Fairhaven Whitepaper

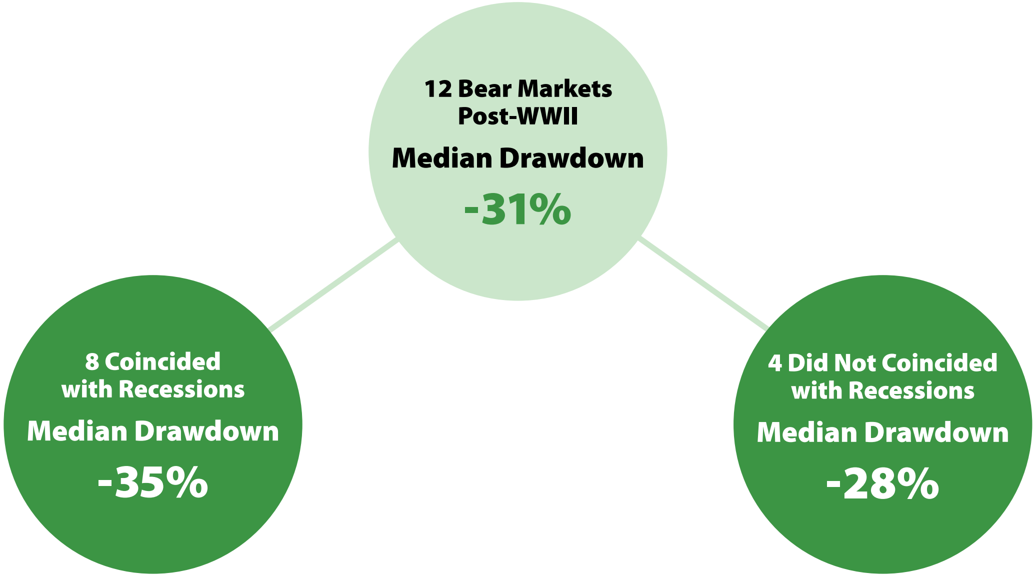
Patient, enduring growth. | June 2022

Context On Bear Markets

Recent market declines briefly tipped the S&P500 index into bear market territory last Friday for the first time since 2020. Despite the sharp fall, exacerbated by challenged market liquidity, we expect resilient private sector fundamentals to keep recession risk relatively anchored in the near-term. Consequently, we believe the opportunity cost of exiting the market may be greater than the risk of a deeper drawdown from current levels.

Historical Context

Historical data indicate that not all bear markets come with recessions. Of the 12 bear markets since WWII, only eight coincided with a recession, and those that did had a median drawdown of -35%. Bear markets that did not start in a recession had a median trough of -28%, not too distant from current levels. We believe this bear market is likely to be short and relatively shallow, though large price swings may persist until the market finds clarity on rates, inflation, and growth.



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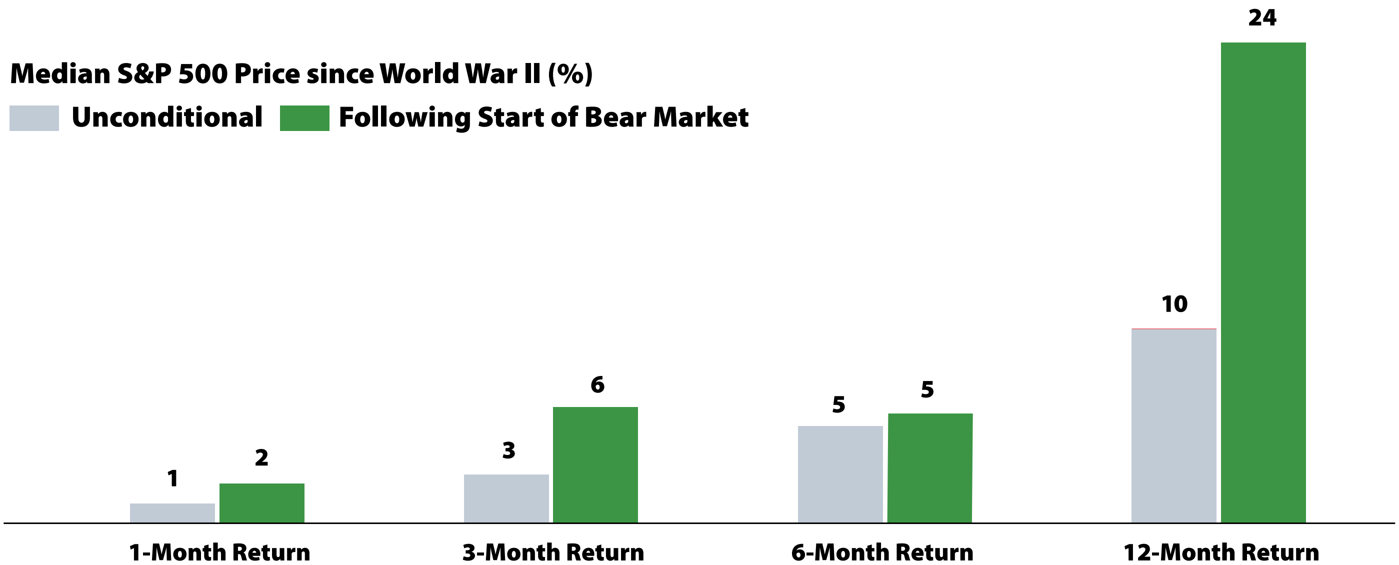
Source: Bloomberg, Goldman Sachs Global Investment Research, and Goldman Sachs Asset Management. As of May 20, 2022. The economic and market forecasts presented herein are for informational purposes as of the date of this document. There can be no assurance that the forecasts will be achieved. **Past performance does not guarantee future results, which may vary.**

We remind investors that the best days in the equity markets often come at its worst moments. We believe the risk of missing out on the recovery still exceeds the risk of further pullback. This belief is even more justified over a longer time horizon.

Returns following the start of the 12 post-WWII bear markets have historically exceeded those in unconditional periods. In fact, the median return in the 12-months following is 24%.



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Current Outlook

Though not our base case, we recognize rising recession risk. Even if one were to occur, we would expect it to be technical in nature, not cyclical. Financial imbalances, a key driver of recent recessions, are broadly absent today. The private sector—the banking system, businesses, and consumers—is well-positioned to absorb a more challenging growth and inflation mix given sustained balance sheet strength and excess liquidity, lessening potential effects in a downturn. Consequently, any drag on growth would likely be modest. Our observations on corporate performance from 1Q earnings also suggest that companies have proven to be adept at passing on inflation, defending margins, and handling higher rates. In fact, Goldman Sachs Global Investment Research upgraded their forecast for 2022 S&P 500 EPS growth from 5% to 8%, despite macro headwinds lowering the YE 2022 price target. However, we acknowledge that the impacts of current risks will not be uniform, with quality companies best-positioned.

Bottom Line

Financial markets will continue to follow signals about underlying economic fundamentals, responding to movements in potential risks. In our view, the Fed's quest for tighter financial conditions is not yet complete, and timing the market bottom is no easy task. However, both historical context and favorable fundamentals all support a modestly pro-risk posture to confront current risks.

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DISCLOSURES

Notes

"Bear market" refers to a drawdown of at least 20%. Recession said to coincide with bear market if it occurs during start of bear market or begins within first month of bear market. "Growth" refers to change in gross domestic product, year-over-year. "Median" refers to the middle number in a numerical dataset sorted from lowest to highest. "EPS" refers to earnings per share, which is the portion of a company's profit allocated to each outstanding share of common stock. "Headwinds" refer to conditions less favorable for an asset class. Past performance does not guarantee future results, which may vary.

Glossary and Risk Considerations

The S&P 500 Index is the Standard & Poor's 500 Composite Stock Prices Index of 500 stocks, an unmanaged index of common stock prices. The index figures do not reflect any deduction for fees, expenses or taxes. It is not possible to invest directly in an unmanaged index. Equity securities are more volatile than fixed income securities and subject to greater risks. Small and mid-sized company stocks involve greater risks than those customarily associated with larger companies. The above are not an exhaustive list of potential risks. There may be additional risks that should be considered before any investment decision.

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