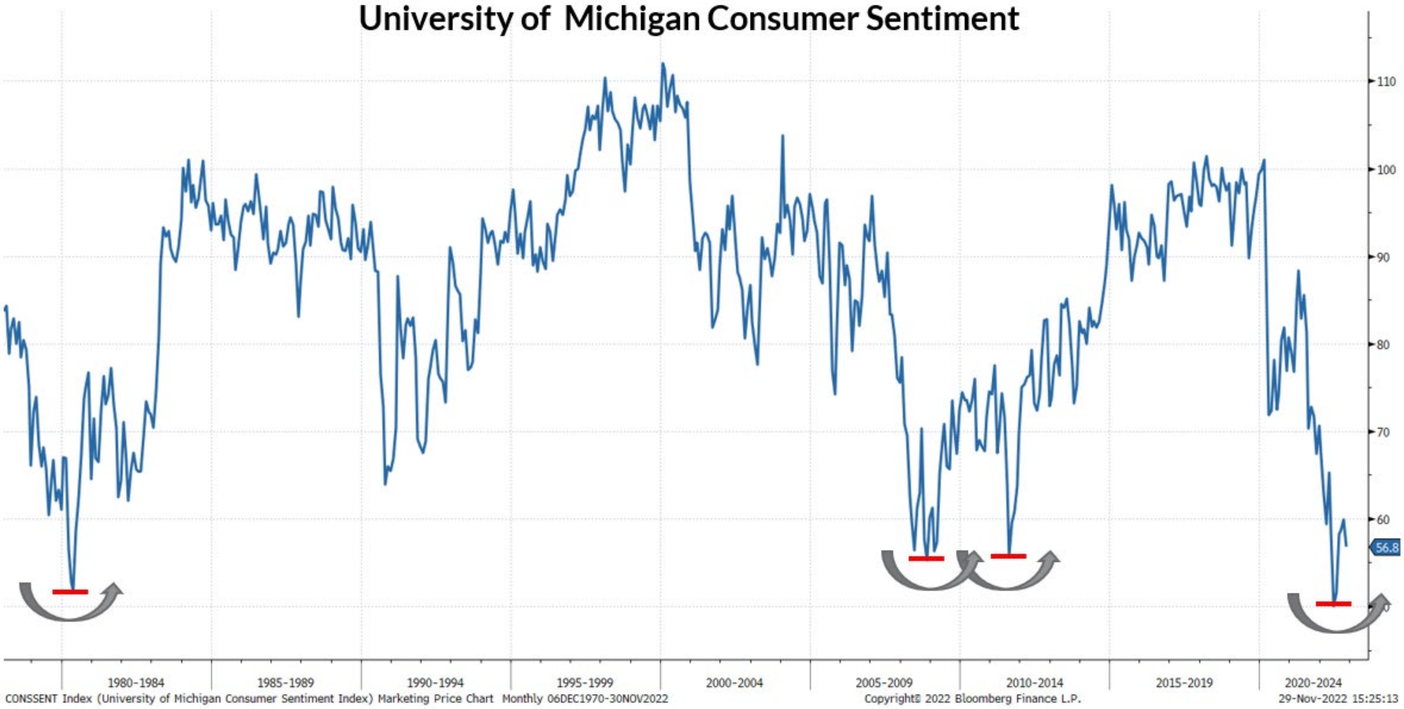
TODD Asset Management

Todd's Chart of Interest

November 30, 2022

What Could Go Right?



Source: Bloomberg and Todd Asset Management as of 11/30/22

- 2022 has been historic for all the wrong reasons. Globally stock *AND* bond returns are both down around -15% through the end of November, which is unprecedented. War rages in Ukraine, Central Banks remain on aggressive policy paths to dampen inflation, yield curves are inverted and China is slow to ease their "Zero-Covid" stance. Even our hometown Louisville Cardinals are off to an 0-7 start this basketball season. As the old saying goes, if this year were a fish we'd throw it back. It seems fitting that sentiment measures are at distressed levels rarely seen.

- ***Contrarians should take note***. Market returns have historically been very strong in the year following lows in sentiment measures. ***The average return in US markets after sentiment lows in 1980, 2008 and 2011 was +22%. Internationally, once sentiment measures began to recover in 2008, 2011 and 2020, markets went on to gain +36% on average.***

- Consensus is calling for an imminent recession and we'll be the first to admit that a number of indicators support this view. The trouble with this, ironically, is that consensus is calling for an imminent recession. Sentiment is horrendous and markets priced in a lot of bad news this year with drawdowns around -30%. Markets often move against the crowd and it seems to us that what's not priced in at this point are more positive resolutions to the headwinds mentioned at the top of this page. Which begs the question, "what could go right?"

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