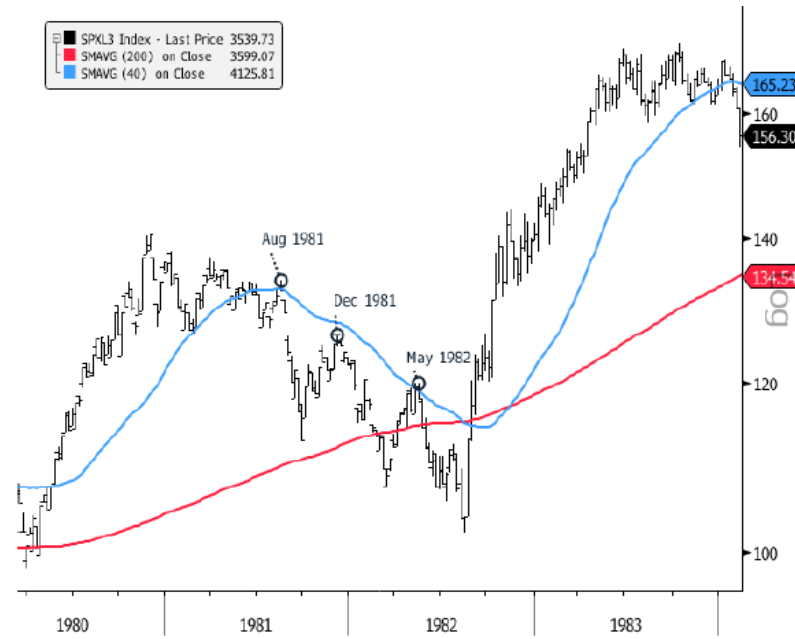


Bear Market History

1973-1974



1980-1982



2000-2002



Source: BofA



Bear Market History — They All Come Back

2007-2009



2020-2022

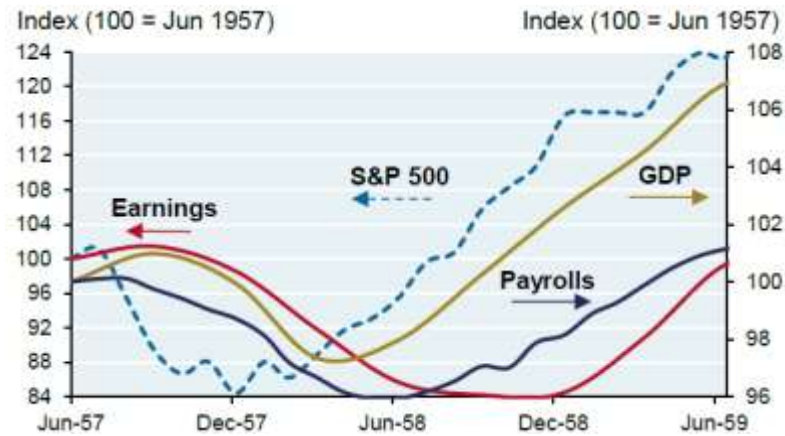


Source: BofA

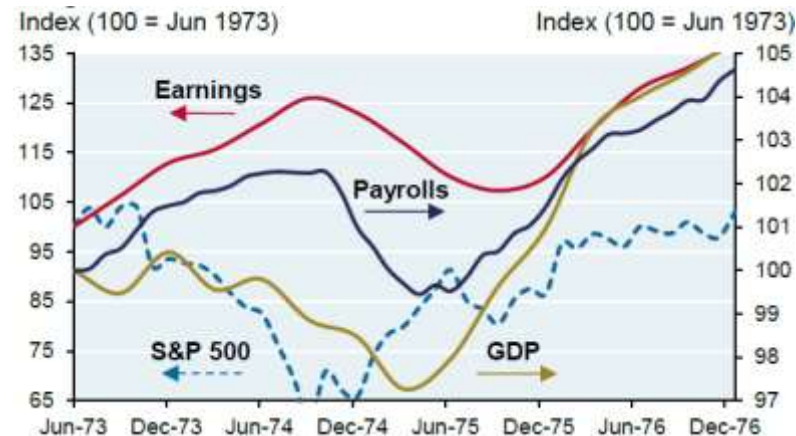


Bear Market History

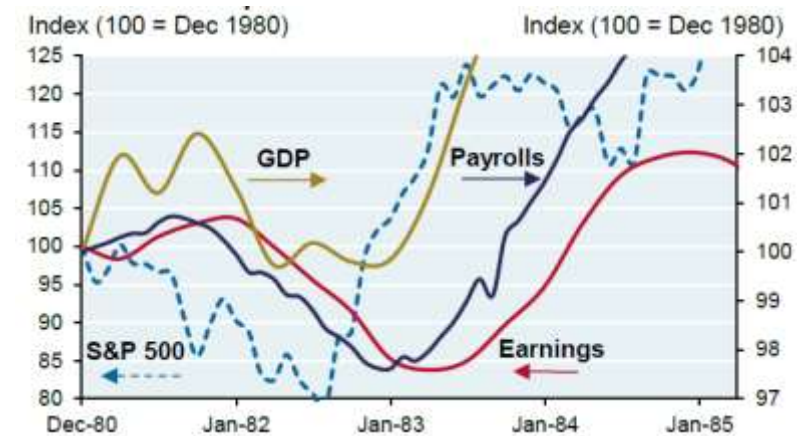
1957-1959



1973-1976



1980-1985

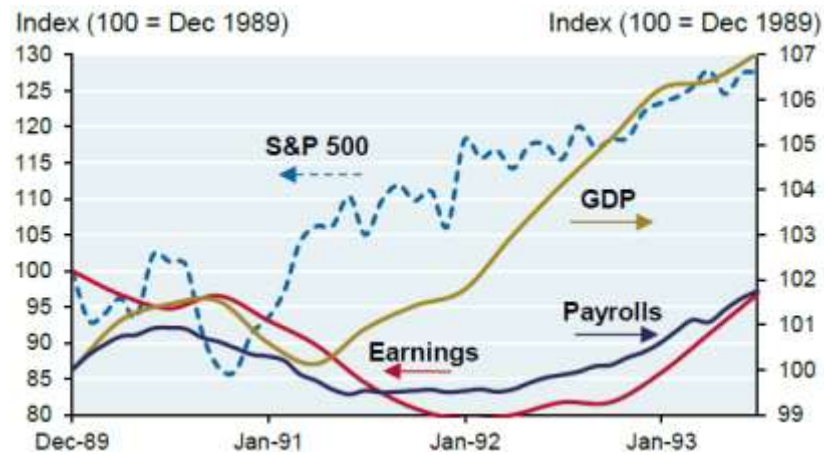


Source: JP Morgan



Bear Market History

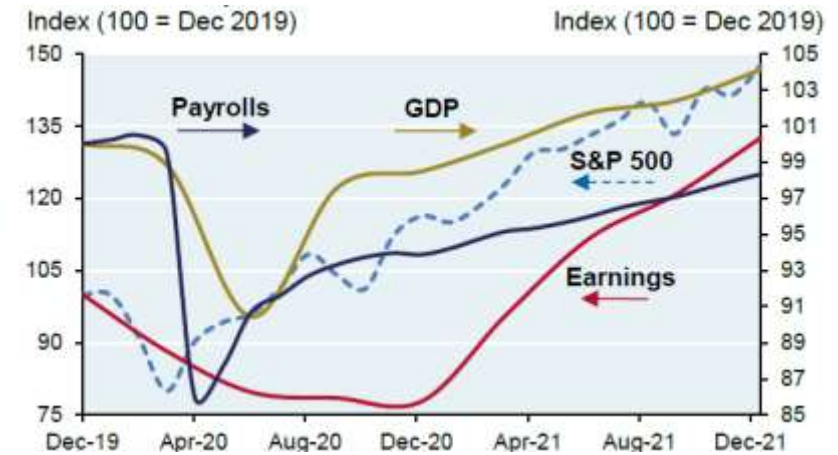
1989-1993



2007-2013



2019-2021

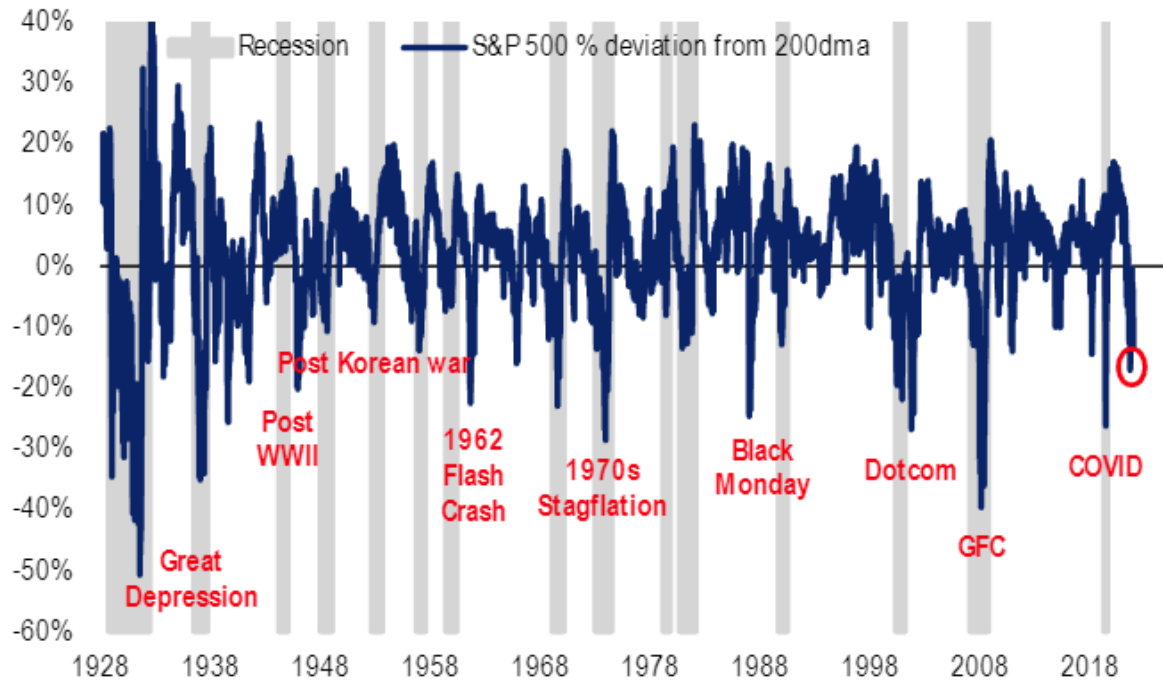


Source: JP Morgan



Bear Market History — They All Come Back

S&P 500 Deviation from 200-day MA, 1928-2022



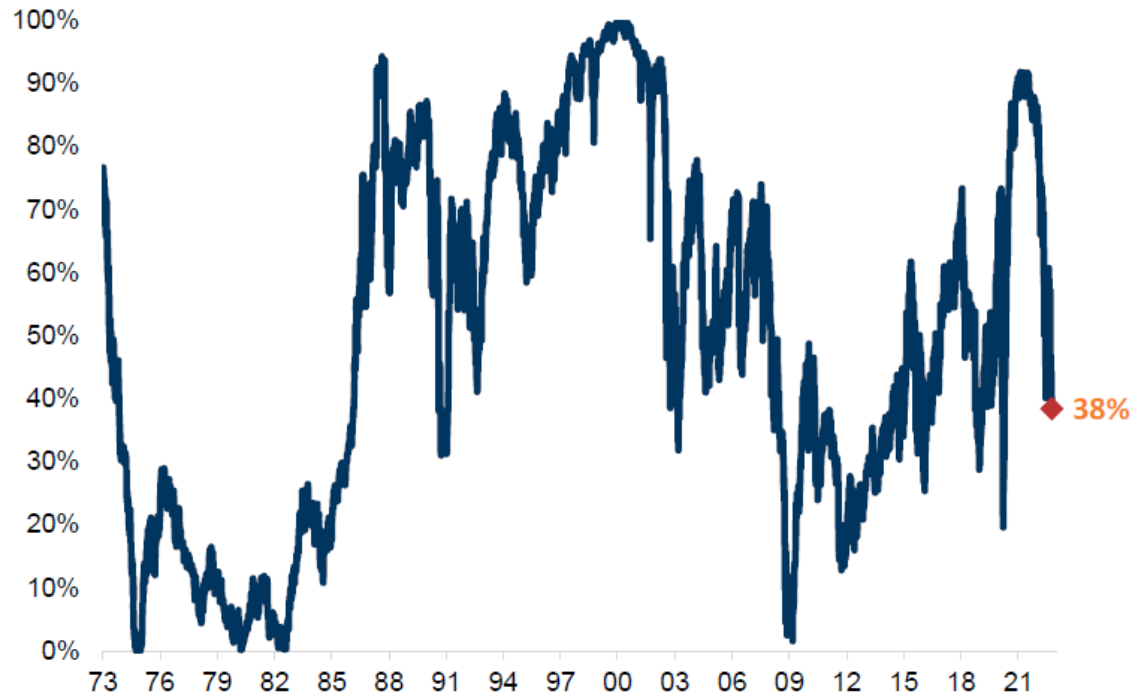
Source: BofA

Returns after SPX breaches >20% below 200dma			
Date SPX breached >20% below 200dma	1m	2m	3m
Nov 1929	8.9%	4.3%	11.9%
Oct 1930	-4.0%	-11.9%	-8.8%
May 1931	-4.1%	3.1%	1.9%
Sep 1931	-18.4%	-11.4%	-33.8%
Oct 1937	-10.8%	-11.8%	-15.0%
May 1940	1.2%	1.8%	2.5%
Oct 1946	5.2%	8.5%	9.3%
Jun 1962	6.4%	7.2%	8.4%
May 1970	6.8%	6.7%	9.8%
Aug 1974	-3.7%	0.5%	-5.4%
Oct 1987	6.8%	10.8%	10.9%
Nov 1987	7.6%	11.6%	16.3%
Sep 2001	9.0%	16.1%	15.8%
Jul 2002	12.1%	-0.5%	4.3%
Sep 2002	7.5%	11.6%	7.6%
Oct 2008	-14.4%	-17.1%	-11.6%
Mar 2020	17.3%	20.0%	31.0%
Median	6.4%	4.3%	7.6%

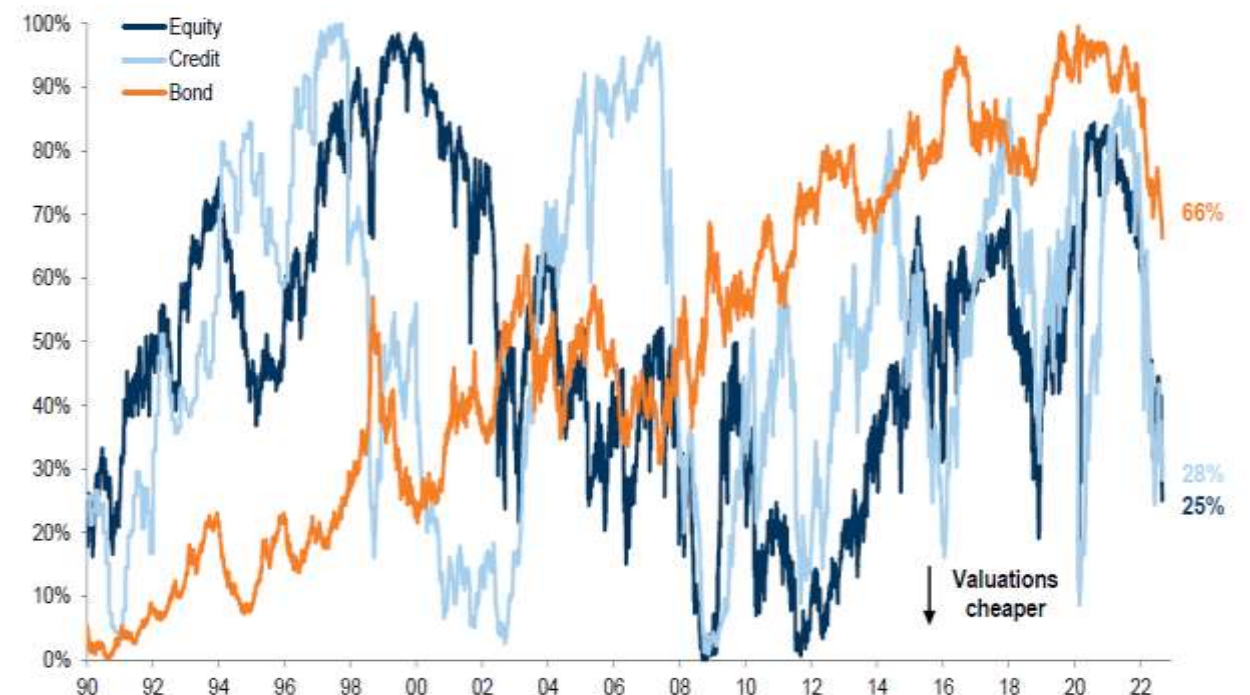


Valuation—Equities Reasonable, Credit Cheap

Valuation Percentile Global Equities, 1973-2022



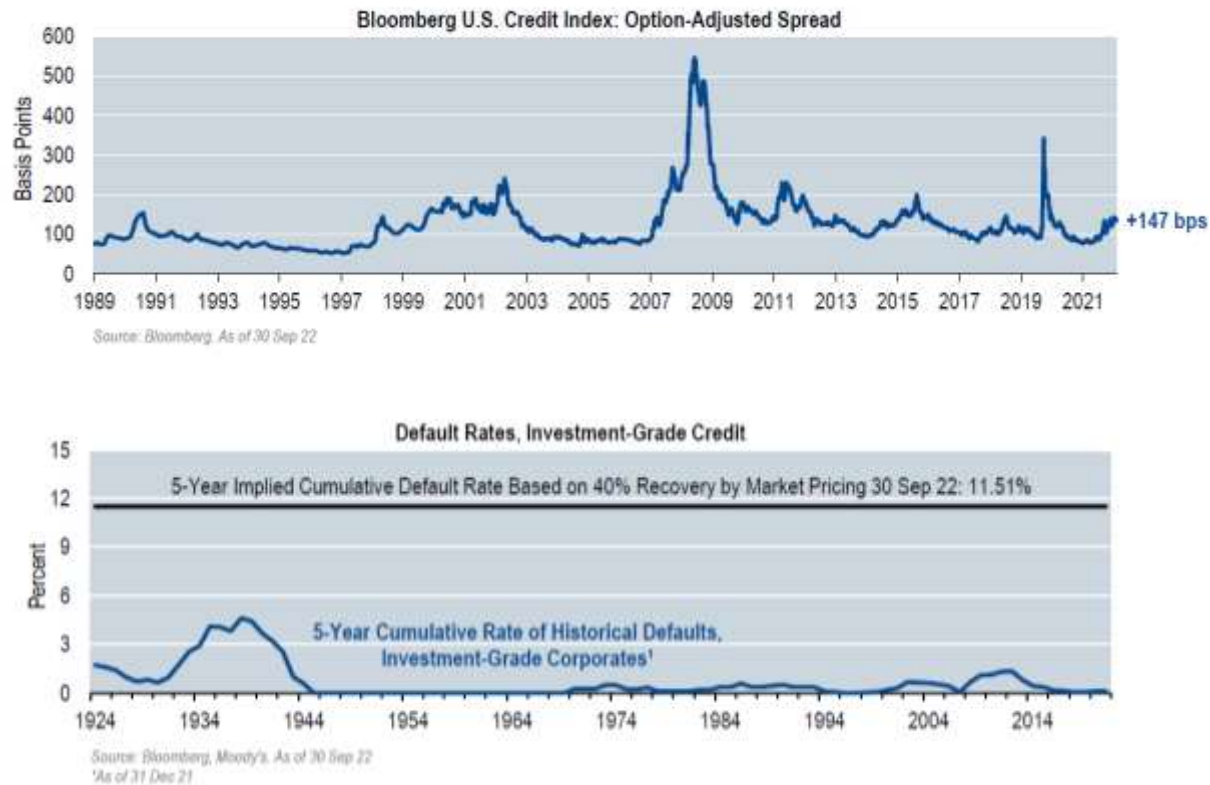
Valuation Percentile Global Equities & Bonds, 1990-2022



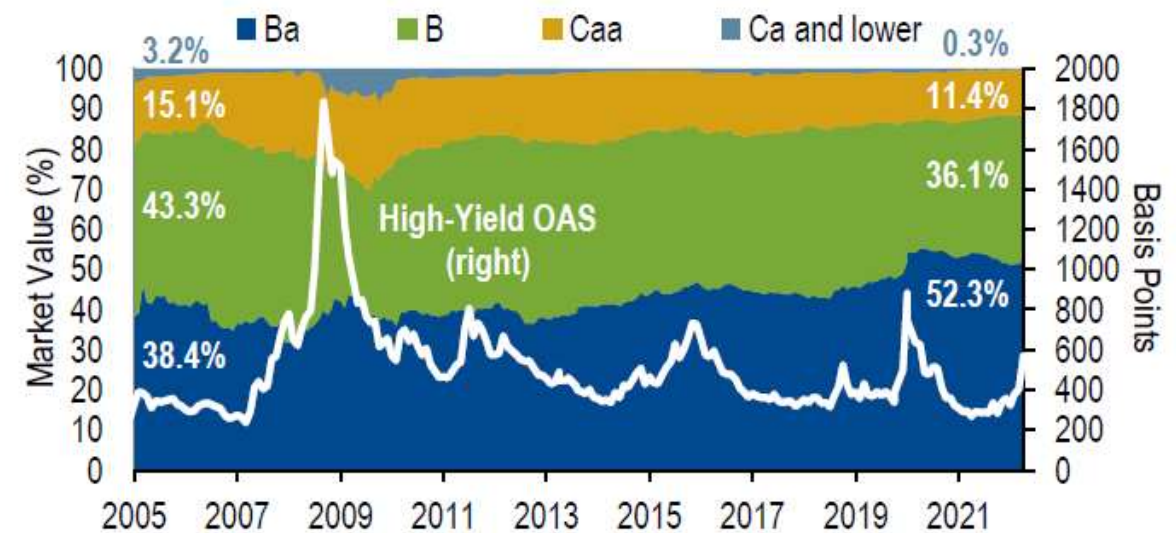
Source: Goldman Sachs



Investment-Grade Credit



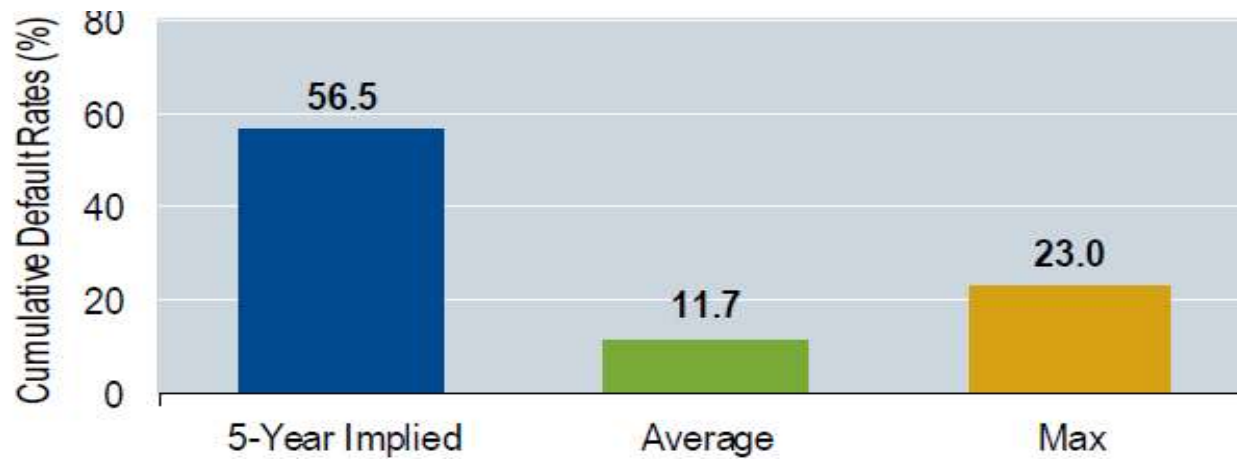
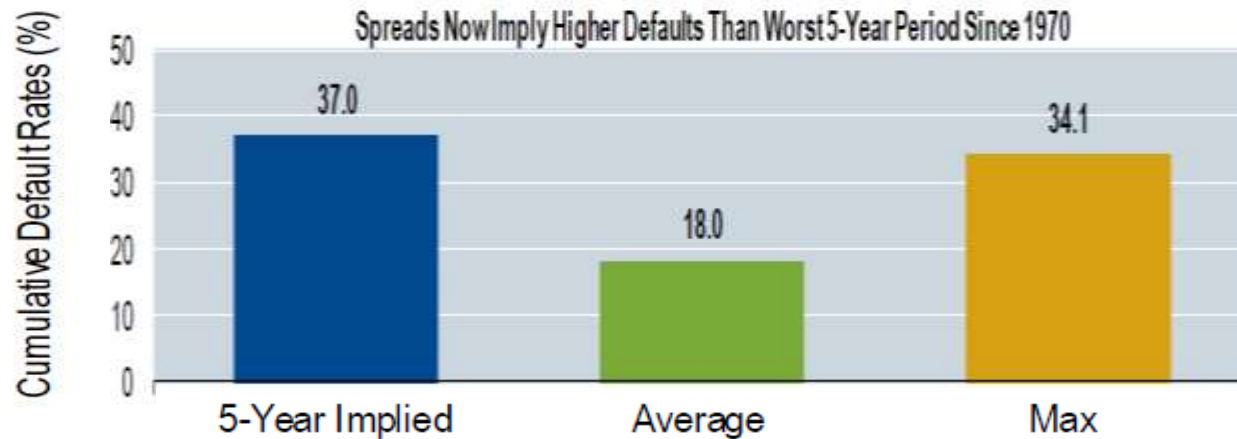
High Quality High Yield



Source: Western Asset

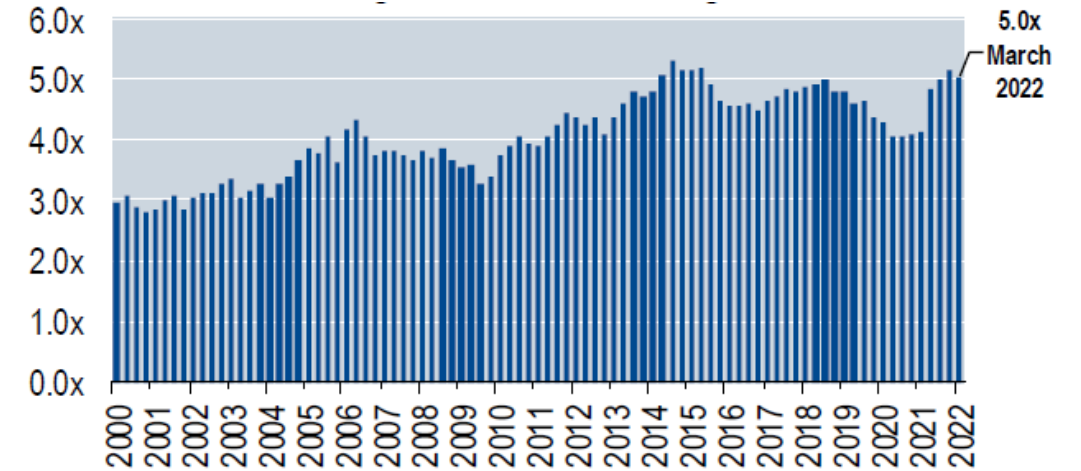


Implied Defaults High Yield

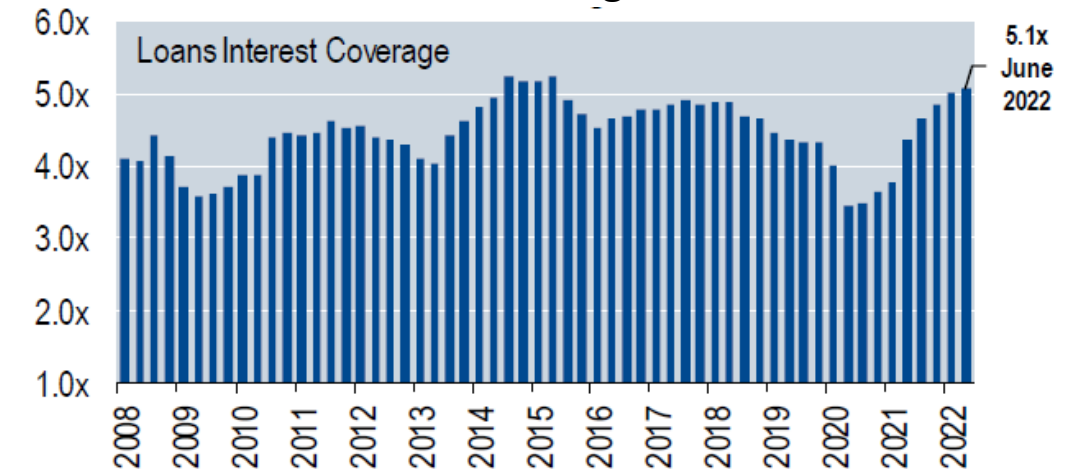


Source: Western Asset

Interest Coverage High Yield



Interest Coverage Loans



Summary

- This a *Fat* Bear Market
 - Stocks and bonds with double-digit declines
 - Nowhere to hide
- Inflation is the root of this fat bear market
- Monetary tightening will lead to recession
 - But inflation will fall
- We have had 20 bear markets in 130 years
 - We have recovered from each one, with the market leading the economic data
 - Today is no different
 - Valuations are attractive; stay invested





Source: Freepik.com





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