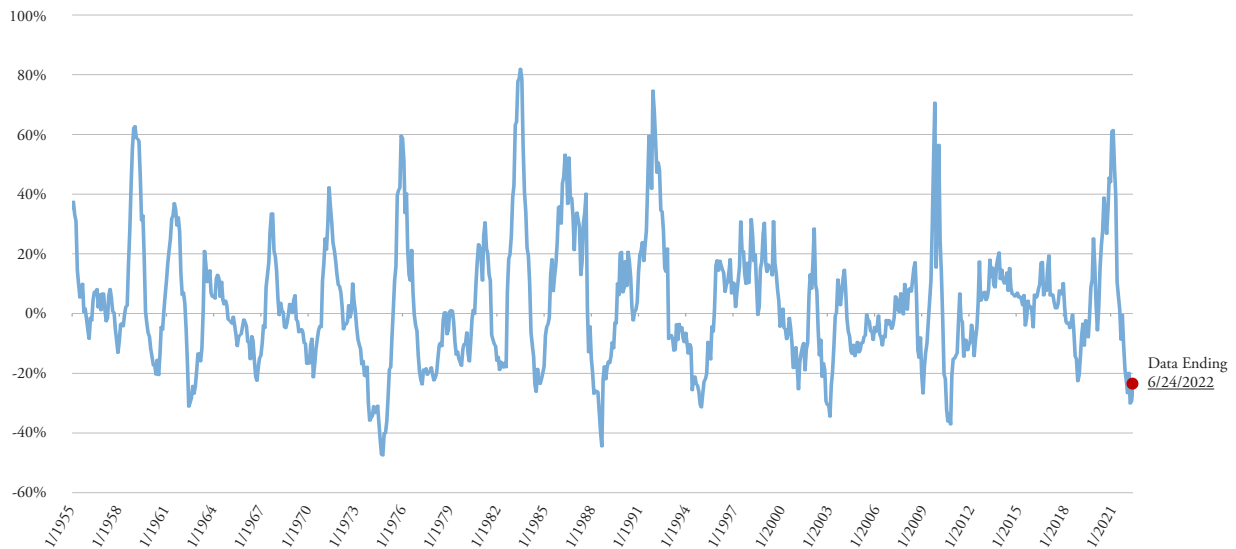


The S&P 500 has dropped more than 20% from its all-time high of roughly 6 months ago, and all of the market decline can be attributed to P/E contraction. While trailing earnings for the S&P 500 have increased 21.4% from the levels of last June, the P/E ratio (based on trailing actual earnings) of the S&P has dropped from 26.1x on 6/30/2021 to 19.6x as of 6/24/2022. This 25% decline in P/E over a brief period is extremely unusual, ranking in the lowest 5% of monthly observations since 1955.

S&P 500 Trailing P/E Change, Rolling 12-Months



Data from 1/1/1955–6/24/2022
Sources: Bloomberg, FactSet

We reviewed the performance history of the S&P 500 since 1955, breaking down 12-month periods on the basis of the change in the market P/E over the preceding 12 months. Historically, declines in the market P/E of 20% or more were followed by slightly better-than-average returns over the following 12 months, and a higher percentage of positive returns were posted over the same period, as shown in the table below.

S&P 500 Returns vs Trailing P/E Change

| | P/E Change of __% Over Previous 12 Months | | | | All Periods | |
|--------------------------------------|---|-----------|-----------|--------|---------------------------------|------|
| | < -20% | -20% – 0% | 0% – +20% | > +20% | | |
| Average Price Change, Next 12-Months | 16.7% | 7.1% | 7.7% | 7.8% | Average Price Change, 12-Months | 8.5% |
| Percentage of Positive Returns | 84% | 70% | 73% | 72% | Percentage of Positive Returns | 73% |

Data from 12/31/1954–6/24/2022
Sources: Bloomberg, FactSet

As noted, the S&P has dropped more than 20% thus far this year in only a six-month period. We reviewed the price performance of the S&P 500 in the post-World War Two era (since 1946), looking at every six-month percentage change in S&P 500 price. When the S&P 500 dropped 15% or more over a six-month period, the average returns over the following 6, 12, 24, and 36 months were well above average.

S&P 500 Price Changes After a 6-Month Decline of 15% or More

| | 1946 to Present | | | | Averages for All Periods, 1946 to Present | | | |
|--------------------------|-----------------|----------------|----------------|----------------|---|-----------|-----------|-----------|
| | Next 6 Months | Next 12 Months | Next 24 Months | Next 36 Months | 6 Months | 12 Months | 24 Months | 36 Months |
| Average Price Change | 8.5% | 17.9% | 31.8% | 34.8% | 4.2% | 8.8% | 18.4% | 28.4% |
| Rate of Positive Returns | 72% | 87% | 90% | 95% | 69% | 73% | 82% | 84% |

Data from 12/31/1946–6/24/2022
Sources: Bloomberg, FactSet

History is an imperfect guide for the future and, clearly, high inflation and rising interest rates present a challenge for the financial markets. However, an objective review of historical market returns can present a disciplined framework for analyzing the risks and opportunities presented in the current investment environment.

DISCLOSURES

This Market Update reflects the thoughts of Renaissance as of June 24, 2022. This information has been provided by Renaissance Investment Management. All material presented is compiled from sources believed to be reliable and current, but accuracy cannot be guaranteed. This is not to be construed as an offer to buy or sell any financial instruments and should not be relied upon as the sole factor in an investment making decision, nor should it be considered a recommendation. The views and opinions expressed are those of the Chief Investment Officer at the time of publication and are subject to change. There is no guarantee that these views will come to pass. As with all investments, there are associated inherent risks. Please obtain and review all financial material carefully before investing.

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REFERENCED INDEX

(Indices are unmanaged and are not available for direct investment.)

S&P 500 Index—The S&P 500 Stock Index is a market capitalization weighted index and consists of 500 stocks chosen for market size, liquidity and industry group representation.

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