

# Student of the Market

February 2022

**BlackRock**<sup>®</sup>

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February 2022

**January  
stock market  
returns**

**Stock market  
volatility**

**Proper up  
and downside  
capture**

**Fed raising  
interest rates  
(Part 1)**

**Fed raising  
interest rates  
(Part 2)**

**Alternative  
fund flows**

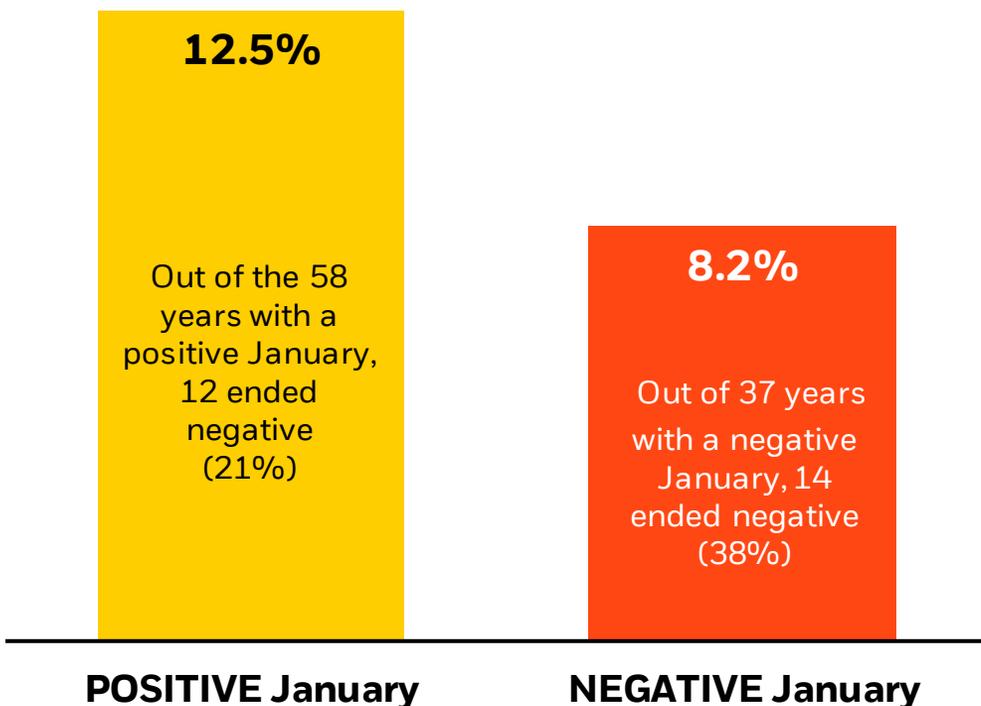
**Headline  
inflation**

JANUARY STOCK MARKET RETURNS

# So goes January...?

## Average return following January (next 11 months)

Since 1926



	January return	Return for rest of year (11 months)
2022	-5.2	?
2021	-1.0	30.0
2020	-0.0	18.5
2019	8.0	21.7
2018	5.7	-9.6
2017	1.9	19.6
2016	-5.0	17.8
2015	-3.0	4.5
2014	-3.5	17.8
2013	5.2	25.9
2012	4.5	11.0
2011	2.4	-0.3
2010	-3.6	19.4
2009	-8.4	38.1

7 of the last 13 Januarys have been negative but all 7 finished the year higher

Source: Morningstar as of 1/31/22. U.S. stocks are represented by the S&P 500 Index from 3/4/57 to 12/31/21 and the IASBBI US Lrg Stock Tr USD Index from 1/1/26 to 3/4/57, unmanaged indexes that are generally considered representative of the U.S. stock market during each given time period. **Past performance does not guarantee or indicate future results.** Index performance is for illustrative purposes only. You can not invest directly in the index.

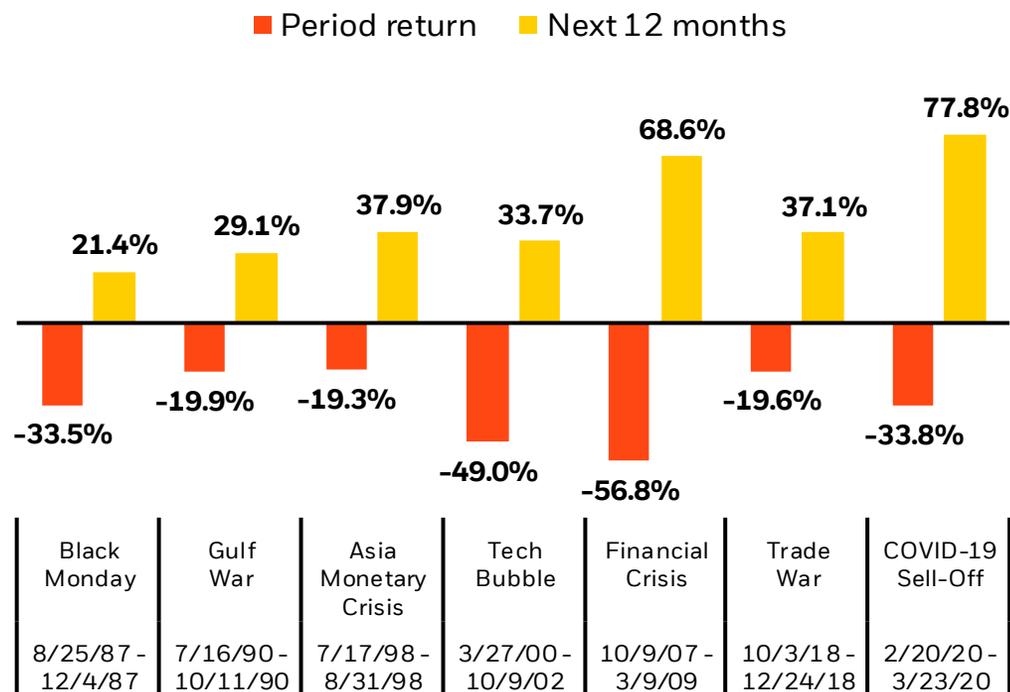
STOCK MARKET VOLATILITY

# Stay the course amid market volatility

## Worst Days\* Since 1950

Calendar Days	S&P 500 Decline*	Return 1 year later*
10/19/87	-20.5%	23.1%
3/16/20	-12.0%	69.0%
3/12/20	-9.5%	61.8%
10/15/08	-9.0%	20.8%
12/01/08	-8.9%	35.9%
9/29/08	-8.8%	-4.1%
10/26/87	-8.3%	23.5%
10/09/08	-7.6%	17.8%
3/9/20	-7.6%	43.6%
10/27/97	-6.9%	21.5%
08/31/98	-6.8%	38.0%
01/08/88	-6.8%	15.3%
11/20/08	-6.7%	45.1%
05/28/62	-6.7%	26.7%
08/08/11	-6.7%	25.2%
<b>Average</b>	<b>-8.9%</b>	<b>30.9%</b>

## Past growth scores and bear markets Since 1987



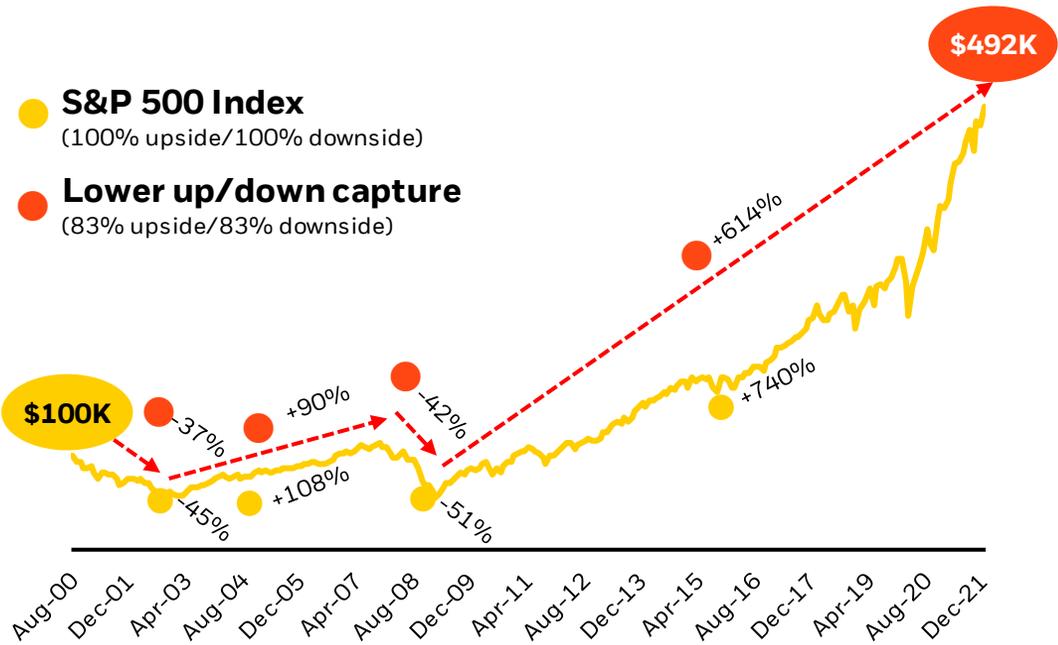
Source: BlackRock; Morningstar as of 1/31/22. U.S. stocks are represented by the S&P 500 Index from 3/4/57 to 1/31/22 and the IASBBI U.S. Lrg Stock Tr USD Index from 1/1/26 to 3/4/57, unmanaged indexes that are generally considered representative of the U.S. stock market during each given time period. Index performance is for illustrative purposes only. It is not possible to invest directly in an index. **Past performance does not guarantee or indicate future results.** \*Indicates principal return, dividends not included. Returns are principal only not including dividends. U.S. stocks represented by the S&P 500 PR Index.

PROPER UP AND DOWNSIDE CAPTURE

# Build a portfolio that's "right side up"

BlackRock focuses on helping you build portfolios that capture more upside than downside to help you build a long term buy-and-hold brokerage portfolio.

## Growth of a hypothetical \$100k in the S&P 500 Index over the last two bear and bull markets



### Scenario

Upside/downside	Ending value
● S&P 500 Index 100%/100%	<b>\$475K</b>
● Low up/down <sup>1</sup> 83%/83%	<b>\$492K</b>

### Other scenarios

Upside/downside	Ending value
● More up than down <sup>2</sup> 85%/75%	<b>\$575K</b>

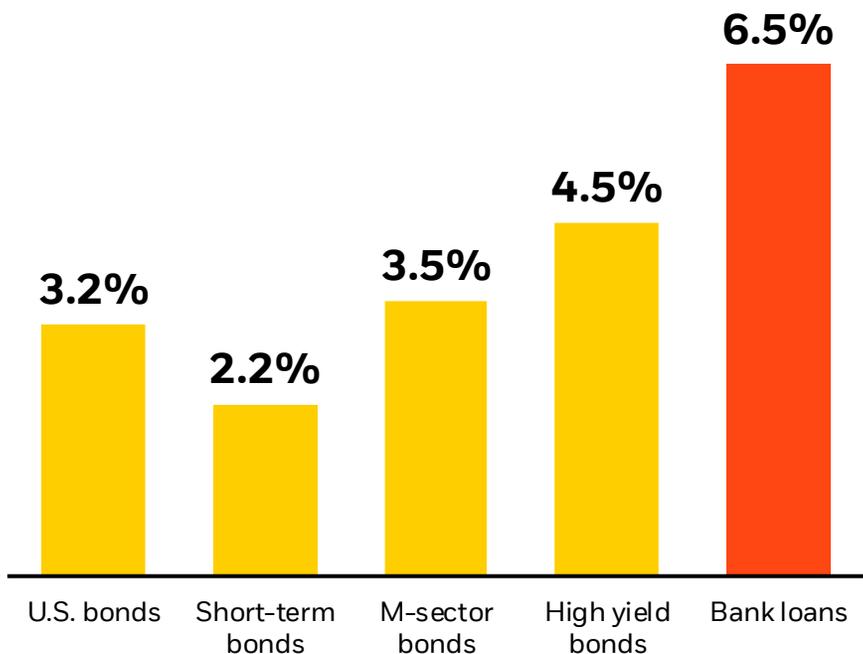
Source: Morningstar as of 8/31/00 – 12/31/21. 1 Source: Hypothetical ending value if \$100K was invested in the S&P 500 index and captured 83% of the upside and downside over last two bear and bull market cycles. 83/83% upside/downside is used to demonstrate what symmetric capture ratio is needed to equal the same approximate ending value of the S&P 500 over the last two bull and bear market. This illustrates how an investor could have achieved similar growth of the S&P 500 without experiencing the higher volatility. 2 Source: Hypothetical amount if \$100K was invested in the S&P 500 index and captured 85% of the upside and 75% of the downside over the last two bear and bull markets. 85%/75% was chosen since it illustrates the importance of asymmetric (more up than down) upside/downside capture. Index performance is for illustrative purposes only. Index performance does not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. Past performance does not guarantee future results.

FED RAISING INTEREST RATES (PART 1)

# Returns following the first interest rate hike

The Federal Reserve raising short-term rates and bond performance

**Average performance 12 months following the first Fed hike**  
(2/4/94 – 12/31/21)



**Specific periods of higher interest rates**  
(2/4/94 – 12/31/21)

1 <sup>st</sup> Federal Reserve rate increase	U.S. Bonds	Short-term bonds	Multi-Sector bonds	High Yield bonds	Bank loans
2/4/94	-1.2	0.2	-5.3	-4.4	6.8
6/30/99	5.1	4.4	3.2	0.4	6.1
6/30/04	7.1	2.6	9.9	9.1	4.0
12/17/15	1.7	1.8	6.2	12.8	9.1
<i>Average</i>	3.2	2.2	3.5	4.5	6.5

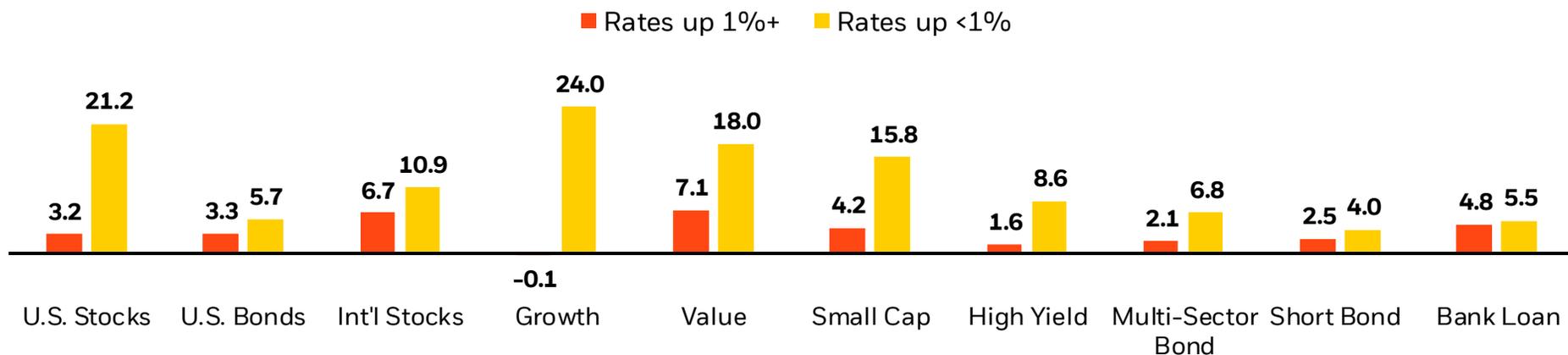
Source: Morningstar as of 1/31/22. Bank loans by the Morningstar US Fund Bank loan category, Short bonds by the Morningstar US Fund Ultrashort Bond category, High yield bonds by Morningstar US Fund High yield bond category, Multisector by the Morningstar US Fund Multisector Bond category and U.S. bonds by the BBgBarc US Agg Bond TR Index. Past performance does not guarantee or indicate future results. **Past performance does not guarantee or indicate future results.** Index performance is for illustrative purposes only. You cannot invest directly in the index.

FED RAISING INTEREST RATES (PART 2)

# How much the Fed raises rates is key

## Performance based on how much the Fed raises rates

Average returns since 1994, broken into instances when the Fed increased rates 1%+ and <1%



Year	# Rate hikes	% of rate rise	U.S. Stocks	U.S. Bonds	Int'l Stocks	Growth	Value	Small Cap	High Yield	Multi-Sector Bond	Short Bond	Bank Loan
1994	6	2.5%	1.3	-2.9	7.8	2.6	-2.0	-1.8	-3.1	-4.4	-0.6	6.6
2005	8	2.0%	4.9	2.4	13.5	5.3	7.1	4.6	2.6	2.2	1.5	4.6
2004	5	1.25%	10.9	4.3	20.3	6.3	16.5	18.3	10.0	8.1	1.6	5.0
2000	3	1.0%	-9.1	11.6	-14.2	-22.4	7.0	-3.0	-7.2	1.7	7.5	6.2
2006	4	1.0%	15.8	4.3	26.3	9.1	22.3	18.4	10.1	6.7	4.1	6.6
2018	4	1.0%	-4.4	0.0	-13.8	-1.5	-8.3	-11.0	-2.8	-1.6	0.9	-0.3
1999	3	0.75%	21.0	-0.8	27.0	33.2	7.4	21.3	5.0	2.7	2.3	6.2
2017	3	0.75%	21.8	3.5	25.0	30.2	13.7	14.7	6.4	6.1	1.7	3.5
2015	1	0.5%	1.4	0.6	-0.8	5.7	-3.8	-4.4	-4.1	-2.0	0.2	-1.3
1995	1	0.5%	37.6	18.5	11.2	37.2	38.4	28.5	17.5	17.5	11.1	7.8
2016	1	0.25%	12.0	2.7	1.0	7.1	17.3	21.3	13.2	7.1	2.0	9.2
1997	1	0.25%	33.4	9.7	1.8	30.5	35.2	22.4	13.6	9.2	6.6	7.3

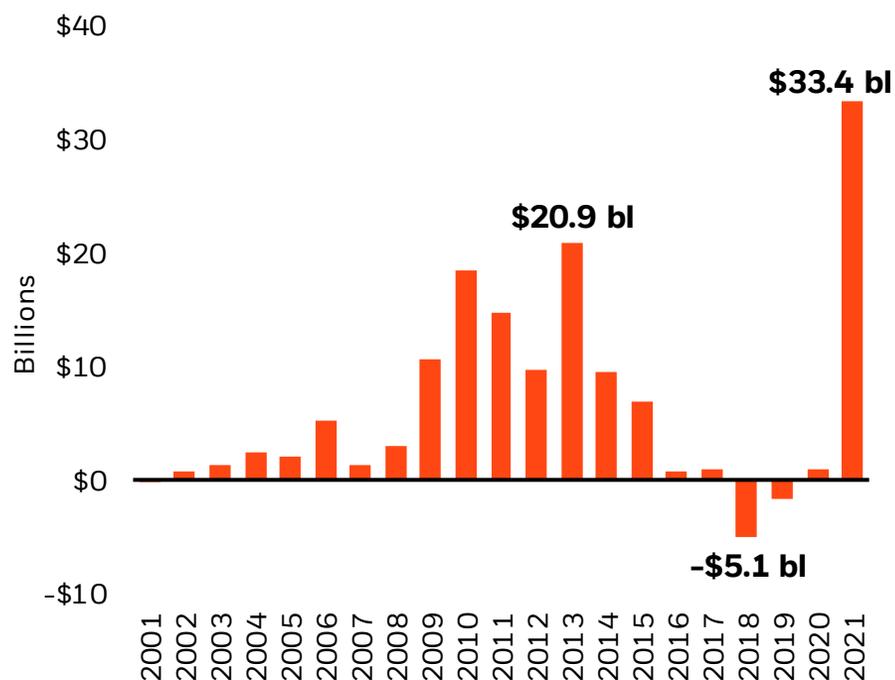
Source: St Louis Federal Reserve and Morningstar as of 1/31/22. US stocks represented by the S&P 500 Index, US bonds by the BbgBarc US Agg Bond Index, Large Growth stocks by the Russell 1000 Growth index and Large Value by the Russell 1000 Value Index Bank loans by the Morningstar US Fund Bank loan category, Short bonds by the Morningstar US Fund Short Bond category High yield bonds by Morningstar US Fund High yield bond category, Multisector by the Morningstar US Fund Multisector Bond category. **Past performance does not guarantee or indicate future results.** Index performance is for illustrative purposes only. You cannot invest directly in the index.

## ALTERNATIVE FUND FLOWS

# Historic alternative fund flows

### Alternative fund flows

Mutual fund and ETFs, calendar year flows as of 12/31/21



### Alternative fund flows and performance

Mutual fund and ETFs flows, performance as of 12/31/21

Morningstar Category	2021 flows	2021 returns
Options Trading	\$5.8B	7.1%
Relative Value Arbitrage	\$4.3B	2.4%
Event Driven	\$3.4B	3.7%
Multi-strategy	\$2.7B	5.3%
Systematic Trend	\$0.9B	5.5%
Macro Trading	\$0.7B	3.2%
Commodities Focused	\$0.04B	16.0%
Multi-alternative	-\$0.1B	2.2%
Equity Market Neutral	-\$0.5B	3.1%

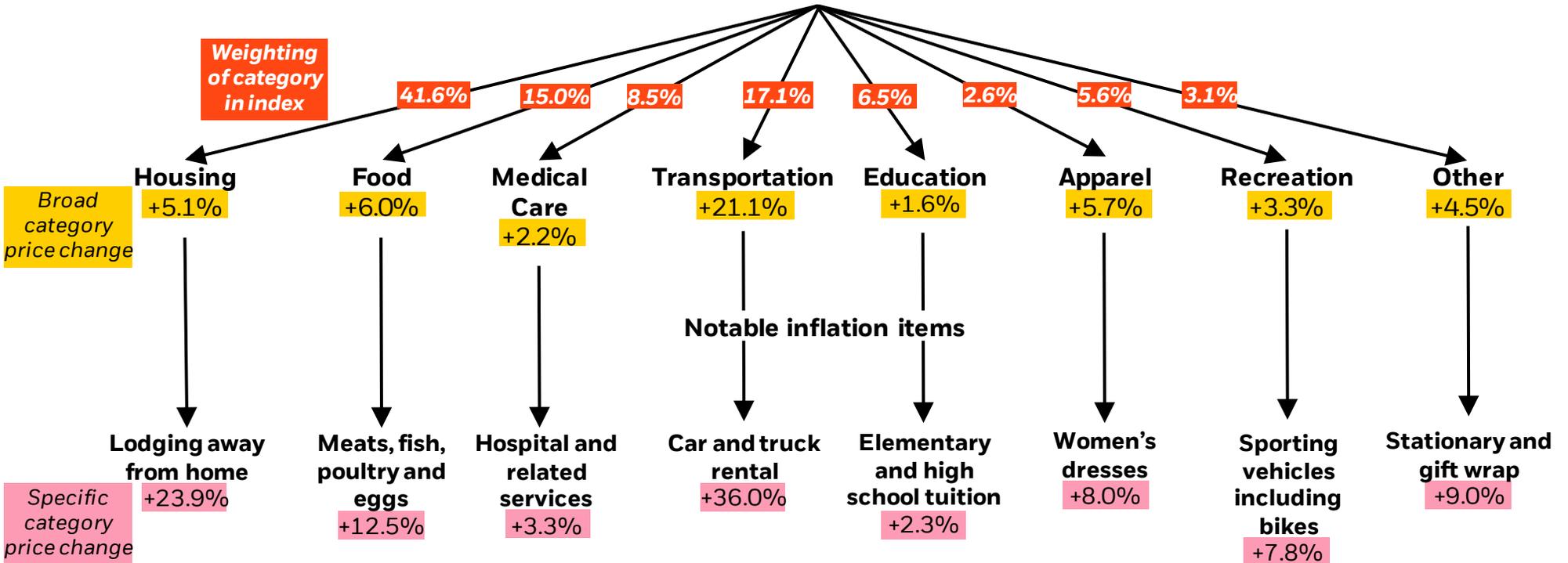
Source: Morningstar as of 12/31/21. Alternatives categories as defined by Morningstar. Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You cannot invest directly in the index..

HEADLINE INFLATION

# Headline inflation breakdown

## What goes into Headline Inflation?

Changes shown below are over 12-month period ending 12/31/21  
(Overall average change of total CPI over same period was +7.0%)



Source: Bureau of Labor Statistics as of 12/31/21.

# Student of the Market: February 2022

Returns as of 1/31/22	Total Ret 1 Year	Total Ret 5 Years	Total Ret 10 Years
S&P 500 TR USD	23.29	16.78	15.43
Bloomberg US Agg Bond TR USD	-2.97	3.08	2.59
IA SBBI US IT Govt TR USD	-3.54	2.33	1.83
IA SBBI US Large Stock TR USD Ext	23.29	16.78	15.43
Russell 1000 Growth TR USD	17.52	22.28	18.03
Russell 1000 Value TR USD	23.37	10.48	12.28
Russell 2000 TR USD	-1.21	9.69	11.33
US Fund Bank Loan	3.39	3.12	3.59
US Fund Equity Market Neutral	6.71	1.20	0.42
US Fund Event Driven	1.95	4.54	4.04
US Fund High Yield Bond	2.22	4.48	5.20
US Fund Intermediate Core Bond	-2.92	2.99	2.61
US Fund Intermediate Core-Plus Bond	-2.17	3.44	3.21
US Fund Macro Trading	2.98	3.22	2.33
US Fund Multialternative	15.63	3.88	2.65
US Fund Multisector Bond	0.69	3.73	3.98
US Fund Multistrategy	5.46	2.84	2.90
US Fund Nontraditional Bond	0.50	2.70	2.76
US Fund Options Trading	8.04	6.19	4.60
US Fund Relative Value Arbitrage	2.20	5.26	4.04
US Fund Short-Term Bond	-1.00	2.14	1.76
US Fund Systematic Trend	7.24	2.55	1.26

Source: Morningstar. Performance data quoted represents past performance and is no guarantee of future results. Current performance may be lower or higher than that shown. ©2021 Morningstar. All Rights Reserved. The information, data, analyses and opinions contained herein (1) include the confidential and proprietary information of Morningstar, (2) may include, or be derived from, account information provided by a financial advisor which cannot be verified by Morningstar, (3) may not be copied or redistributed, (4) do not constitute investment advice offered by Morningstar, (5) are provided solely for informational purposes and therefore are not an offer to buy or sell a security, and (6) are not warranted to be correct, complete or accurate. Except as otherwise required by law, Morningstar shall not be responsible for any trading decisions, damages or other losses resulting from, or related to, this information, data, analyses or opinions or their use. This material is not intended to be relied upon as a forecast, research or investment advice, and is not a recommendation, offer or solicitation to buy or sell any securities or to adopt any investment strategy. The opinions expressed are as of 1/31/22 and may change as subsequent conditions vary. The information and opinions contained in this material are derived from proprietary and nonproprietary sources deemed by BlackRock to be reliable, are not necessarily all-inclusive and are not guaranteed as to accuracy. Past performance is no guarantee of future results. There is no guarantee that any forecasts made will come to pass. Reliance upon information in this material is at the sole discretion of the reader.

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