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Coming Due

- The S&P 500® Index was 3.6% lower today, its first daily loss of more than 3% in a very long time.
- It's tempting to blame poor earnings from Amazon for the drop, but that probably doesn't tell the whole story.
- Instead, a confluence of factors — slowing GDP growth, an aggressive Fed, rising interest rates and inflation — may finally have caught the market's attention.
- Volatility like this tends to cluster, meaning markets might remain volatile for a while. But our view is that those who avoid making fearful or emotional decisions are often the ones who are most successful at navigating the volatility.

Maybe we were just due.

The S&P 500 Index lost 3.6% of its value today, the first time it's lost more than 3% in any single session since October 2020. As a reminder of exactly how long ago that was, COVID's second wave hadn't really started yet, inflation was still below 2%, President Biden was still "Candidate Joe" and none of us had yet heard of the "QAnon Shaman" (he of January 6th fame…).

Ah, the good ol' days.

But part of the purpose of this kind of commentary is to try and trace some of the potential causes of exceptional moves like today's and, on the surface of things, that might not seem too difficult. Here's a hint: The easiest, most plausible explanation of why stocks sold off so hard today has to do with a company named for a large river in South America (and its name rhymes with "Shama-zon.")

It seems reasonable enough. After all, **Amazon shocked the market after yesterday's close by reporting a massive loss** for the quarter ended March 31, owing in part to what now looks to have been an aggressive over-build in capacity under the mistaken assumption that buying trends forged during the darkest days of the stay-at-home-pandemic would continue forever. That of course didn't happen, and Amazon's chickens came home to roost in a big way: The stock was off nearly 15% by the end of today's session.

That explanation squares fairly well with technical realities, too: **Amazon is currently a very large portion of the S&P 500 Index**, meaning that a 15% loss in the stock was **bound to leave a very large hole in the Index's daily returns all by itself** regardless of what happened to everyone else in the benchmark. Moreover, the consumer discretionary sector — of which Amazon is a key member — was the worst-performing sector of the S&P 500 by a wide margin.

But simply pinning all the blame of today's sell-off on Bezos and company is also a little lazy. Only 13 of the S&P 500's 504 stocks (yes, there are officially 504 stocks in the index…) managed to finish higher today, meaning that either the read-through from Amazon's hugely disappointing earnings was so strong and unexpected that it splattered red ink all over the rest of the index in sympathy — or **there was something else in play**.

And there are plenty of candidates for that "something else." Let's start with the most current. On Thursday, the Bureau of Economic Analysis released its first estimate of economic growth for the first quarter of 2022, and it was about as disappointing as Amazon's own quarterly report: **GDP shrank by 1.4%** even though economists had hoped it would *grow* by something approximating that amount.[1]

That naturally **created all kinds of worry that the recession that everyone suddenly started predicting a few weeks ago when the yield curve briefly inverted itself had, in fact, arrived early**. **But that's kind of silly**: When you look a little deeper, Thursday's GDP report really wasn't all that bad and (like Amazon's over-optimistic overbuilding of its warehouse capacity) probably **shouldn't have caught too many people off guard.** Besides, if economists were looking for something **capable of giving the Fed cover in the future if it wants to pause its rate-hiking campaign**, a quarter or two of negative growth would suit just fine.

So, if we're looking for a lone assailant responsible for today's decline, GDP probably wins out. But what about the Fed itself? **Markets have known for a long time** (longer than the Fed itself, in fact…) that we would probably **have to endure an extremely aggressive streak of Fed tightening** if we're to have any hope of putting the inflation genie back in the bottle. Traders began placing even odds on the probability of at least a 50-basis point hike by the Fed at its May 4 meeting back in late March, **so it's hard to see what might have suddenly changed about Fed expectations to cause today's relatively violent move lower in equities**.

So was it Ukraine? Rates? Inflation? My guess is no. As tragic as the events in Europe continue to be, the war also seems to have lost its ability to shock. And, as for inflation, does it really matter if the consumer price index is rising at 8.5% instead of 6.5% (or even 9.5% for that matter)? Of course not. We've been living with each of these stresses long enough that it would seem disingenuous to try and pin all the blame on any one of these factors alone. So, **instead, I'd suggest that today was quite likely just an overdue reckoning, with *all* these factors acting together**. And, in some ways, it's still a little surprising that it took so long for markets to finally tune into them.

The disappointing news might be that **volatility like this tends to cluster**, not unlike aftershocks that follow an earthquake. **But the good news is that all these issues are finally out in the open where everyone can see them**. So even if the ride might stay rocky for a little while longer, at least the waiting is over.

As always, our view is that those who stay calm and avoid doing anything from a place of fear or emotion are the ones who are most likely to endure.

1 Bureau of Economic Analysis, "Gross Domestic Product, First Quarter 2022 (Advance Estimate)," April 28, 2022, bea.gov/sites/default/files/2022-04/gdp1q22_adv.pdf.