



Badmutt[™]
MONTHLY

THREE STORMS

A new Fed chair, a midterm year, a richly valued market — three risks across one 12-month window.
Probabilities, not prophecies.

MAY • 2026



What's the expected 12-month drawdown of an expensive S&P 500 from when a new Fed chair is sworn in during a midterm year?

Current window – May 22, 2026 → May 22, 2027⁸

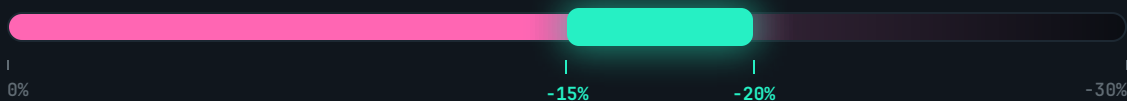
NEW CHAIR DRAWDOWNS		MIDTERM YEAR NEW CHAIR		FORWARD P/E ¹		BENCHMARK 12-MONTH DRAWDOWN ²	
Average	-16.2%	Average	-14.6%	Current	21x	Average	-16.1%
Maximum	-33.5%	Maximum	-23.2%	+1 SD	20.0x	Maximum	-71.3%
Median	-15.8%	Median	-14.7%	25-yr average	16.8x	Median	-12.4%
Minimum	-7.4%	Minimum	-7.4%	-1 SD	13.5x	Minimum	-2.4%



BADMUTT VALUE ZONE

Where our math has us fetching more SPY:

634 to 691





STORM ONE · NEW CHAIR

Ten chairs, ten drawdowns.

CLOSING DRAWDOWN

Average	-16.2%
Maximum	-33.5%
Median	-15.8%
Minimum	-7.4%

INTRADAY DRAWDOWN

Average	-17.2%
Maximum	-35.7%
Median	-15.8%
Minimum	-8.0%

DRAWDOWN RECOVERY

Average	6 months
Maximum	20 months
Median	4 months
Minimum	16 days

DRAWDOWN HIT RATE

10 / 10

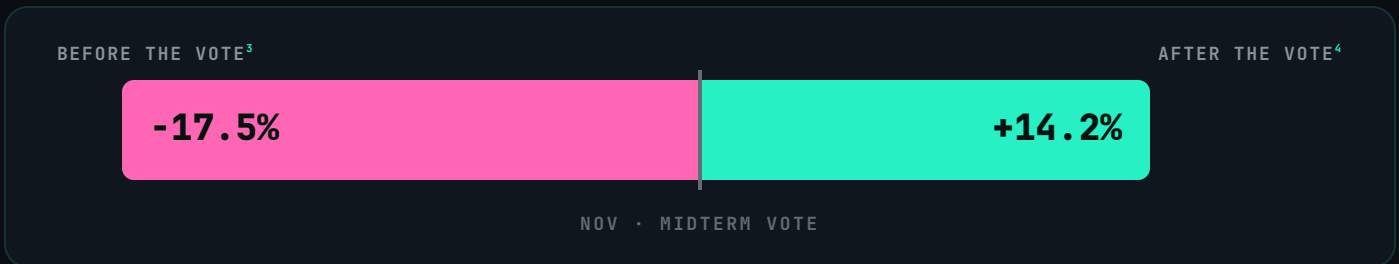
CHAIR	OFFICIAL START	MIDTERM YEAR	MAX CLOSE DRAWDOWN	MAX INTRA DRAWDOWN	TROUGH	12-MONTH RETURN
Eccles	1934-11-15	Yes	-15.87%	-15.87%	1935-03-14	+47.22%
McCabe	1948-04-15	No	-15.71%	-15.71%	1949-02-25	-2.54%
Martin	1951-04-02	No	-8.11%	-8.11%	1951-06-29	+13.13%
Burns	1970-02-01	Yes	-23.21%	-23.96%	1970-05-26	+12.44%
Miller	1978-03-08	Yes	-13.55%	-14.34%	1978-11-14	+13.37%
Volcker	1979-08-06	No	-17.07%	-20.44%	1980-03-27	+16.54%
Greenspan	1987-08-11	No	-33.51%	-35.72%	1987-12-04	-21.17%
Bernanke	2006-02-01	Yes	-7.70%	-8.03%	2006-06-13	+12.75%
Yellen	2014-02-03	Yes	-7.40%	-9.48%	2014-10-15	+17.69%
Powell	2018-02-05	Yes	-19.78%	-19.93%	2018-12-24	+3.35%

Sources & method → Notes & Methodology, page 6.



STORM TWO · MIDTERM YEAR

Midterm years often favor sellers before the vote, then buyers for 12 months after.



MIDTERM YEAR DRAWDOWN

Average	-17.5%
Maximum	-37.6%
Median	-16.6%
Minimum	-4.4%

POST-ELECTION 12-MONTH RETURNS

Average	+14.2%
Maximum	+27.1%
Median	+13.7%
Minimum	+1.1%

Positive in every instance since 1962.

MIDTERM YEAR CHAIR START 12-MONTH DRAWDOWN²

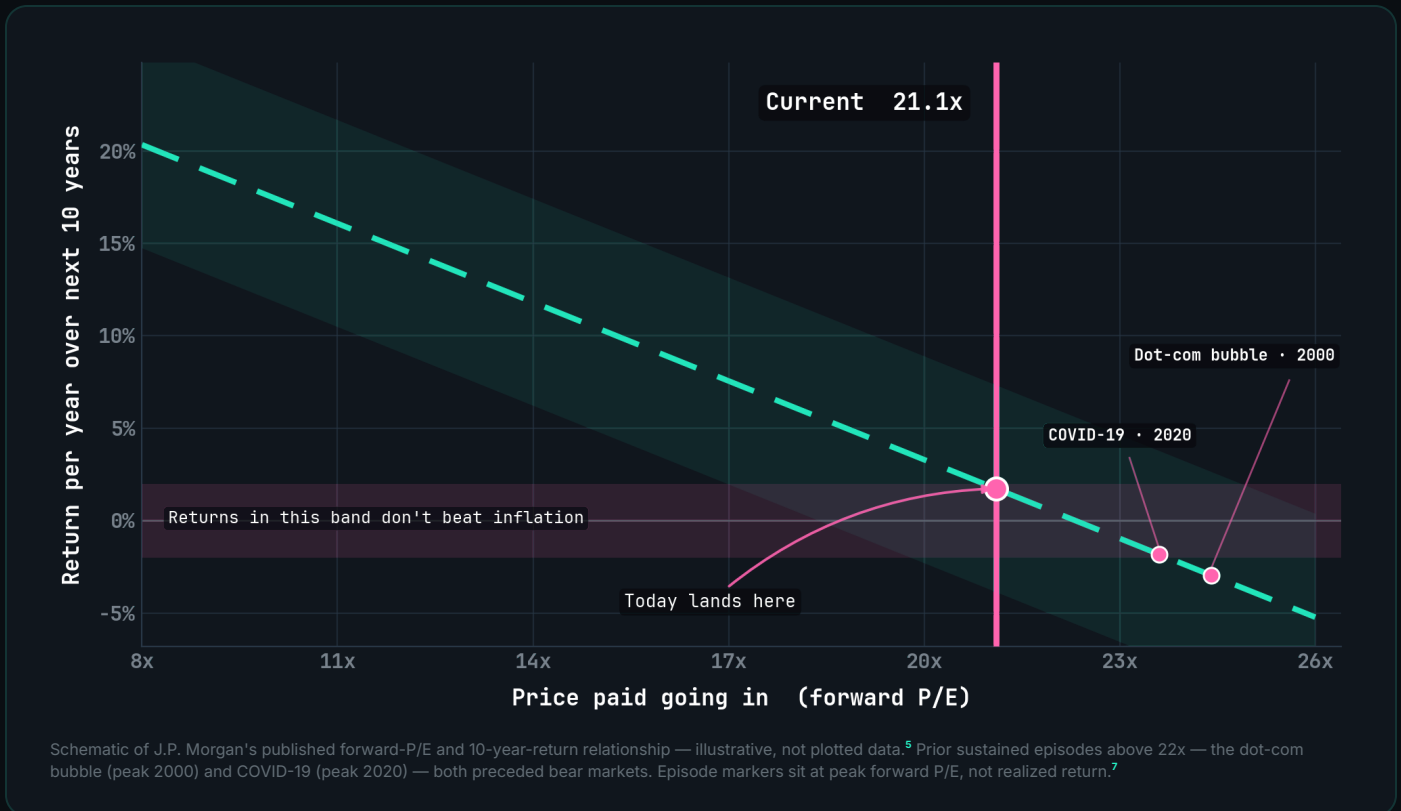
6 / 6 HIT RATE	Average -14.6%	Maximum -23.2%	Median -14.7%	Minimum -7.4%
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Sources & method → Notes & Methodology, page 6.



STORM THREE · RICH VALUATION

Buying at today's rich P/E has poor expectancy.



“It’s not what you buy;
it’s what you pay that counts.”

— HOWARD MARKS⁶



REFERENCE

Notes & methodology.

All sources are public, vetted and fact-checked. Some numbers come from our own data. The others we cite below:

METHOD

S&P price series are Yahoo Finance (yfinance) daily composites, 1928-2025, price-only (dividends excluded). The modern S&P 500 launched in 1957; pre-1957 history is a backfilled predecessor/composite, not the 500 (per S&P Global). Drawdowns are measured both per calendar year and as the deepest decline inside rolling 12-month windows. Fed chair dates follow the Federal Reserve and FRASER; Eccles is chair-equivalent under the pre-1936 Fed structure, and Powell's 2022 reappointment is excluded. Text follows Associated Press style; stat panels, tables and chart labels use data-display conventions (numerals, ISO dates, symbols).

- 1 Forward P/E — current per FactSet (second-quarter 2026, 21.1x, above the five-year average of 19.9x and the 10-year average of 19.0x); 25-year average and ± 1 SD band values per MacroMicro (May 2026), following J.P. Morgan's band methodology. The one-standard-deviation band covers about 68% of readings on a normal distribution.
- 2 Chair-transition drawdowns (New Chair; Midterm Year New Chair) — author's analysis on the price series at left; Fed chair dates per the Federal Reserve and FRASER.
- 3 Midterm-year intra-year decline — author-computed, daily closes, midterm years 1950-2022; matches Carson Investment Research's published 17.5% average.
- 4 12-month post-midterm-election return — author-computed, election-day close to +12 months, 1962-2022; 16 of 16 positive. Consistent with E-Trade's +16.3% October-to-October figure on the pre-2022 sample.
- 5 Valuation-return chart — schematic of J.P. Morgan Asset Management's published exhibit (forward P/E vs. subsequent 10-year annualized return). Trend line and 21.1x marker reflect their fit; the shaded band is an illustrative range, not plotted observations. JPM's current Guide charts only one- and five-year horizons — little predictive power at one year, much tighter at five, per JPM; the 10-year framing follows its older second-quarter 2012 exhibit.
- 6 "It's not what you buy; it's what you pay that counts." — Howard Marks, Oaktree Capital Management, "On Bubble Watch" memo, January 2025.
- 7 Forward P/E above 22x — author's analysis of the Federal Reserve and LSEG forward P/E series, January 1989-January 2026. Sustained means consecutive month-end readings above 22x, not a single print. Prior sustained episodes — the dot-com bubble and COVID-19 — both preceded bear markets; recent 2024-2026 readings above 22x are not yet resolved.
- 8 2018 three-storm analog (-19.78% close drawdown; +3.35% terminal 12-month return) and Warsh oath timing — author's analysis; oath per Reuters and AP.
- 9 Benchmark drawdown distribution (calendar-year and rolling 12-month; full history 1928-2025 and modern-500 1957-2025) — author's analysis. Rolling windows are month-start with a daily-start cross-check that catches the 1931-32 extreme; index-history caveat per S&P Global and FRED. The Value Zone is a historical watch zone, not a recommendation.



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MONTHLY

**We don't chase.
We watch, then fetch.**

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