

Client's Corner

Inflation, Recession and a Frantic Bear Market...Again

“There is nothing new in the world except the history you do not know.”

—President Harry Truman, quoted in Merle Miller’s book *Plain Speaking*

I TREASURE MY TATTERED COVER OF *LIFE* MAGAZINE’S JUNE 5, 1970 issue. It’s graphically brilliant, and perfectly captures the brace of crises that were abroad in the land that day.

(Forgive me if this is excessively inside baseball, but one minor irony here is that the bear market to which *LIFE* alluded—and it was a doozy—was already over. The S&P 500’s 18-month, 36% decline had bottomed 10 days earlier, on May 26. This is exactly what financial journalism has always done—and continues to do.)

On that Friday, June 5, 1970, the Standard & Poor’s 500-Stock Index closed at 76. For fear that you might at first think this must be some sort of misprint, I repeat it herewith, in boldface: **76**.

As I write, the S&P 500 is around 3,700, nearly 50 times higher (though down about 25% from this January’s peak, which seems to be all anybody can focus on). From June 1970 through October of this year, with dividends reinvested, the Index has delivered an average annual compound rate of return of 10.7%. Ten thousand dollars invested that month—again assuming dividends were reinvested and taxes paid from another source—is today right around \$2,000,000.

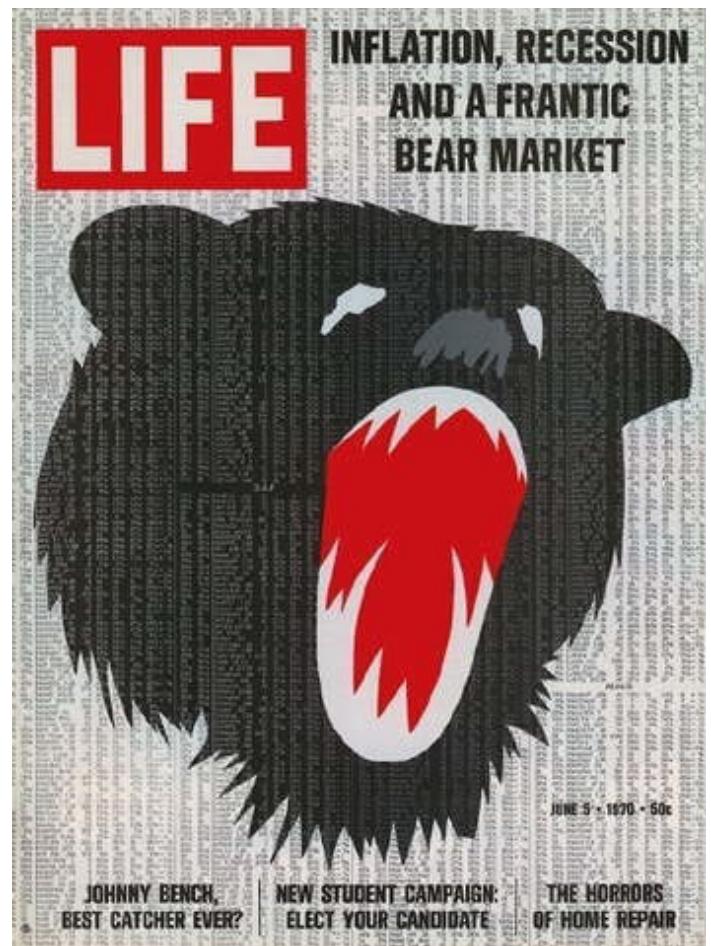
Yet again today, the three horsemen of the apocalypse bearing down relentlessly upon our homes and lives are...you guessed it: *inflation, recession and a frantic bear market*.

There are any number of useful lessons in this. Not the least of them is President Truman’s dictum, quoted above. The great investor and philanthropist Sir John Templeton put it even more pointedly: “The investor who says ‘This time is different’...has uttered among the four most costly words in the annals of investing.”

Another lesson of the June 1970–October 2022 experience is the enduring resilience of the American economy—its capacity ultimately to overcome all manner of seemingly existential crises, and to resume its powerful long-term growth trend.

A third lesson—and this goes straight to the heart of the matter—is the historical brilliance of America’s most successful companies, as measured by the S&P 500, in not merely surviving crisis but confronting and ultimately triumphing over it.

In point of actual fact, overwhelmingly positive though the foregoing trends surely are, they don’t begin to describe the economic progress that has eventuated in these 50-odd years. So let me take another run at it, however anecdotally.



A very few weeks before June 5, 1970, the world watched in horror as three American astronauts attempted to fly their stricken spacecraft around the moon and safely back to Earth. This was the Apollo 13 mission, and it remains one of mankind’s greatest sagas of endurance and ingenuity.

Indeed, over the Thanksgiving holiday, I’d encourage you to gather the generations of your family together and watch Ron Howard’s magisterial film *Apollo 13*. In it, you will observe NASA’s entire aggregation of brilliant scientists working the problem of how to get those heroes home *using slide rules*, because their mainframe computer capacity has long since been overwhelmed by the task.

For this drama took place more than a year before the introduction of the essential building block of all modernity: the Intel 4004 microprocessor. Today, the smartphone in a middle school child's backpack contains more computing power than was available to NASA during those agonizing days and nights. And the entire sum of the world's knowledge is available, essentially for free, to anyone who can get online. This capacity not only didn't exist when *LIFE's* June 5, 1970 issue came out. ***It was unimaginable.*** That's my whole point.

In 1970, just less than half the world's population lived in extreme poverty, as measured by the World Bank. By 2018 that number was down to nine percent. (Again: perfectly unimaginable at the time.) And today, the Brookings Institution projects that between the years 2020 and 2030, some 1.6 billion people will enter the middle class in the emerging markets. That's five times the current population of the United States. We are left to imagine—there's

that word again—what profit opportunities America's leading companies may find in these developments.

Is it possible, if you're a long-term investor whose most cherished goals are a secure retirement and a meaningful legacy, that these are the trends that will be most impactful on your life, and on the lives of your children and grandchildren? Might they in fact turn out to be more important by an order of magnitude than how high the Fed raises interest rates in the coming months, or how low the S&P 500 goes before it finally bottoms?

I leave you to ponder these questions with your financial advisor—and with sincere best wishes for a peaceful, joyous and bountiful Thanksgiving.

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Sources: CAGR 1970-2022: DQYDJ S&P 500 return calculator; the underlying price data are the Nobel laureate Robert Shiller's. S&P 500 earnings and dividends: NYU Stern School. Global poverty: the World Bank, cited in *Ten Global Trends Every Smart Person Should Know* by R. Bailey and M. Tupy. Emerging market middle class: Brookings Institution, cited in JP Morgan Asset Management's "Guide to the Markets."