



**MEDALLION**  
WEALTH MANAGEMENT

*May 2022 Market Commentary*

***Candle in the Wind***



***And it seems to me you lived your life  
Like a candle in the wind  
Your candle burned out long before  
Your legend ever did***

***<https://www.youtube.com/watch?v=qDT5iQKJt4k>  
Candle in the Wind by Elton John***

It is with great sorrow that I share with you the untimely passing of TINA (aka. There Is No Alternative). TINA was conceived during the tumultuous Great Recession in December of 2008, when her parents at the Fed decided to cut interest rates to zero.

While her life may have been short-lived she accomplished things we've never seen before. She brought mortgage rates down to unprecedented levels, making housing more affordable for millions. Of course this also led to massive price appreciation, making housing unaffordable again for millions.

She also brought the discount rate, used to discount the future cash flows on investments, near zero. This had the effect of making the price you pay for growth nearly infinite. She ushered in more than a decade of amazing outperformance for growth stocks. For example, the growth oriented NASDAQ 100 (QQQ) returned over 20% annualized during TINA's short nearly 14-year life.

Of course this made TINA very popular with all manner of risk takers; from Crypto Boyz, to Meme stock lovers, to SPAC fanatics. If you wanted to lever up and pour on the risk, TINA had your back. TINA could party with the best of them.

Of course, not everyone loved TINA, some even thought she was an abomination, something cooked up in a lab that shouldn't exist in the real world. They missed the days where you could earn a decent return on nearly risk-free savings. And they resented the way TINA pushed them into taking more risk than they wanted just to earn a little on their savings.

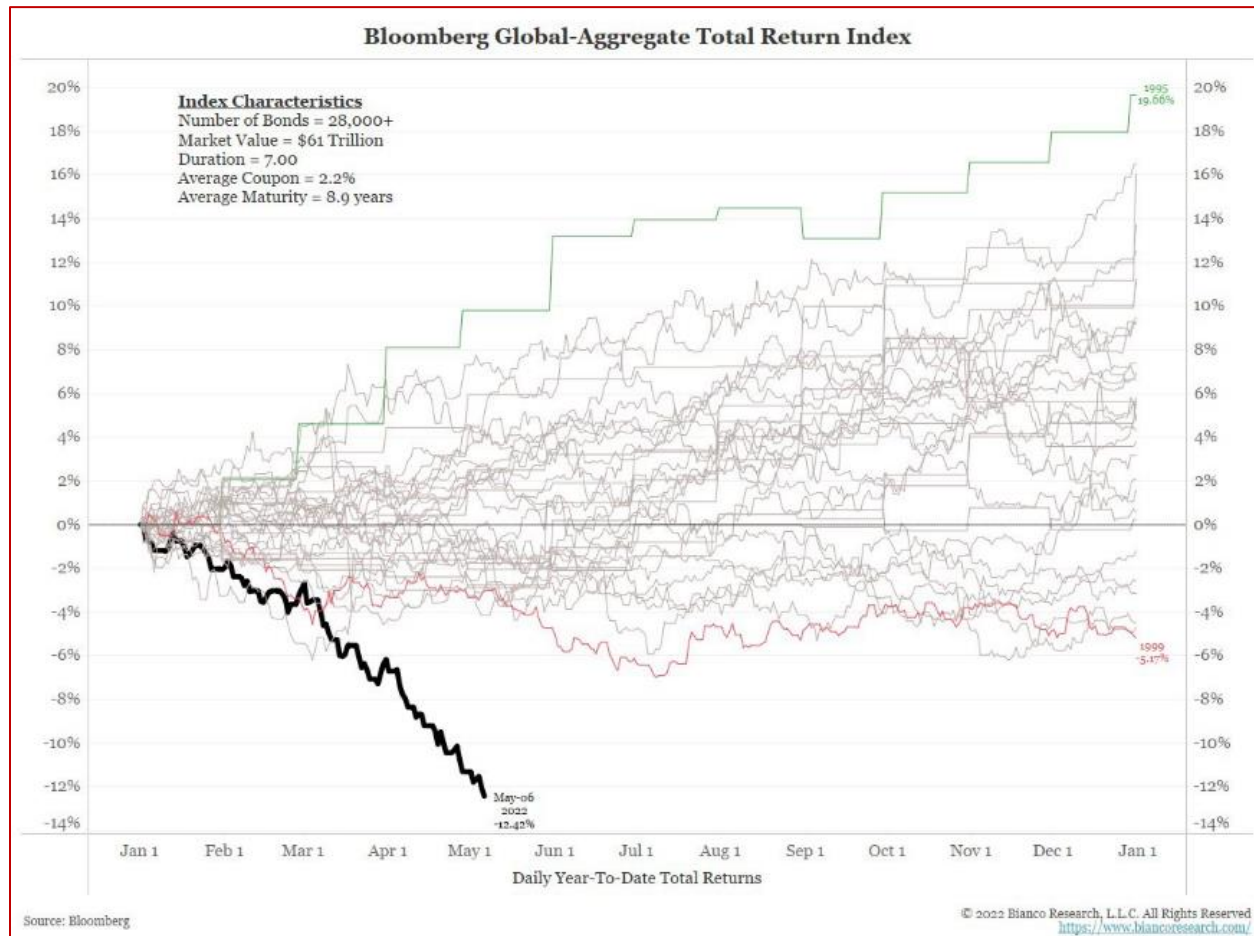
No matter what you thought of her, there was no arguing that she changed the investment landscape in ways we never dreamed possible. For better or worse TINA was a force to be reckoned with.

TINA is survived by her parents at the Fed, and in lieu of flowers they suggest that you contribute generously to the mental health organization of your choosing.

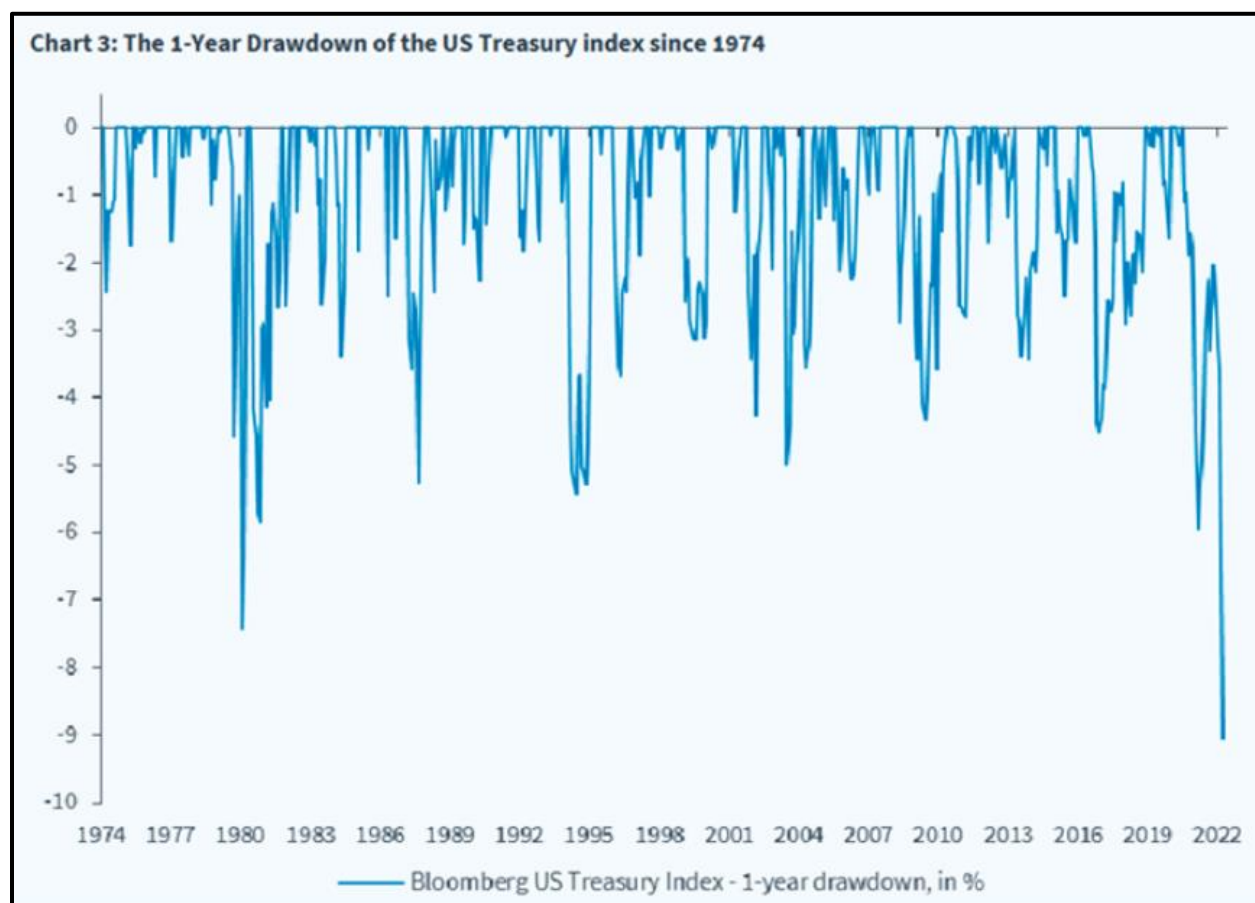
### **What's next – Price Discovery**

When the Fed goes from artificially pinning rates at zero for more than a decade, to rapidly raising rates to combat runaway inflation things start to break quickly. Let's start with bonds. After rates were pegged at negligible levels for years, it doesn't take much of a rise for pain to be inflicted on fixed income investors.

So far this year, the worst market for Global Bonds in History.



Also, the worst market for U.S. Bonds since 1974.

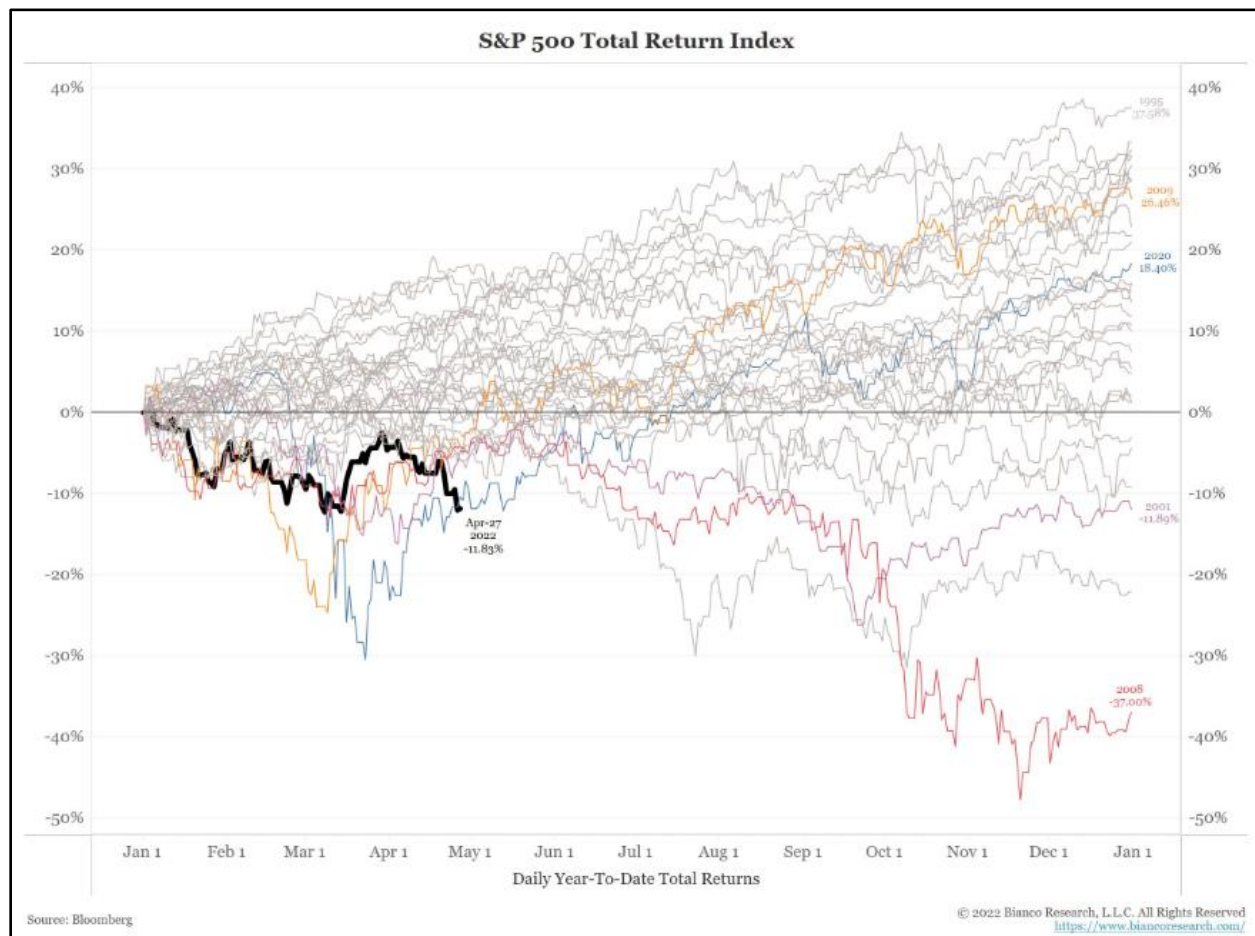


Since bonds had nearly no yield, it didn't take much in the way of a rise in interest rates to cause significant declines in value, i.e. there was no yield support.

Again, some of TINA's biggest fans were in the most aggressive subsectors of the market, where growth was being purchased at any price:

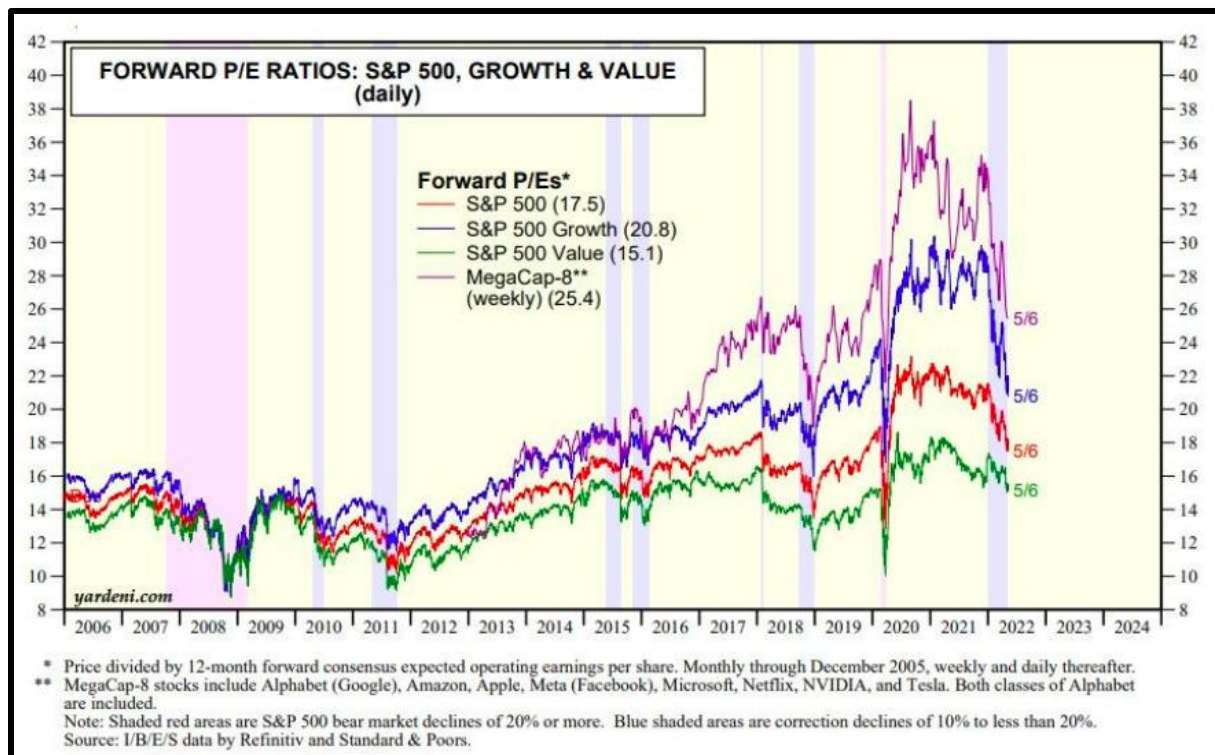
- The largest cryptocurrency, Bitcoin is down 50% from its high.
- The MEME stock index is down 55% from its high.
- ARK Innovation ETF which invests in companies with long-term promises is down 66% from its high.

The S&P 500 is off to its worst year-to-date start in the last 34 years (1988), down 13%. None of this tells us what comes next, but it does illustrate that so far this year has been painful.

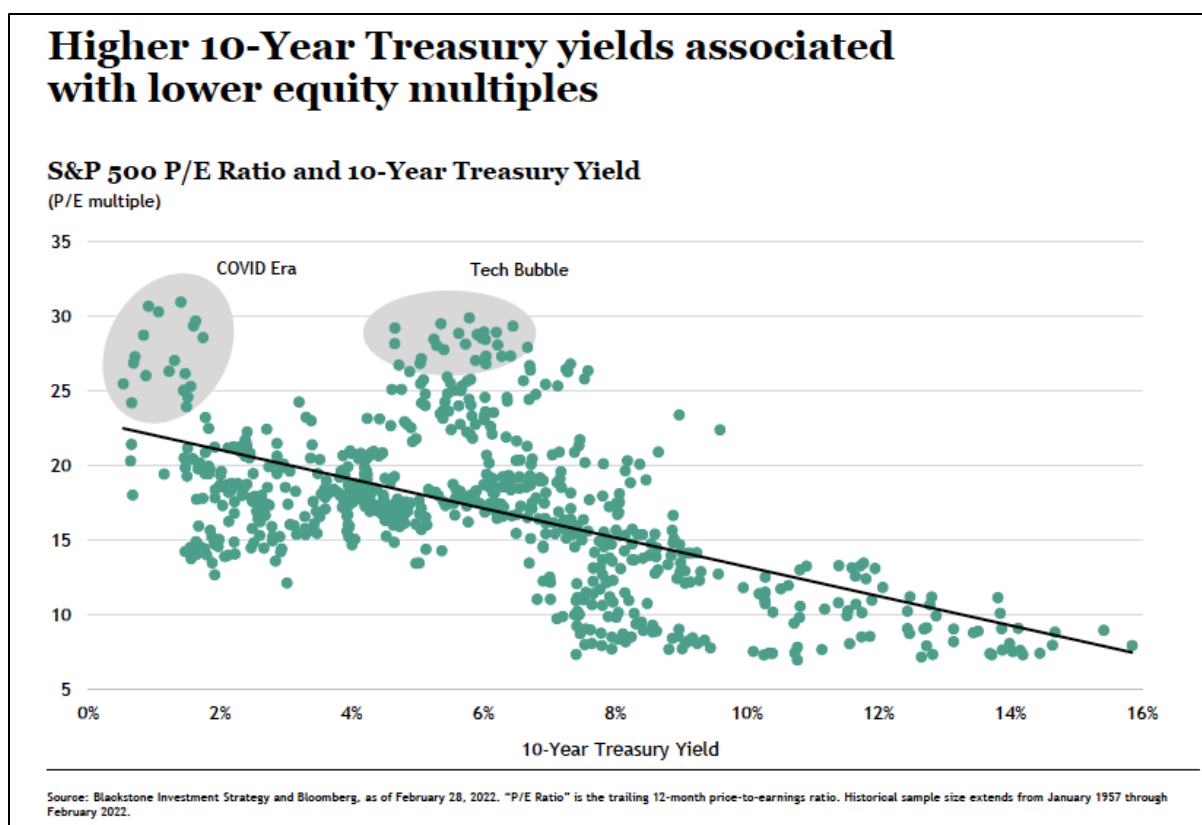


**Price discovery is the process of finding a level of equilibrium, where assets have valuation support, when compared to interest rates and earning power.** When interest rates are at zero investors were forgiven for throwing nearly any multiple onto earnings. As the chart below shows, Mega-cap stocks got up to a 39 P/E and Growth stocks got to a 30 P/E. These have now corrected to 25.4x and 20.8x respectively.

This is what the painful process of price discovery looks like. Somewhere in the future stocks will be priced at an appropriate level based on interest rates and earnings power. I have no idea where that level is but based on history I'd bet we're not there yet, but we're getting closer.



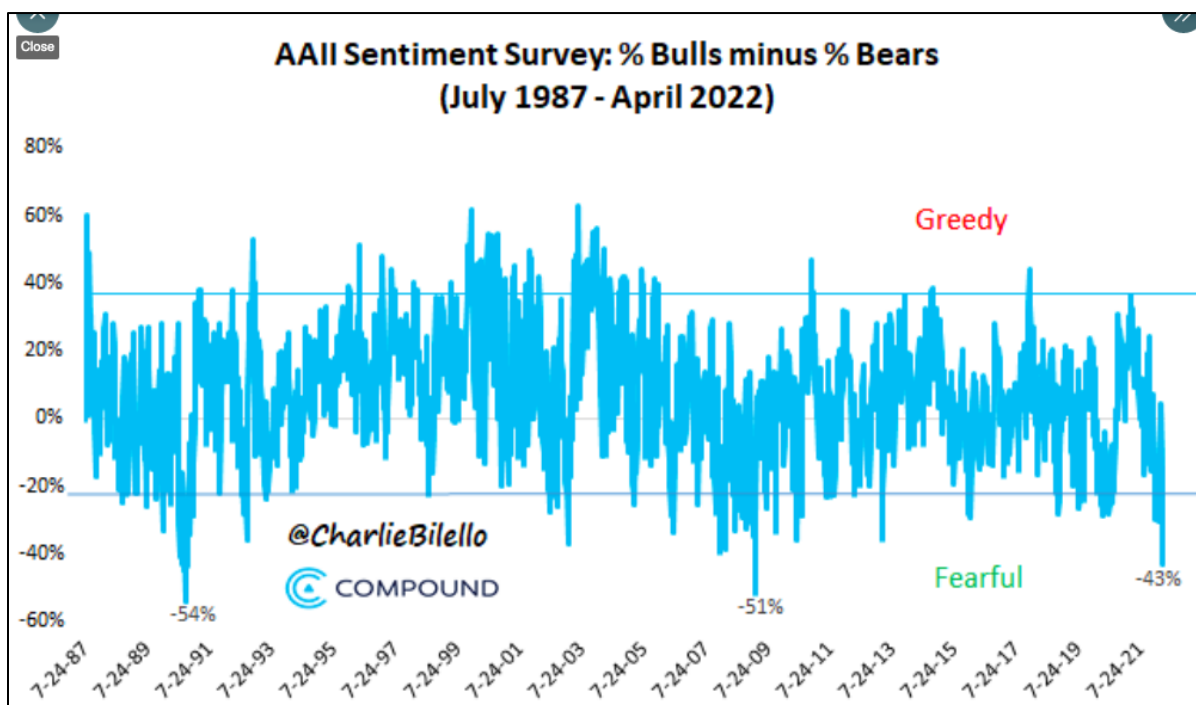
As seen below, when interest rates were near zero the TINA effect came into play and P/E ratios were able to soar. With 10-year yields now over 3% and moving higher a P/E ratio in the 15-17x range seems more appropriate based on history. Fortunately, we are already at 17.5x so most of the damage may be done.



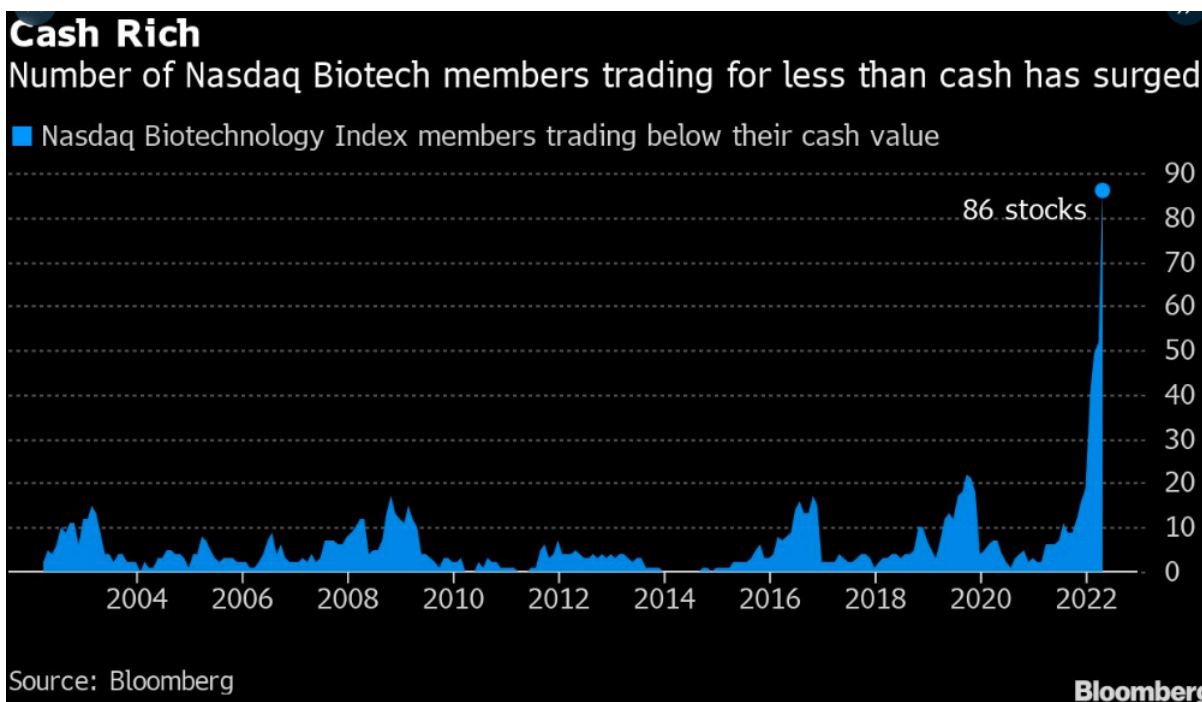


On the positive side, Bearish Sentiment is getting pretty high, in other words investors are fearful. In fact, with data going back to 1987 only two other times have we seen sentiment this bearish...

1. Sep-Nov 1990 (-20% bear market that bottomed in Oct 1990 w/ recession in 1990-1991)
2. March 2009 (week of the Great Recession lows)



Another positive is that severe price declines are actually creating some values. An interesting example is the Biotech sector; after falling more than 60% from their highs more than 20% of the stocks are now trading at market-caps below their cash levels.



So, TINA's dead, markets are undergoing a period of price discovery, investors are fearful, and long-term opportunities are starting to present themselves. This is all classic bubble bursting behavior. It's messy and painful, but eventually value will win out.

As always, be careful out there,

Chris Wiles, CFA



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