

# A SENSE OF MALAISE IS SETTING THE MARKET’S TONE

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You can feel it in the air. A feeling of frustration, people spinning their wheels. Some of it is because of rising prices. It is also in the little things, like when you need the dishwasher fixed, but it’ll be 10 days before someone can swing by. Then the big one of the last 2 years: COVID, which is only now feeling like it’s fading from our collective consciousness. Now Americans watch as war in Eastern Europe flairs.

Last spring, only 42% of the public told pollsters from The Economist and YouGov that the country is “generally headed in the right direction.” That was low indeed, especially since many at the time were lining up to get the vaccine, which we were told would get life back to normal.

But COVID kept droning on. Here we are, over a year since the original recipients took the jab in December 2020, still duking it out in what looks like the ninth inning of the COVID culture wars. By late-January, the 42% who said the country was headed in the right direction had slipped to 24%, though it has subsequently risen to 30% in the latest poll, which was taken before Russia invaded Ukraine (figure 1).

**Figure 1: The Economist/YouGov Poll: “Would You Say Things in This Country Today Are...”**

Opinion	May 29- June 1	June 26- 29	July 31- Aug. 3	Aug. 28- 31	Sep. 26- 28	Oct. 24- 26	Nov. 27- 30	Dec. 19- 21	Jan. 22- 25	Feb. 19- 22
"Generally Headed In the Right Direction"	42%	38%	34%	29%	25%	27%	27%	23%	24%	30%
"Off on the Wrong Track"	45%	49%	53%	58%	59%	59%	60%	62%	65%	58%
"Not Sure"	13%	14%	13%	13%	16%	15%	14%	15%	12%	13%

Source: The Economist/YouGov weekly survey of U.S. adults. Number of respondents = 1,500.

You know what else isn’t “headed in the right direction?” The [NASDAQ](#).

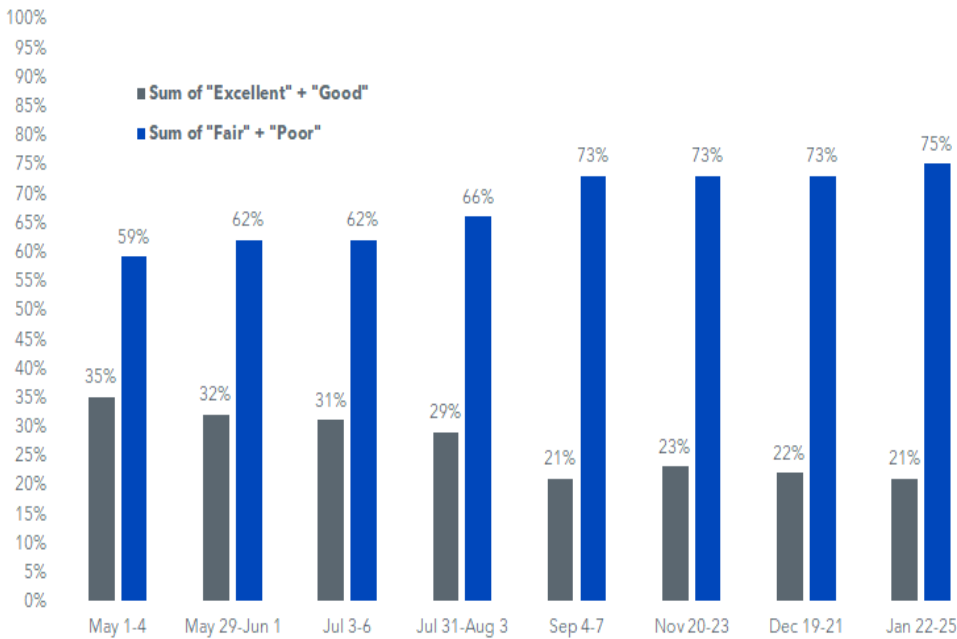
You could be forgiven for seeing the 7% annualized growth pace in Q4 [GDP](#) and concluding it would support the market’s major indexes. But economic growth is being treated as much less important to stocks than the path to be taken by the [Federal Reserve](#), now that we have a sudden war in the central bank’s calculus.

Nevertheless, with the unemployment rate south of 4%, previous prognostications of a deliberate [rate hiking](#) tendency by the Fed have morphed to an outlook that witnesses overnight rates rising consistently for the rest of the year and beyond. The consensus anticipates six quarter-point rate hikes in 2022, down from seven increases before Russia went into Ukraine.

Nevertheless, if GDP growth is so hot and the labor market is so tight, then why do about seven in 10 Americans rate the U.S. economy either “Fair” or “Poor?”

In a word: [Inflation](#).

**Figure 2: The Economist/YouGov Poll: “How Would You Describe the Current State of the American Economy?”**



Source: Economist/YouGov Survey, as of February 22. Figures sum to 100% when adding "Don't Know."

Long-duration NASDAQ stocks—those that have distant cash flows and are most sensitive to discount rates—haven’t waited around for the Fed to fight rising prices. From their 52-week highs, 30% of the index’s roughly 3,600 companies have been cut down by more than half.

Until recently, the market’s “generals” were holding the fort. For example, while the NASDAQ peaked in mid-November and started tumbling, Meta Platforms, which is Facebook’s new name, chopped sideways...for a while.

Not anymore. The [bears](#) eventually came for Meta and for most of the market’s other “big dogs,” save Apple, which has achieved the moral victory of breaking even in recent months.

**Figure 3: Comparing the Current Market to Early 2020**

Stock Market Returns: Covid Crash vs. Current Decline		
Company	Covid Crash	Since Nov. 19 NASDAQ Peak
Apple	-30.7%	8.9%
Microsoft	-27.4%	-9.4%
Meta Platforms (Facebook)	-31.9%	-9.3%
Alphabet (Google)	-30.8%	-9.5%
Tesla	-52.7%	-17.6%
Amazon	-12.3%	-18.6%
NVIDIA	-32.4%	-25.6%
<b>Equal-Weighted Portfolio</b>	<b>-31.2%</b>	<b>-11.6%</b>

Source: Refinitiv. Covid Crash = 2/19/20–3/23/20. Performance from NASDAQ peak is as of 3/1/22. Past performance is not indicative of future returns.

In the meantime, our [value](#) stuff has managed to hold up, despite the ugly tape. While the NASDAQ 100 went into an official bear market intraday on February 24, about three months after its November 19 peak, the [WisdomTree U.S. Value Fund \(WTV\)](#) is only off 3.5% since then.

As [bullish](#) as I am about value vs. [growth](#), I’m a little stunned by how well [WTV](#) has held up. If you had told me around Thanksgiving that Tesla, Meta and NVIDIA—among many others—would fall out of bed so rapidly, I would have suspected more pain in other equity groups too, even in Value stocks.

Yet [WTV](#)’s partner, the income-oriented [WisdomTree Large Cap Dividend Fund \(DLN\)](#), is only off 0.3% since November 19. This is with the [VIX](#) having gone north of 30 in December, January, February and here in March.

Another one is a “yield gooser,” the [WisdomTree U.S. High Dividend Fund \(DHS\)](#), which is up 7.8% since the NASDAQ peak.

The logical takeaway: the market is treating value stocks as a relative haven.

The vibe out there is one of malaise, “sticky” inflation, a stock market that doesn’t want to play nice. Maybe something like a whiff of the 1970s. This is uncharted territory for most players. It makes me think of an old market maxim that says the stock market’s leaders in one cycle are rarely the leaders when another cycle comes along.

Please see the fact sheets with standardized performance for [WTV](#), [DLN](#) and [DHS](#).

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## **DEFINITIONS**

**Nasdaq** : A global electronic marketplace for buying and selling securities.

**Gross domestic product (GDP)** : The sum total of all goods and services produced across an economy.

**Federal Reserve** : The Federal Reserve System is the central banking system of the United States.

**Rate Hike** : refers to an increase in the policy rate set by a central bank. In the U.S., this generally refers to the Federal Funds Target Rate.

**Inflation** : Characterized by rising price levels.

**Bear market** : A sustained downturn in market prices, increasing the chances of negative portfolio returns.

**Value** : Characterized by lower price levels relative to fundamentals, such as earnings or dividends. Prices are lower because investors are less certain of the performance of these fundamentals in the future. This term is also related to the Value Factor, which associates these stock characteristics with excess returns vs the market over time.

**Bullish** : a position that benefits when asset prices rise.

**Growth** : Characterized by higher price levels relative to fundamentals, such as dividends or earnings. Price levels are higher because investors are willing to pay more due to their expectations of future improvements in these fundamentals.

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