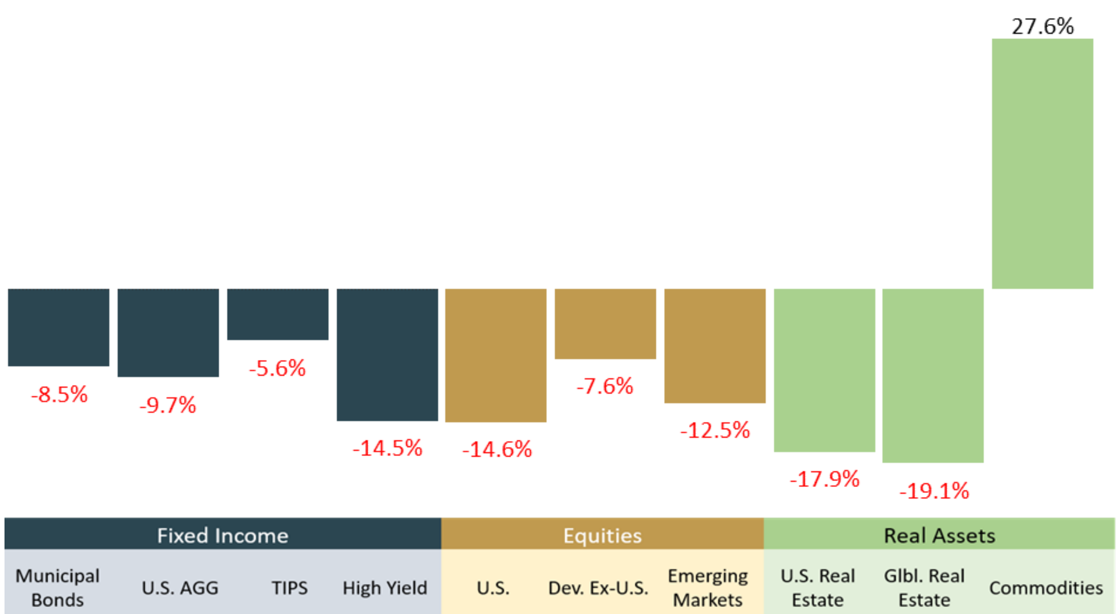
Markets in a Minute:
Stock and Bond Volatility in 2022

When I was younger, I enjoyed riding rollercoasters with steep climbs and fast drops. As my kids became teenagers, they also began to enjoy riding those same coasters with me, the more extreme the better. However, several years ago at Walt Disney World after riding "Everest Adventure" 3 straight times (<u>and this coaster went both forward and backward with a loop in the dark</u>), I began to feel nauseated and decided those dramatic ups and downs were probably better in my rear-view mirror. Now I'd rather stick with the calm lazy boat rides and slower exhibits more my "speed."

Having experienced the dramatic upticks and heart-thumping drops in the markets so far this year, I thought I already had experienced my fair share of thrill rides. Those who have been following the markets closely this year probably agree with me. For long-term investors, a little bit of speed and spins from time to time will keep things interesting, but too much too fast can make the ride more stressful than fun.

Year-To-Date 2022 Index Returns

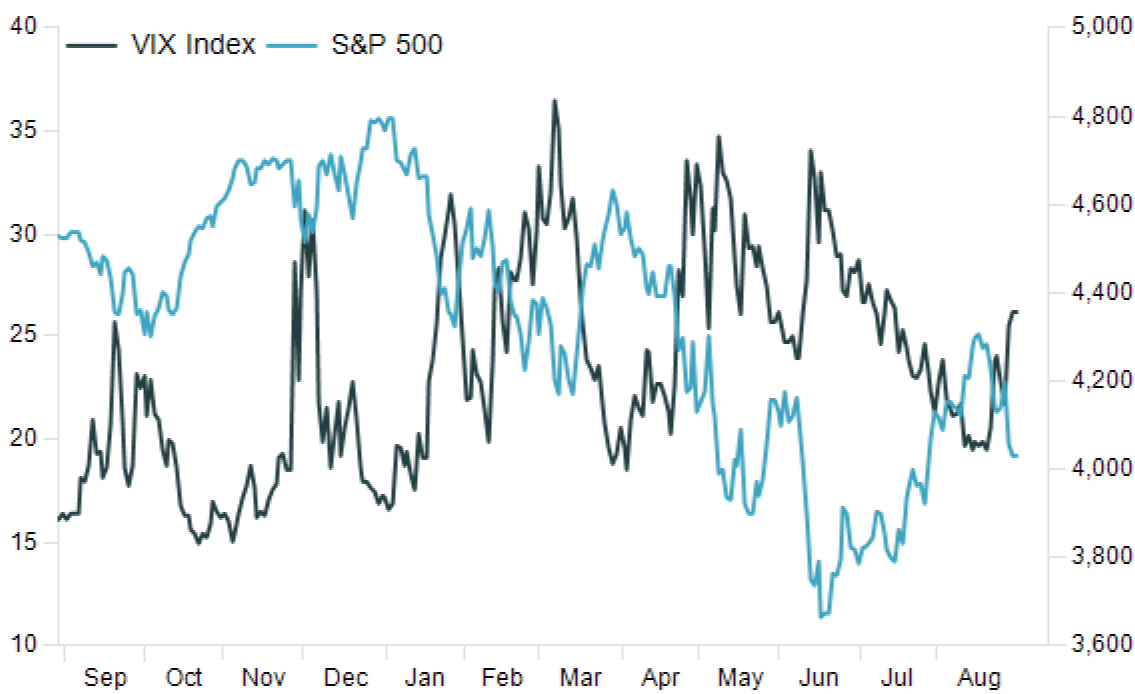


Past performance is not a reliable indicator of current or future results. Indexes are unmanaged and not subject to fees. It is not possible to invest directly in an index. Note: views are from a U.S. dollar perspective. Source: Kestra Investment Management with data from FactSet. Index proxies: Bloomberg Municipal Bond Index, Bloomberg US AGG Bond Index, S&P US TIPS, ICE BofA US High Yield, S&P 500, MSCI World ex USA, MSCI EM, Dow Jones US Select REIT, Dow Jones Global X US & Bloomberg Commodity Index. Data as of August 30, 2022.

Why 2022 Has Been Unique

If you've been investing long enough, you've likely experienced these roller-coaster-like periods of volatility and understand it's a normal occurrence in the market that won't last forever. But what makes this year different from other periods of increased volatility is that we've seen large swings in both stocks and bonds. In fact, nearly every asset class is in negative territory so far this year.

Stock Volatility Has Been Inversely Correlated to Stocks: VIX Index



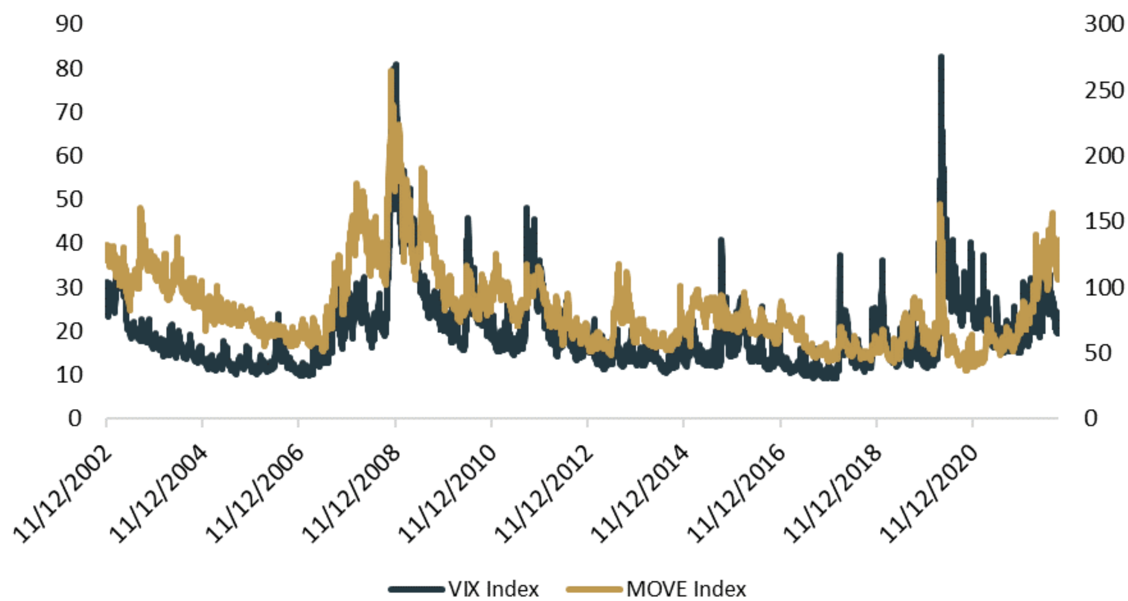
Forward looking estimates may not come to pass. Past performance is no guarantee of future results. Source: Kestra Investment Management, Chicago Board Options Exchange and FactSet. Index proxy: VIX Index & S&P 500. Data as of August 29, 2022.

More recently, this inverse relationship has continued. As stocks rallied from June to August, the VIX declined from 34 to 20, near its historical average. Then from mid-August to the end of the month, we saw the reverse: stocks retreated and the VIX rallied.

Bond Volatility

While many long-term equity investors have come to expect downturns, what has been unique about the recent experience is that bonds have been weak at the same time as stocks. And while stock volatility has subsided, bond volatility remains near historic highs. Similar to the VIX index, the MOVE index measures US Treasury rate volatility through options pricing, and we haven't seen swings this large since the global financial crisis.

Bond Volatility Remains Elevated: MOVE Index



Forward looking estimates may not come to pass. Past performance is no guarantee of future results. Source: Kestra Investment Management, Chicago Board Options Exchange and FactSet. Index proxy: VIX Index & MOVE Index. Data as of August 22, 2022.

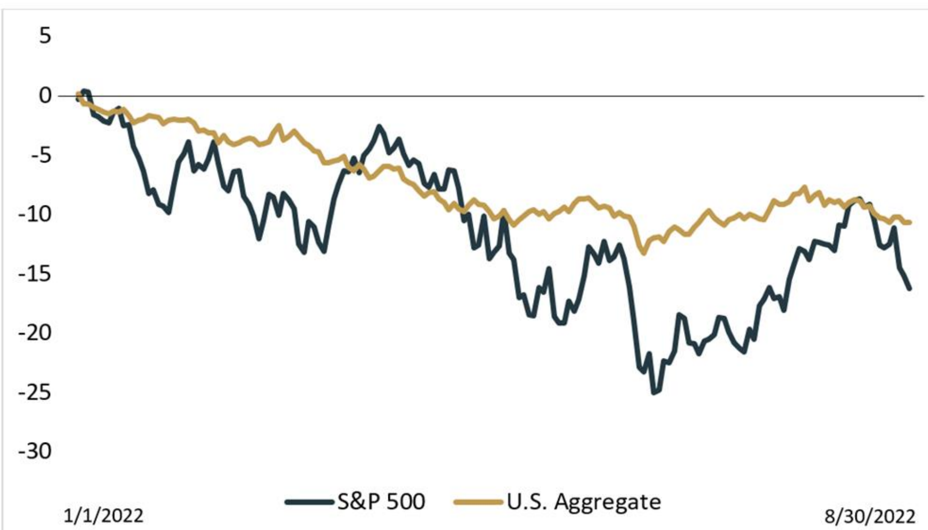
This elevated level of uncertainty corresponded to unusually weak fixed-income returns in the first half of the year. US Treasuries, for instance, delivered the worst six-month performance since 1973, down 11%. Similarly, the broad US Aggregate Bond Index declined over 10% over that same time frame.

But What's Causing All of This Volatility?

Markets have had their fair share of things to worry about this year:

- The Federal Reserve has rapidly tightened monetary policy, raising interest rates and reducing the number of bonds it owns;
- US inflation skyrocketed to 9.1% in June, the highest it's been since 1981;
- After Q2 GDP growth dropped by .06%, investors remain concerned about the possibility of a full-blown recession.

S&P 500 and Bloomberg U.S. Aggregate



Past performance is not a reliable indicator of current or future results. Indexes are unmanaged and not subject to fees. It is not possible to invest directly in an index. Source: Kestra Investment Management with data from FactSet. Index proxies: S&P 500 Index and Bloomberg U.S. Agg Index. Data as of August 30, 2022.

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What Does This Mean for Your Portfolio?

- These fear indexes can be helpful indicators. At extremes, very high levels of the VIX can correspond with turning points in stocks. In March 2020, the VIX reached over 80 – a clear sign of panic in the markets – just a few days before the S&P 500 began to rally.
- Despite elevated volatility in the bond market, bonds still exhibit much lower risk than stocks. As such, they continue to play the same critical role they always have: bonds help lower a portfolio's exposure to risk and buffer returns over the long haul.

Remember, investing is a marathon, not a sprint. A well-designed, diversified portfolio can help provide a smoother ride over the longer term. Still, there can be an occasional roller coaster ride that provides opportunities. As Robert Arnott, a well-known investor, once said, "in investing, what is comfortable is rarely profitable."

If you're concerned about the fluctuating markets, make sure you work with us to diversify your investments to ensure you've added a metaphorical seatbelt to protect your portfolio and help you achieve your long-term financial goals!