



States allowing right of abortion (blue) vs restricting it (brown) & pending or no legislation (grey)

Market Update

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**Assessing the impact of
Overturning Roe v. Wade !**

The Voice for Reason

Comments and Views for the Individual Investor

(July 20, 2022) Amidst the setting of intense debate in the U.S. about inflation, the January 6th commission daily hearings, the prolonged conflict between RU.S.sia and Ukraine, and recent U.S. Fed action to raise short term interest rates as a remedy to control inflation, a landmark U.S. Supreme Court ruling this past month is sure to eclipse all the issues in terms of media coverage and pre-November election campaigns. The matter concerns a woman's right to abortion, plain and simple.

The application of law under the U.S. legal system is based on the important concept of "legal precedent." It is the 1973 ruling of *Roe v. Wade* that legitimised a woman's right to abortion nationwide in the United States. For the past 50 years, it was this 1973 ruling which was the lynchpin of guidance on matters affecting abortion in the United States. Under the English common law system practiced in the United States, the tradition of "precedent" is a very important component in guiding judicial authorities in their application of constitutional law. The doctrine of stare decisis is among the most fundamental principles affecting legal process as it requires courts to apply the law in the same manner to cases with the same facts. This ensures that individuals in similar situations are treated alike instead of based on a particular judge's personal views.

The nine justices that sit on the U.S. Supreme Court are appointed by the U.S. President and approved by the U.S. Senate and serve for life. The replacement of Supreme Court justices has become the legacy of many presidents and one of the understated instruments of power. The judicial branch of the U.S. government is a critical element of the balance of power in the United States serving as the third branch of government shared with the Executive branch (the president and his cabinet) and the Legislative Branch (the 535 members of Congress (100 senators and 435 House of Representatives). Under the previous Trump Presidency, as controversial were his four years in power (2016-20), the president had the rare opportunistic moment in history to make new

appointments to the U.S. Supreme Court to succeed three retiring justices (Anthony Kennedy, Antonin Scalia, and Ruth Bader Ginsburg). President Trump appointed three justices (Neil Gorsuch, Brett Kavanaugh, and Amy Coney Barrett) who were all considered conservative in their interpretation of the U.S. Constitution. It was this trio of justices as well as sitting justices Samuel Alito and Clarence Thomas who essentially led the effort to overturn the 1973 *Roe v. Wade* decision last month by a 6-3 vote.

What will happen next? Many states had trigger legislation which was to take effect immediately to ban abortion within the geographic boundaries of their state should *Roe v. Wade* be overturned. No fewer than 21 states across the nation now have legislation in place banning abortion. Fourteen other states have laws in place protecting a woman's right to choose. Over a dozen states remain in limbo with legislation in some moving toward abortion bans. Such a controversial judicial decision can only be overridden nationwide by a two-thirds vote of Congress. Given the current composition of the U.S. Congress (a deadlocked U.S. Senate and a very narrow majority by the Democratic Party in the House), such effort to override the U.S. Supreme Court reversal of *Roe v. Wade* seems unlikely at least until after the U.S. mid-term elections in November.

Global markets head into Bear market Territory!

As we reach the mid-year we are in the midst of a down market which, having dropped more than 20%, is now officially labeled a “bear market.” Year to Date global equity markets have been afflicted by what is normally called “**systemic risk.**” That is, a behavioural pattern in which there is risk inherent to the entire market. Markets are correcting mainly owing to the inflationary pressures in the global environment and the subsequent rise in short interest rates undertaken by U.S. Fed actions at its recent FOMC meetings. The latest Fed actions, raising short term rates by **0.75%** on June 15, were a signal that the Fed is serious about addressing inflationary pressures in the U.S. market. Accordingly, many global central banks followed the Fed actions by raising rates.

At the mid-year the S & P 500 is down **-18%** and Nasdaq down **-26%**. Global indices have been impacted as well with Euro Stoxx 50 down **-17%** and Japan's **TOPIX** down **-6%**. With Covid-19 response policies struggling in China, the CSI 300 is down **-10%** and Hong Kong down **-4%**. Currency markets have

remained largely favourable to the U.S. Dollar as the U.S. Dollar index (Dollar.idx/U.S.D) has remained above 100 since early 2022, although we saw some slight dollar weakening late in the 2nd quarter.

The attached chart provides some historical context to the current global financial markets. The stock market correction in the first half of 2022 is the worst in 50 years, even surpassing the second worst year on record, 1982, by a significant margin. (see chart below)



Source: Refinitiv, J. Safra Sarasin, 10.06.2022

What actions should investors take in light of these market developments? The first and foremost is to NOT panic. Since the mid-1950s (i.e., 65 years ago) we have seen ten bear markets with S&P 500 declines of more than 20%. The average drop in market indices during a bear market has been nearly 36% and the average duration of the bear market typically has been 13 months. Investors should understand that achieving superior results sometimes requires enduring intense periods of volatility. It is important to also remember that viewed over a

sequence of consecutive ten-year time horizons dating back to 1928 that reviewing any series of 10-year equity market performances shows that a positive return has been achieved 90% of the time. So, it is important to remain a bit stoic and to see the opportunity that a market correction will eventually offer for gains that will, in fact, exceed the temporary setbacks suffered in the current bear market.

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About the author:

Bruce VonCannon is a native of North Carolina U.S.A and currently a Managing Director with Vanheel Management Ltd., a Hong Kong SFC and U.S. licensed independent asset management firm founded in 2002. His career spanning 27 years in international banking and wealth management has included assignments in New York, Taiwan, Hong Kong, Singapore, and Geneva. He is an author and frequent speaker at financial seminars, universities, and business forums. His latest book, "Status. Anxiety: Hong Kong's Crisis of Identity" was recently released in hardback and e-book copy by Palgrave MacMillan.