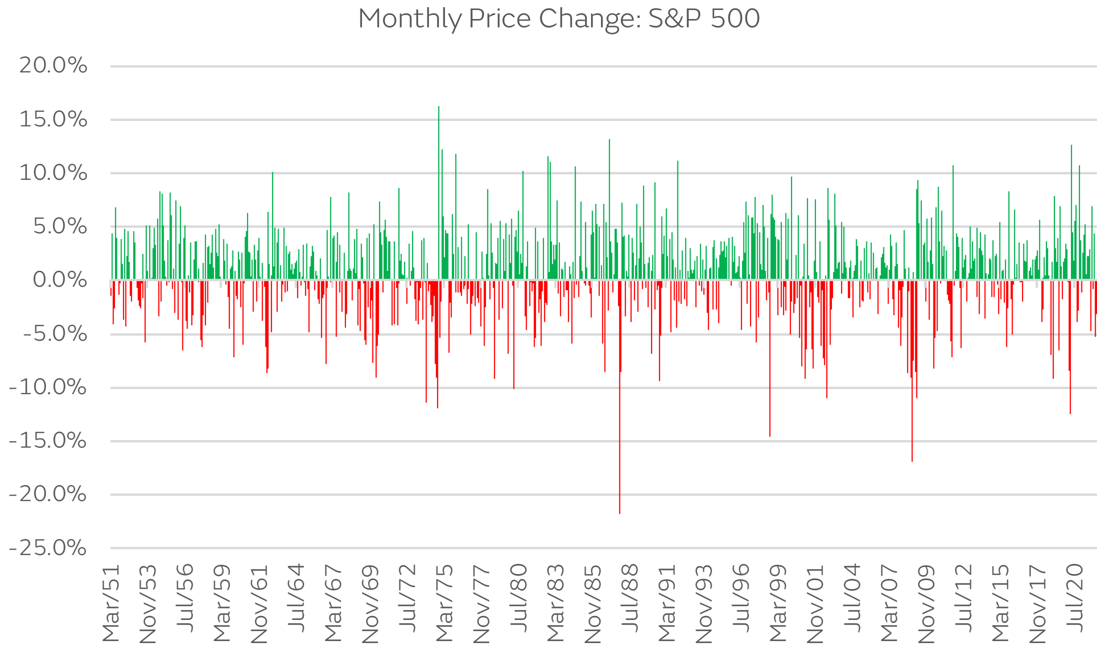
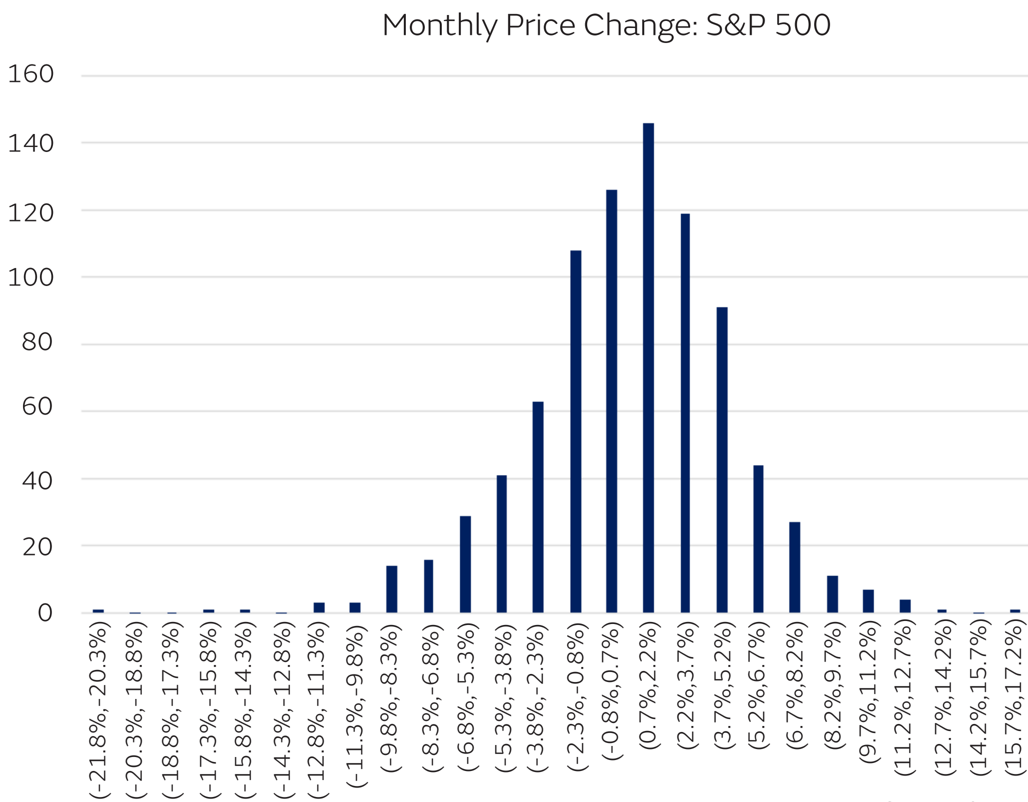
June 2022: R and R

Rock and **R**oll was invented in 1951 (by Alan Freed 1921-1965). Since 1951 stock prices (Index prices) have gyrated consistently between positive months and negative months.



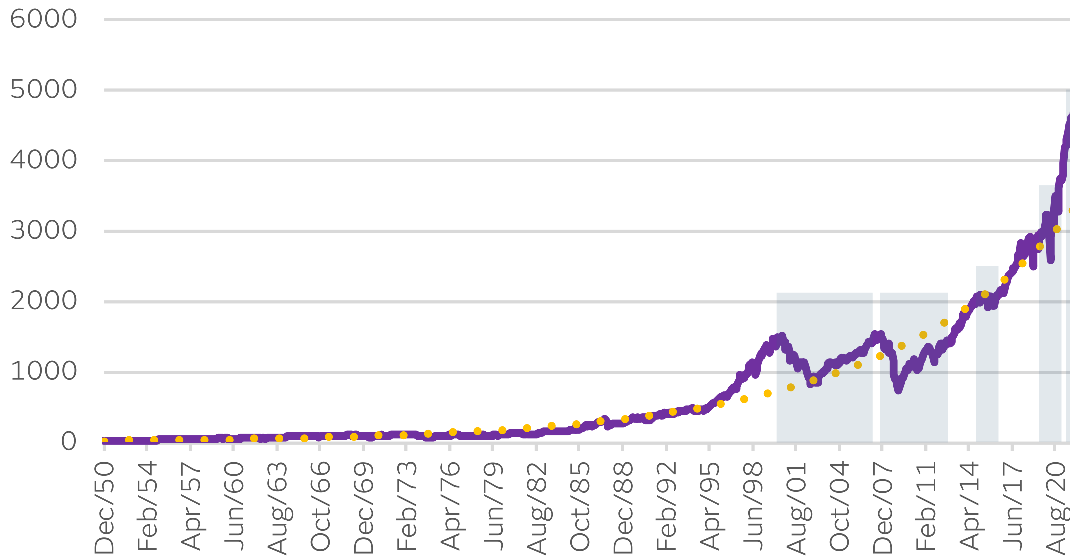
Source: Bloomberg

Given the magnitude of index price declines relative to gains, monthly equity price changes have in fact tended to skew negative since 1951.



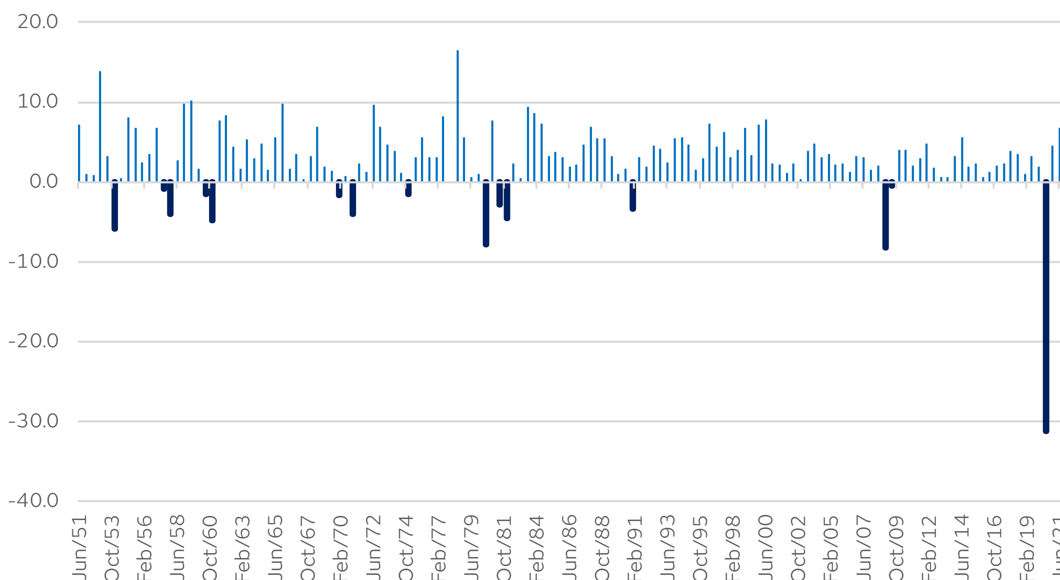
Source: GIB AM Analysis, Bloomberg

Given that negative skew over the past 70 years, should we be surprised by the incessant hand-wringing of mainstream media covering the market turmoil of 2022? We should not. The inexorable advance of equities over time is, from time to time, threatened by sustained drawdowns. And if we **R**ead and **R**eview the data, we have seen sustained drawdowns before (see the shaded areas in the SPX 500 price chart below).



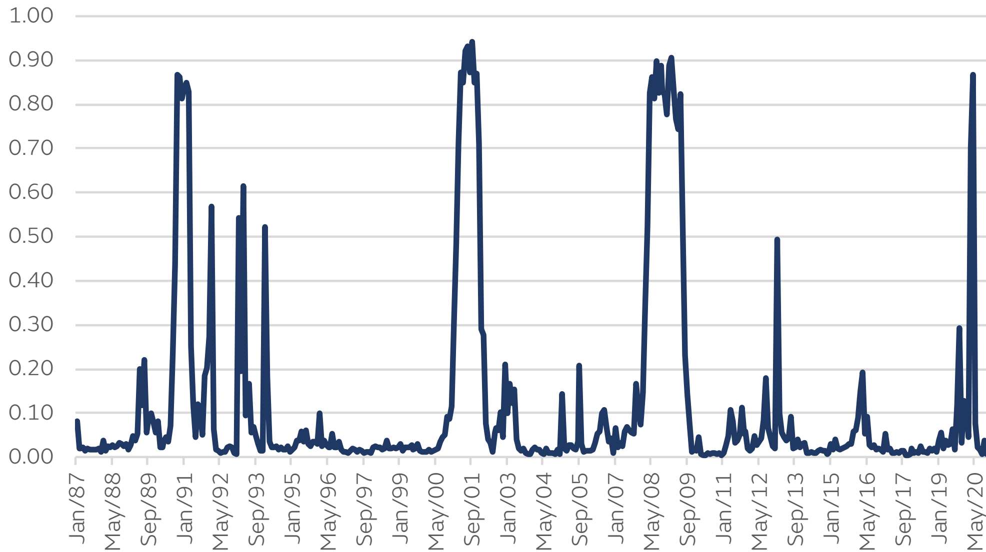
Source: GIB AM Analysis, Bloomberg

Of course sometimes drawdowns follow periods of excess (e.g. the dot-com bubble of 1995-March 2000) and sometimes in response to, or anticipation of, **R**ecession and **R**etrenchment.



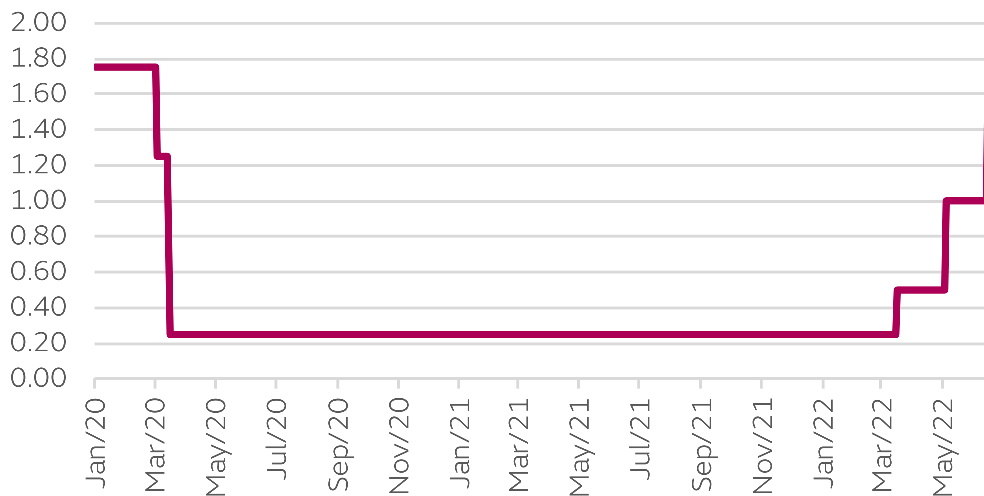
Source: Bloomberg

And so while the US Recession Probability Index is currently low, this is in large part because it is based on GDP for the prior 4 quarters. The Piger model (its inspiration, http://pages.uoregon.edu/jpiger/us_recession_probs.htm) is based on historical values of GDP, non-farm payroll employment, industrial production index, manufacturing and trade sales, and personal income; all areas where we have seen sharp post-pandemic expansion.



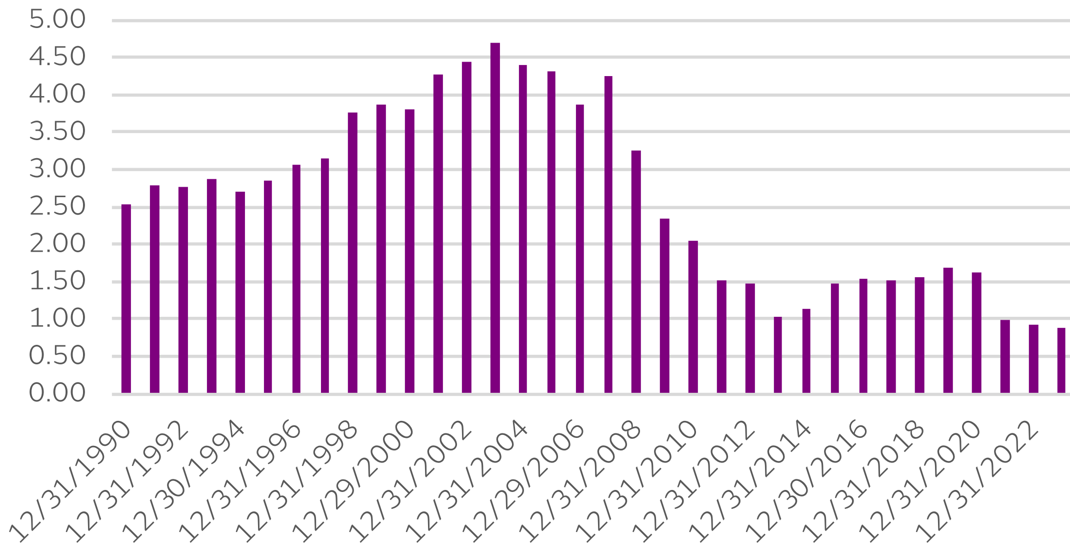
Source: Bloomberg

Of course the recession risk is "certainly a possibility" (Jay Powell, 22nd June) as the Fed (and other Central Banks) fulfills its **R**ole and **R**esponsibility to conduct monetary policy to promote stable prices in the face of above-target inflation.



Source: Federal Reserve

While there is a real recession risk, this is not to suggest **R**etreat and **R**etrenchment for investors. Indeed, we are struck by the general **R**obust and **R**esilient nature of corporate issuers where net debt to EBITDA levels are at their lowest for over 30 years. This may well pre-empt any need for future economic **R**escue and **R**esuscitation.



Source: Bloomberg

At GIB Asset Management our investment focus continues to be on resilient and well-run companies (across global equities (DM and EM) and fixed income) addressing long term thematic opportunities.

As we approach summer we hope all of you are able to get some real **R** and **R**.

Feel free to contact us at info@gibam.com.

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