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# Growth Scare or Recession?

Diagnosing Market Volatility

**Meghan Shue**  
Head of Investment Strategy

All data as of April 30, 2022, unless otherwise noted.



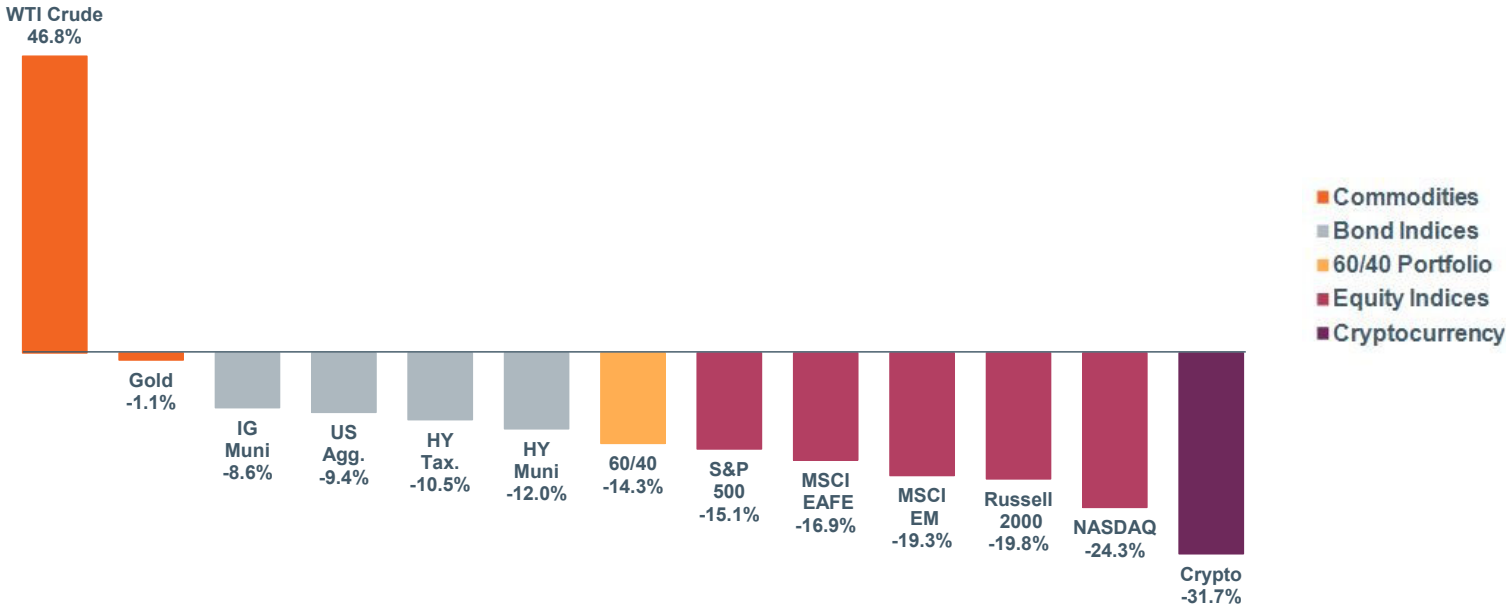
# Section 1

## Market Volatility



# Difficult Start to the Year for Stocks and Bonds Alike

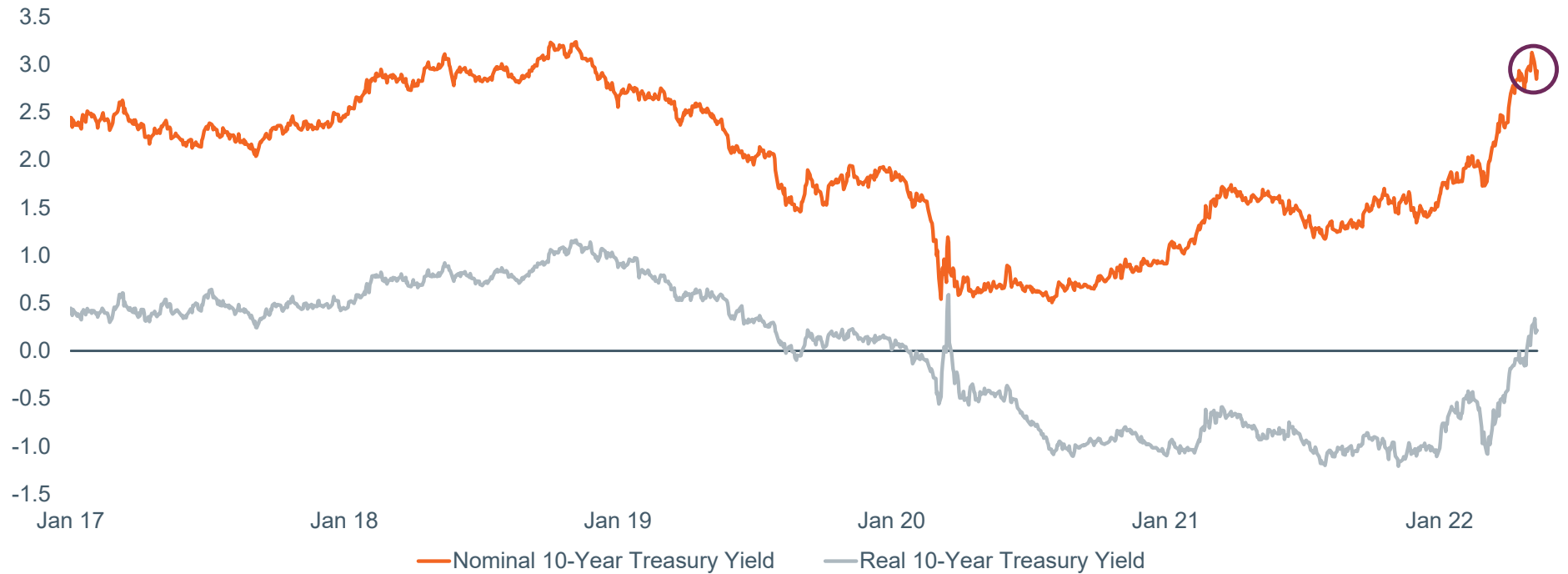
Asset Class Returns, Year-to-Date (%)



Data as of May 13, 2022. Sources: Macrobond and Bloomberg. The 60/40 portfolio returns are calculated based on an index with a 60% weight to the S&P 500 and a 40% weight to the U.S. Aggregate Bond Index.

# Increase in Rates Has Been Swift

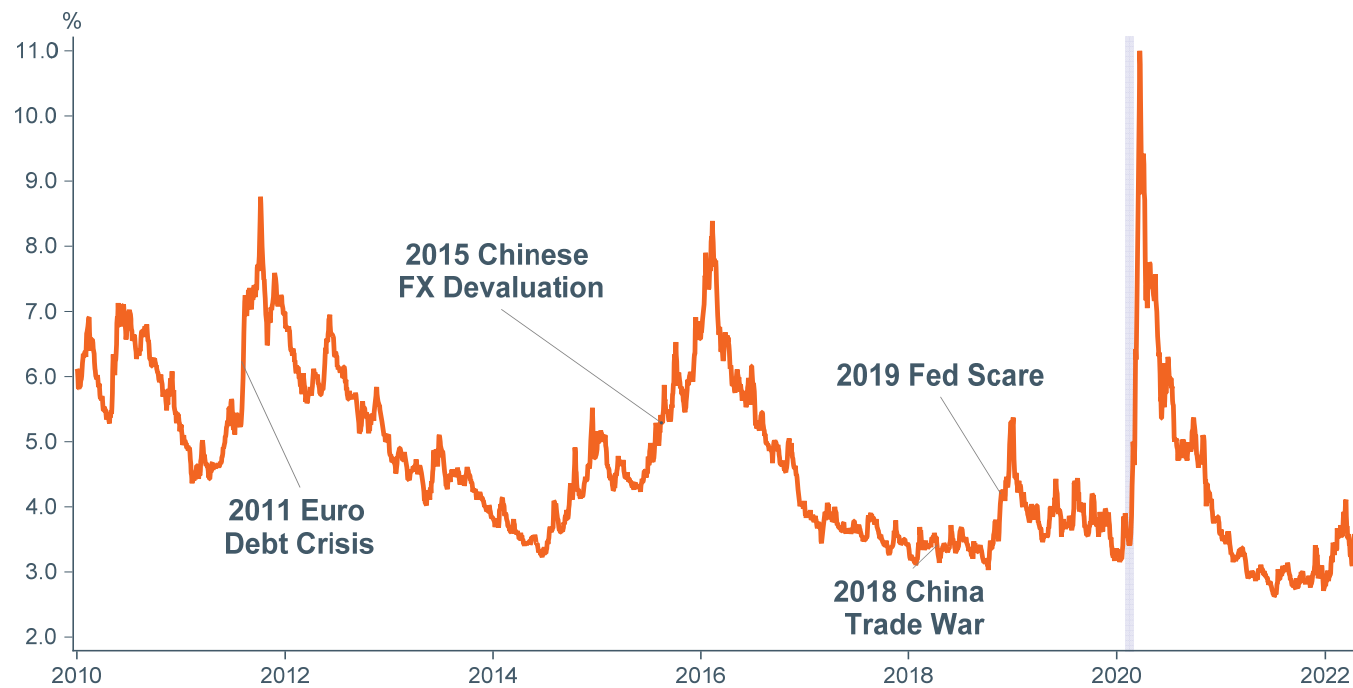
## 10-year Treasury Nominal and Real Yields (%)



Data as of May 13, 2022. Sources: Bloomberg, WITA. The Real 10-year Treasury yield is calculated by subtracting the 10-year TIPS breakeven rate from the nominal 10-year Treasury yield.

# Credit Spread Signaling Stress, but Not Recession

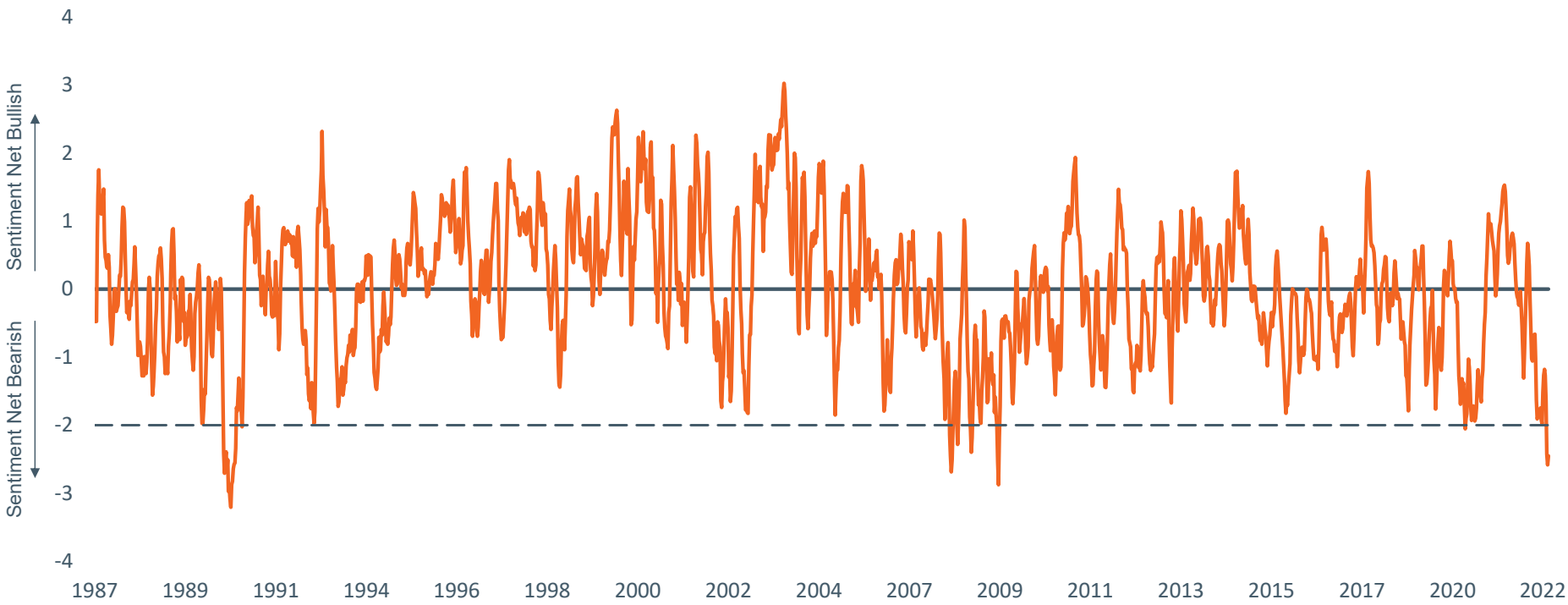
## High-Yield Bond Option-Adjusted Spread



Data as of May 13, 2022. Sources: Bloomberg, WITA. Gray bar indicates a recessionary period. Annotations indicate the starting point of the specified event.

# Investor Sentiment Extremely Bearish

AAll Bullish-Bearish Sentiment Survey (standard deviations from the mean)



Sources: AAll, Bloomberg. As of May 13, 2022. Chart shows the difference between respondents indicating they are bullish on the stock market over the next six months minus those indicating they are bearish. Dashed line shows -2 standard deviations below the mean.

## Market Correction In line with Historical Growth Scores

### S&P 500 Index Historical Drawdowns

| Recent growth scares               | S&P 500 correction | Trough to recover peak (days) |
|------------------------------------|--------------------|-------------------------------|
| Euro debt crisis (July 2011)       | -19.4%             | 92                            |
| China FX devaluation (August 2015) | -14.1%             | 102                           |
| China trade war (January 2018)     | -10.1%             | 137                           |
| Fed scare (October 2018)           | -19.6%             | 84                            |
| <b>Average</b>                     | <b>-15.8%</b>      | <b>104</b>                    |
| Recessions                         |                    |                               |
| 2000-2001                          | -48.8%             | 1,060                         |
| 2008-2009                          | -44.7%             | 1,011                         |
| 2020                               | -33.8%             | 105                           |
| <b>Average</b>                     | <b>-42.4%</b>      | <b>759</b>                    |

Data as of April 30, 2022. Sources: Bloomberg. Past performance cannot guarantee of future results.

# Section 2

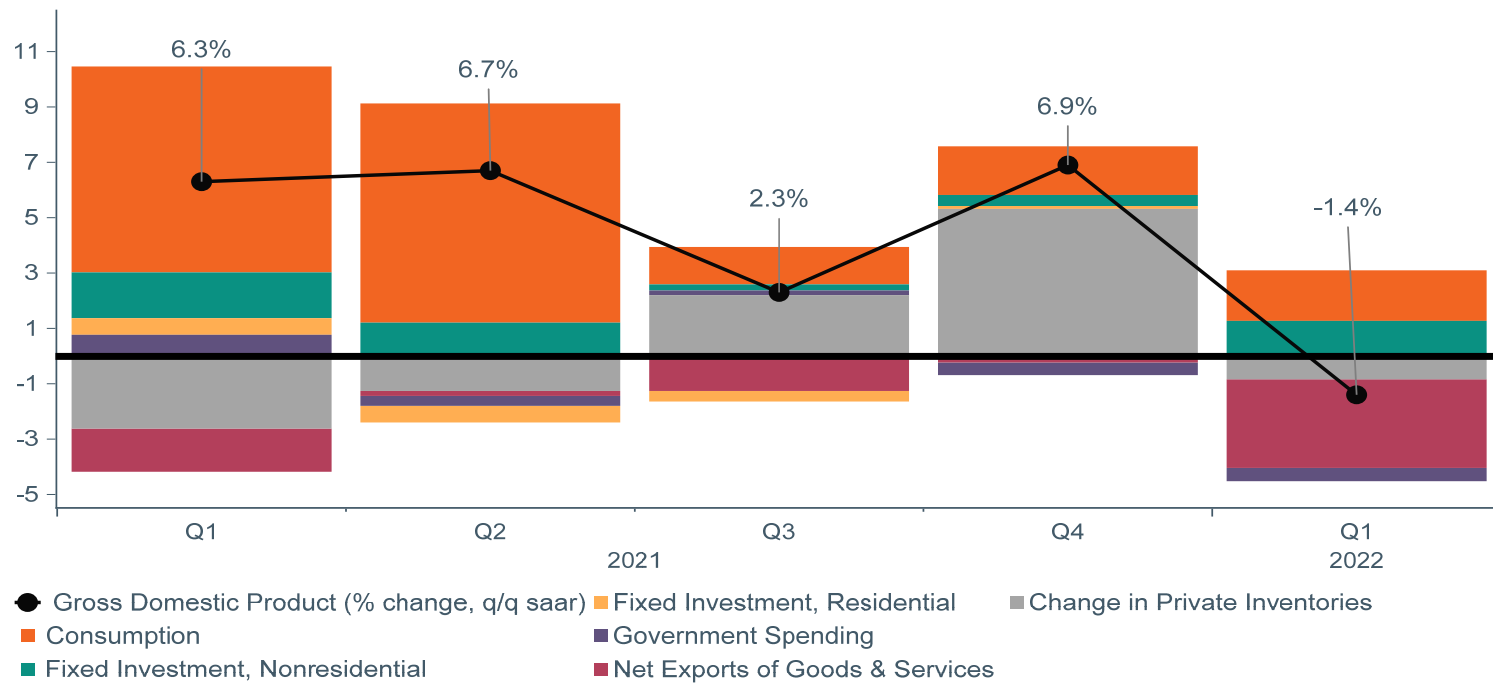
## Economic outlook





# Gross Domestic Product (GDP) Turned Negative in 1Q 2022 Due to Slower Inventory Build and a Massive Drag from Net Exports

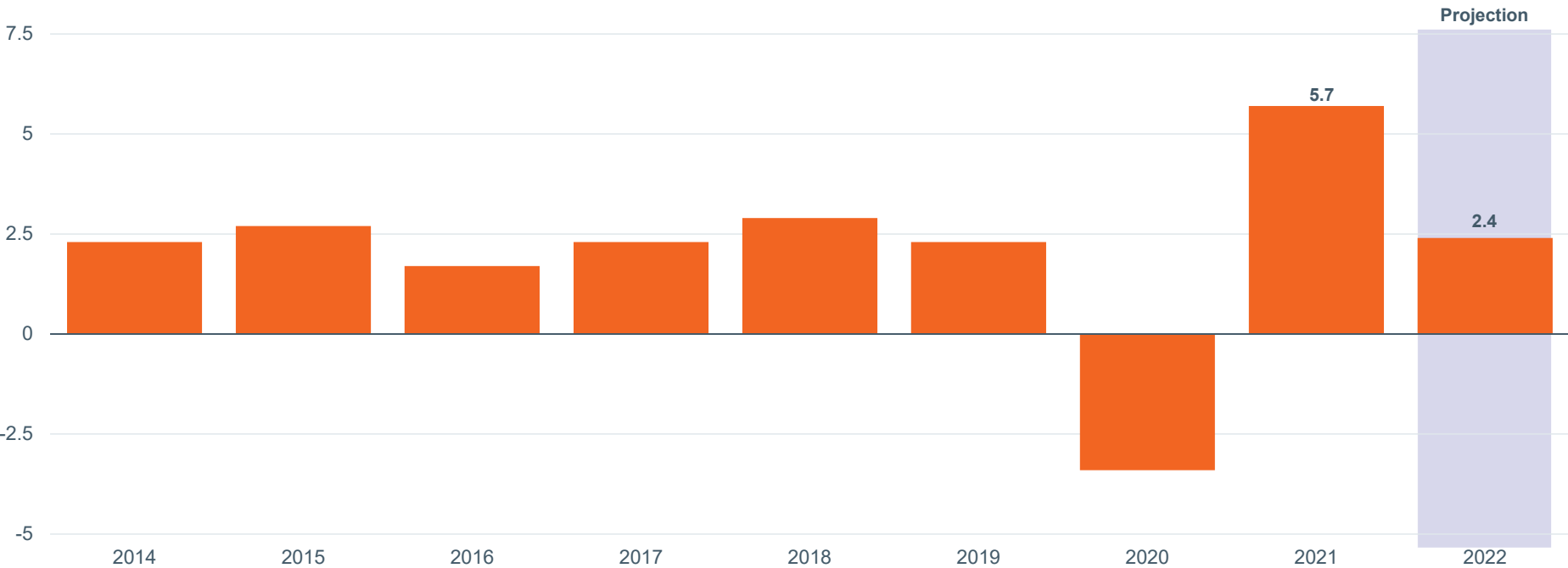
GDP growth (% change, quarter/quarter (q/q) annualized) and component contributions (percentage points)



Data as of March 31, 2021. Sources: Macrobond, Bureau of Economic Analysis, WTIA.

# Economic Growth Decelerating in 2022

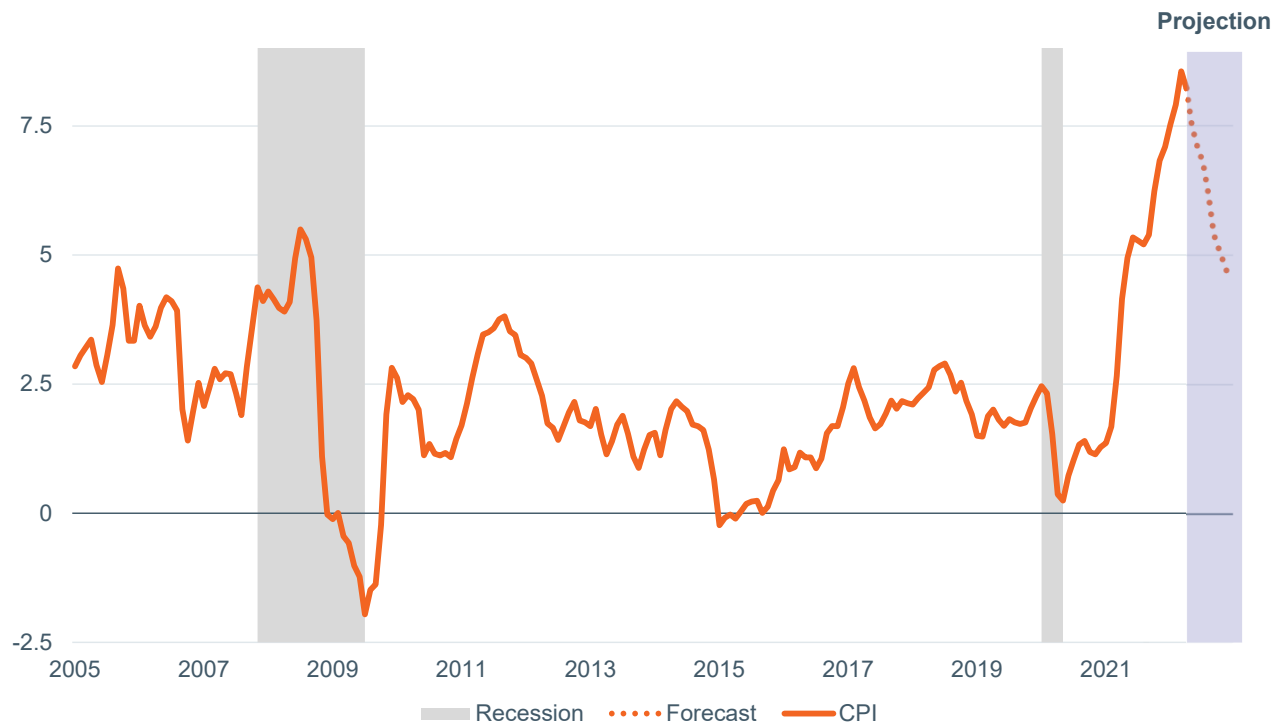
U.S. Real gross domestic product (GDP, %)



Data as of December 31, 2021, forecast as of May 9, 2022. Sources: Bureau of Economic Analysis, WTIA.

# Expecting Inflation to Peak

## Consumer Price Index (CPI) inflation (% change, year over year)



### Factors Contributing to Base Case for Slowing Inflation

- Consumer savings reduced
- Consumer sentiment very low
- Interest rates sharply higher
- Wage pressures softening

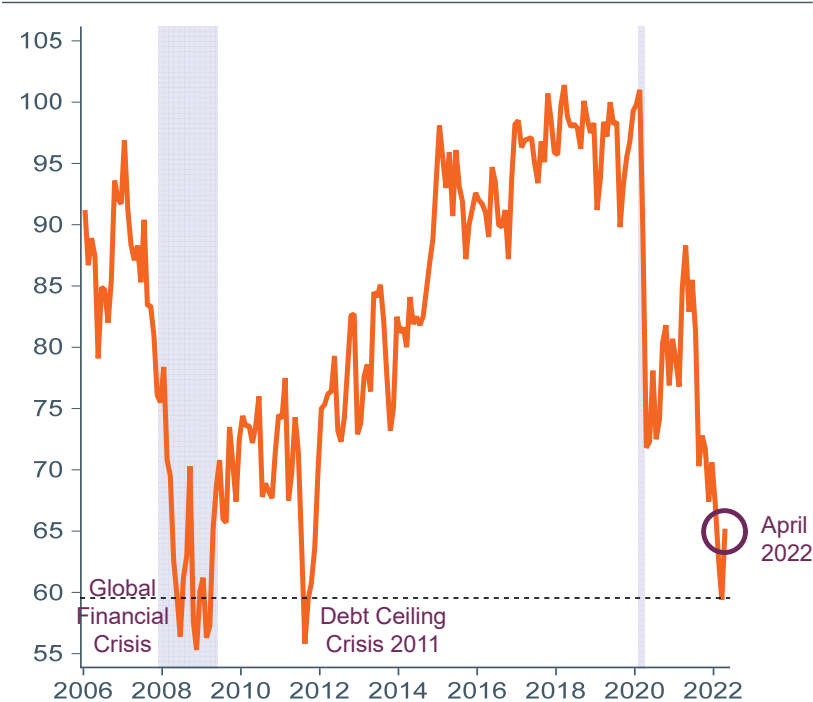
### Crosscurrents Posing Upside Inflation Risks

- Commodity prices (War in Ukraine)
- Supply-chains (China lockdowns)

Data as of April 30, 2022. Sources: Bureau of Labor Statistics, WTIA.

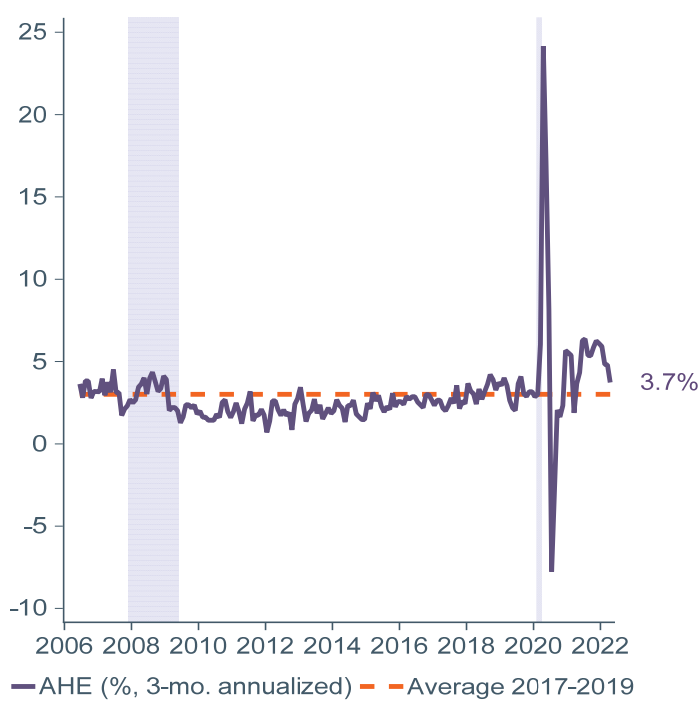
# Lower Sentiment and Slower Wage Growth to Weigh on Inflation

**University of Michigan Consumer Sentiment Index (Base 100 = 1Q 1996)**



Data as of April 30, 2022. Gray recession bars represent recessionary periods. Sources: Macrobond, University of Michigan, WTIA.

**Average Hourly Earnings (AHE) (% change)**



Data as of April 30, 2022. Gray recession bars represent recessionary periods. Sources: Macrobond, Bureau of Labor Statistics, WTIA.

# Inflationary Crosscurrents: War in Ukraine Disrupts Commodities

## Major Commodities Disrupted by War



### Energy:

- Russia is the 2<sup>nd</sup> largest producer of natural gas and 3<sup>rd</sup> largest producer of crude oil.
- The EU imports 46% of coal, 41% of natural gas, 27% of crude oil from Russia.



### Agriculture:

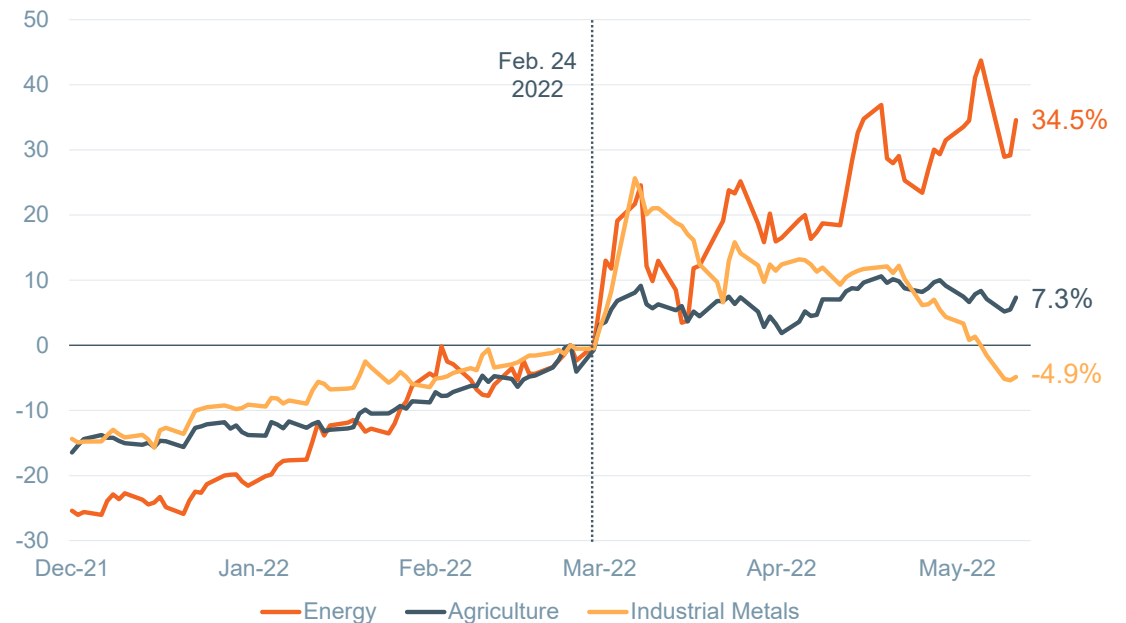
- Ukraine is the 4<sup>th</sup> largest producer of corn.
- Russia and Ukraine combine for 13% of global wheat production, 4% of global corn production, and 56% of global sunflower oil production.



### Industrial Metals:

- Russia produces 37% of the world's palladium, 9% of the world's nickel, and 5% of the world's aluminum.
- Russia is the 5<sup>th</sup> largest producer of refined copper.

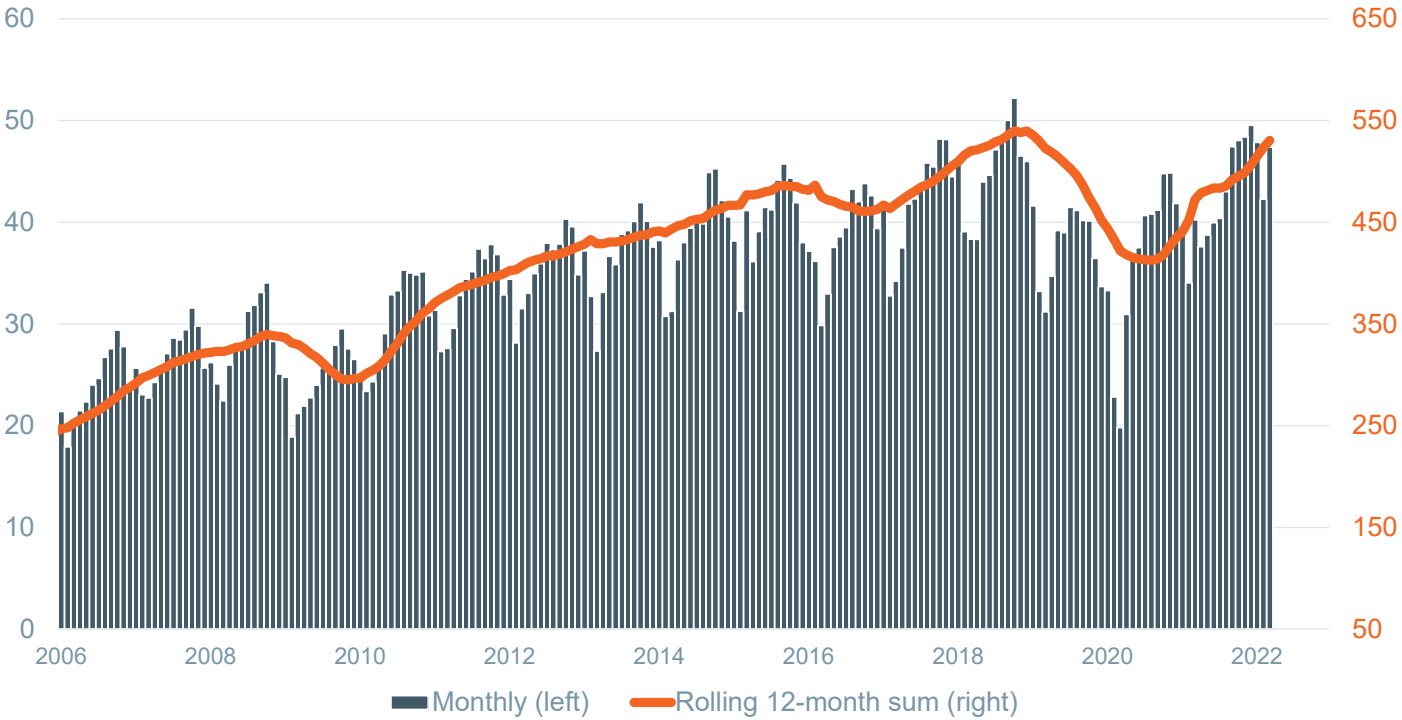
## Commodity Subindexes by Type (% difference from date of invasion)



Sources: International Energy Agency, World Population Review, The Observatory of Economic Complexity, Eurostat, Our World in Data, United Nations, Deutsche Bank, World Bank, Bloomberg.

# Inflationary Crosscurrents: U.S. Reliant on Imports from China

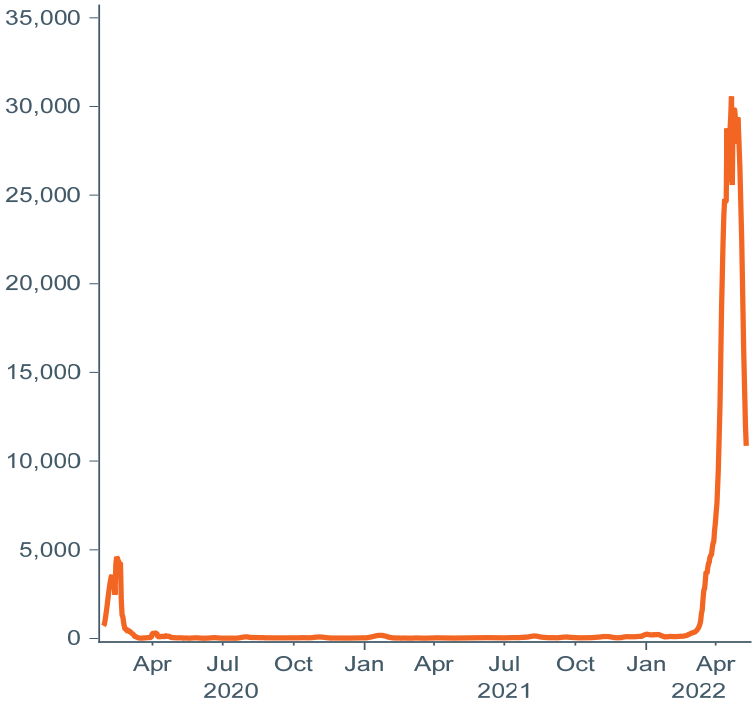
U.S. Imports from China (\$ billions)



Data as of March 31, 2022. Sources: U.S. Census, Wilmington Trust

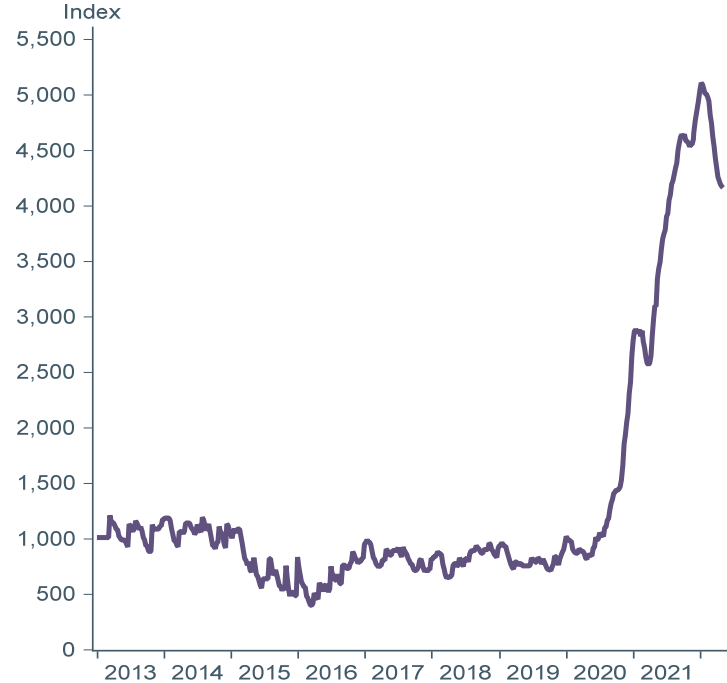
# Inflationary Crosscurrents: China Zero-COVID Lockdowns

China's 7-day moving average of new COVID-19 cases



Data as of May 10, 2022.  
Sources: Macrobond, Our World in Data

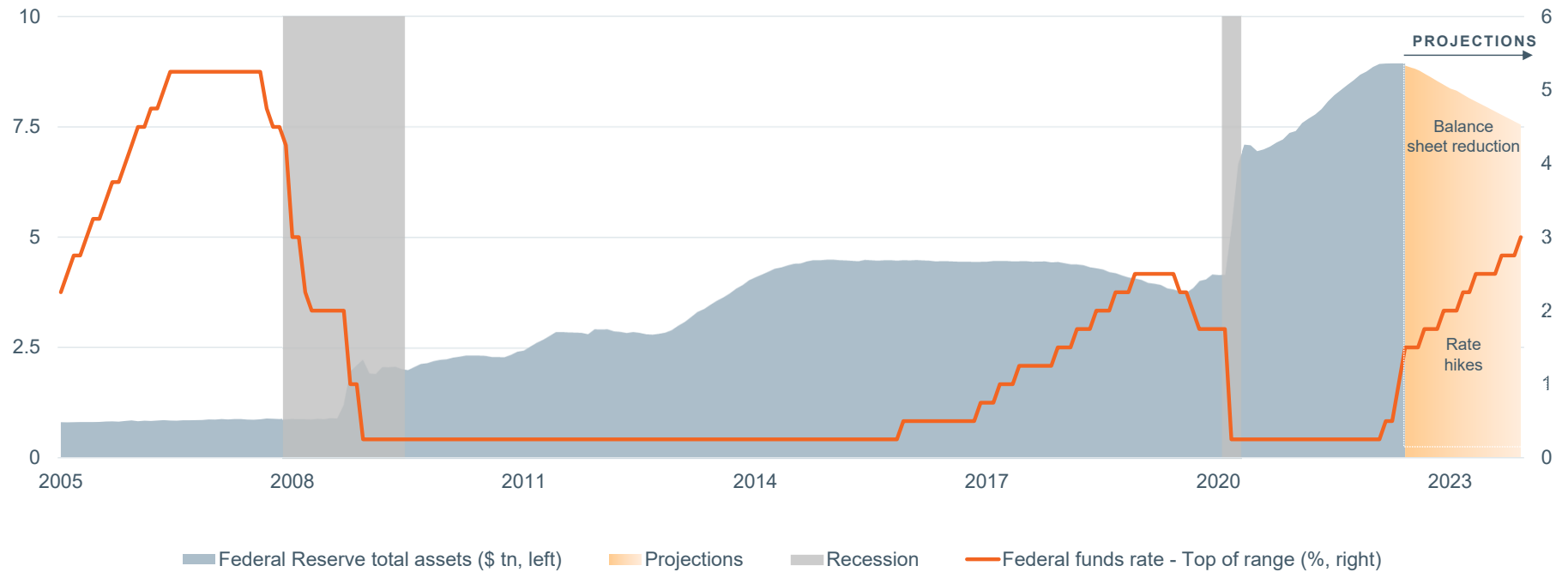
Shanghai Containerized Freight Index (Jan 2013- Apr 2022)



Data as of April 30, 2022.  
Sources: Macrobond, Shanghai Shipping Exchange

# Fed Tightening Policy with Rates and Balance Sheet, Likely to Hike Less than Current Market Pricing

Federal Reserve balance sheet (in \$ trillions)



Data as of May 4, 2022. Sources: Macrobond, Federal Reserve, WTIA.



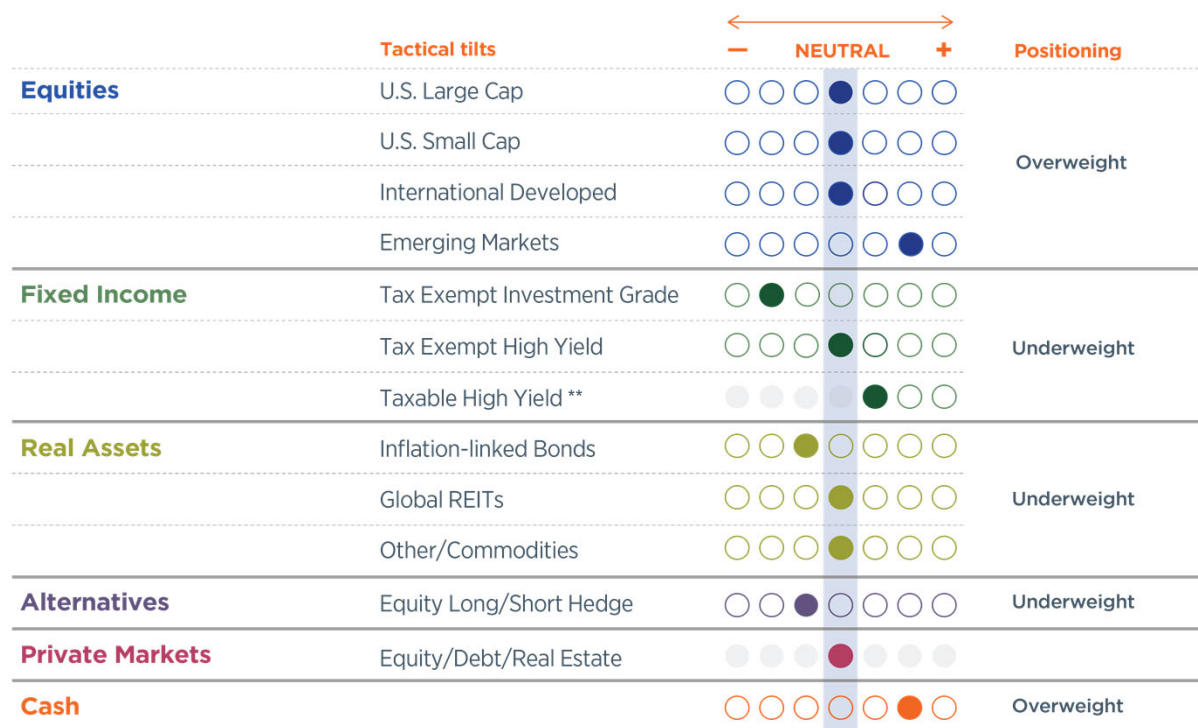
# Section 3

## Portfolio Positioning



# Current positioning

## High-net-worth portfolios with private markets\*



Data as of May 1, 2022. Positioning reflects our monthly tactical asset allocation versus the long-term strategic asset allocation benchmark. For an overview of our asset allocation strategies, please see the disclosures.

\*Private markets are only available to investors that meet Securities and Exchange Commission standards and are qualified and accredited. We recommend a strategic allocation to private markets we do not tactically adjust this asset class.

\*\*Taxable high-yield bonds are not included in the strategic asset allocation benchmark for tax-sensitive portfolios primarily invested in municipal bonds. In this case, the Investment Committee saw an opportunity to invest in short-term, taxable leveraged loans (high yield) and Private Markets for both taxable and nontaxable portfolios.

# Meghan Shue

## Group Vice President Head, Investment Strategy & Portfolio Construction

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### Expertise In

- Investment strategy
- Asset allocation
- Portfolio construction

Meghan is responsible for helping manage the end-to-end asset allocation process, developing market research, and communicating the investment team's market outlook and positioning to clients and prospective clients. She is a member of the Investment Committee, which is responsible for deriving the firm's strategic and tactical asset allocation positioning.

Meghan also oversees the firm's portfolio construction process, including implementation of asset class views through a variety of proprietary, non-proprietary, passive, active, and factor-based solutions. She is chair of the Portfolio Management Committee.

Prior to joining Wilmington Trust, Meghan was an investment strategist at Bessemer Trust, where she helped manage the asset allocation decision and implementation process, performed asset allocation and market research, and published pertinent thought leadership.

She holds an MBA with a concentration in finance from the University of Miami, where she was valedictorian of her graduating class. She also holds a bachelor's degree in engineering, with a concentration in operations research and financial engineering, from Princeton University.

Meghan is a regular CNBC contributor, and is frequently quoted in financial media communicating the firm's economic and market views.

# Disclosures

## Advisory Service Providers

Wilmington Trust is a registered service mark used in connection with various fiduciary and non-fiduciary services offered by certain subsidiaries of M&T Bank Corporation including, but not limited to, Manufacturers & Traders Trust Company (M&T Bank), Wilmington Trust Company (WTC) operating in Delaware only, Wilmington Trust, N.A. (WTNA), Wilmington Trust Investment Advisors, Inc. (WTIA), Wilmington Funds Management Corporation (WFMC), and Wilmington Trust Investment Management, LLC (WTIM). Such services include trustee, custodial, agency, investment management, and other services. International corporate and institutional services are offered through M&T Bank Corporation's international subsidiaries. Loans, credit cards, retail and business deposits, and other business and personal banking services and products are offered by M&T Bank, member FDIC.

## Suitability

This material is provided for informational purposes only and is not intended as an offer or solicitation for the sale of any financial product or service or as a recommendation or determination by Wilmington Trust that any investment strategy is suitable for a specific investor. Investors should seek financial advice regarding the suitability of any investment strategy based on their objectives, financial situations, and particular needs. The investments or investment strategies discussed herein may not be suitable for every investor. This material is not designed or intended to provide legal, investment, or other professional advice since such advice always requires consideration of individual circumstances. If legal, investment, or other professional assistance is needed, the services of an attorney or other professional should be sought.

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**Investment products are not insured by the FDIC or any other governmental agency, are not deposits of or other obligations of or guaranteed by Wilmington Trust, M&T, or any other bank or entity, and are subject to risks, including a possible loss of the principal amount invested.**

Some investment products may be available only to certain "qualified investors"—that is, investors who meet certain income and/or investable assets thresholds. Any offer will be made only in connection with the delivery of the appropriate offering documents, which are available to pre-qualified persons upon request.

## An Overview of Our Asset Allocation Strategies

Wilmington Trust offers seven asset allocation models for taxable (high-net-worth) and tax-exempt (institutional) investors across five strategies reflecting a range of investment objectives and risk tolerances: Aggressive, Growth, Growth & Income, Income & Growth, and Conservative. The seven models are High Net Worth (HNW), HNW with Liquid Alternatives, HNW with Private Markets, HNW Tax Advantaged, Institutional, Institutional with Hedge LP, and Institutional with Private Markets. As the names imply, the strategies vary with the type and degree of exposure to hedge strategies and private market exposure, as well as with the focus on taxable or tax-exempt income. On a quarterly basis we publish the results of all of these strategy models versus benchmarks representing strategic implementation without tactical tilts.

Model Strategies may include exposure to the following asset classes: U.S. large-capitalization stocks, U.S. small-cap stocks, developed international stocks, emerging market stocks, U.S. and international real asset securities (including inflation-linked bonds and commodity-related and real estate-related securities), U.S. and international investment-grade bonds (corporate for Institutional or Tax Advantaged, municipal for other HNW), U.S. and international speculative grade (high-yield) corporate bonds and floating-rate notes, emerging markets debt, and cash equivalents. Model Strategies employing nontraditional hedge and private market investments will, naturally, carry those exposures as well. **Each asset class carries a distinct set of risks, which should be reviewed and understood prior to investing.**

# Disclosures

continued

## Allocations

Each strategy is constructed with target weights for each asset class. Wilmington Trust periodically adjusts the target allocations and may shift away from the target allocations within certain ranges. Such tactical adjustments to allocations typically are considered on a monthly basis in response to market conditions. The asset classes and their current proxies are: large-cap U.S. stocks: Russell 1000<sup>®</sup> Index; small-cap U.S. stocks: Russell 2000<sup>®</sup> Index; developed international stocks: MSCI EAFE<sup>®</sup> (Net) Index; emerging market stocks: MSCI Emerging Markets Index; U.S. inflation-linked bonds: Bloomberg/Barclays US Government ILB Index; international inflation-linked bonds: Bloomberg/Barclays World exUS ILB (Hedged) Index; commodity-related securities: Bloomberg Commodity Index; U.S. REITs: S&P US REIT Index; international REITs: Dow Jones Global exUS Select RESI Index; private markets: S&P Listed Private Equity Index; hedge funds: HFRI Fund of Funds Composite Index; U.S. taxable, investment-grade bonds: Bloomberg/Barclays U.S. Aggregate Index; U.S. high-yield corporate bonds: Bloomberg/Barclays U.S. Corporate High Yield Index; U.S. municipal, investment-grade bonds: S&P Municipal Bond Index; U.S. municipal high-yield bonds: Bloomberg/Barclays 60% High Yield Municipal Bond Index / 40% Municipal Bond Index; international taxable, investment-grade bonds: Bloomberg/Barclays Global Aggregate exUS; emerging bond markets: Bloomberg/Barclays EM USD Aggregate; and cash equivalents: 30-day U.S. Treasury bill rate.

## Risk Assumptions

**All investments carry some degree of risk.** The volatility, or uncertainty, of future returns is a key concept of investment risk. Standard deviation is a measure of volatility and represents the variability of individual returns around the mean, or average annual, return. A higher standard deviation indicates more return volatility. This measure serves as a collective, quantitative estimate of risks present in an asset class or investment (e.g., liquidity, credit, and default risks). Certain types of risk may be underrepresented by this measure. **Investors should develop a thorough understanding of the risks of any investment prior to committing funds.**

Diversification cannot ensure a profit or guarantee against a loss. There is no assurance that any investment strategy will be successful.

The names of actual companies and products mentioned herein may be the trademarks of their respective owners.

# Disclosures

continued

## Index Descriptions

**The Bloomberg Barclays U.S. Aggregate Index** measures the performance of the entire U.S. market of taxable, fixed-rate, investment-grade bonds. Each issue in the index has at least one year left until maturity and an outstanding par value of at least \$250 million.

**The Bloomberg Barclays U.S. High Yield Corporate Index**, formerly known as Lehman Brothers U.S. High Yield Corporate Index, measures the performance of taxable, fixed-rate bonds issued by industrial, utility, and financial companies and rated below investment grade. Each issue in the index has at least one year left until maturity and an outstanding par value of at least \$150 million.

**The Bloomberg Barclays World Government Inflation-Linked Bond (WGILB) Index** measures the performance of investment grade, government inflation-linked debt from 12 different developed market countries.

**Bloomberg Commodity Index** measures the performance of 19 futures contracts on physical commodities. As of the annual reweighting of the components, no related group of commodities (for example, energy, precious metals, livestock, and grains) may constitute more than 33% of the index and no single commodity may constitute less than 2% or more than 15% of the index.

**The BofAML 3-Month T-Bill Index** is an unmanaged index that measures returns of three-month Treasury Bills.

**The Dow Jones Global ex-U.S. Index** is an equal-weighted stock index composed of the stocks of 150 top companies from around the world (excluding the U.S.) as selected by Dow Jones editors and based on the companies' long history of success and popularity among investors. The Global Dow is designed to reflect the global stock market and gives preferences to companies with global reach.

**The HFRX Global Hedge Fund Index** is designed to be representative of the overall composition of the hedge fund universe. It is composed of all eligible hedge fund strategies; including but not limited to convertible arbitrage, distressed securities, equity hedge, equity market neutral, event driven, macro, merger arbitrage, and relative value arbitrage. The strategies are asset weighted based on the distribution of assets in the hedge fund industry.

**The MSCI All-Country World Index ex USA** measures the performance of large- and mid-capitalization stocks in approximately 50 developed and emerging equity markets, excluding the United States.

**The MSCI EAFE® (net) Index** measures the performance of approximately 20 developed equity markets, excluding those of the United States and Canada. The total returns of the index are net of the maximum tax withholding rates that apply in many countries to dividends paid to nonresident investors.

**The MSCI Emerging Markets Index** captures large- and mid-cap representation across 26 emerging markets countries. With 1,198 constituents, the index covers approximately 85% of the free-float-adjusted market capitalization in each country.

**Russell 1000® Growth Index** measures the performance of those Russell 1000 Index companies with higher price-to-book ratios and higher forecasted growth values.

**Russell 1000® Value Index** measures the performance of those Russell 1000 Index companies with lower price-to-book ratios and lower forecasted growth values.

**The Russell 2000® Index** measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represents approximately 8% of the total market capitalization of the Russell 3000 Index. As of its latest reconstitution, the index had a total market capitalization range of approximately \$128 million to \$1.3 billion.

**The Russell 3000® Index** measures the performance of the 3,000 largest U.S. companies based on total market capitalization, which represents approximately 98% of the investable U.S. equity market. As of its latest reconstitution, the index had a total market capitalization range of approximately \$128 million to \$309 billion.

**The S&P 500 Index** measures the performance of approximately 500 widely held common stocks listed on U.S. exchanges. Most of the stocks in the index are large-capitalization U.S. issues. The index accounts for roughly 75% of the total market capitalization of all U.S. equities.

# Disclosures

continued

**The S&P Composite Stock Price Index** (noted on slide 8) refers to the data series made popular in recent years by Yale Professor Robert Shiller, not to be confused with the S&P Composite 1500, an index that combines the S&P 500, the S&P Mid Cap 400, and the S&P Small Cap 600. Investing involves risks and you may incur a profit or a loss.

The Shanghai Containerized Freight Index is the most widely used index for sea freight rates for import China worldwide. This index has been calculated weekly since 2009 and shows the most current freight prices for container transport from the Chinese main ports, including Shanghai.

**The S&P Municipal Bond High-Yield Index** consists of bonds in the S&P Municipal Bond Index that are not rated or are rated below investment grade.

**The S&P Municipal Bond Index** is a broad, market value-weighted index that seeks to measure the performance of the U.S. municipal bond market.

**The S&P United States REIT Index** measures the investable U.S. real estate investment trust market and maintains a constituency that reflects the market's overall composition.

**Ibbotson Associates** acquired by Morningstar on March 1, 2006. Ibbotson Associates, Inc. offers asset allocation research and services to mutual fund firms, banks, broker-dealers, insurance companies, asset managers, and retirement plan providers in the United States and internationally.

## Definitions

Standard deviation is the measure of dispersion of a set of data from its mean. It measures the absolute variability of a distribution; the higher the dispersion or variability, the greater is the standard deviation and greater will be the magnitude of the deviation of the value from their mean.