Netflix and Facebook were two powerhouse stocks during the pandemic, rising 100% and 38% respectively between early 2020 and the Fall of 2021. But in recent months, each has fallen hard: As of April 22, Netflix had crashed 69% from its highs, and Meta (as Facebook's parent is now called) had plunged 34%.

These two stocks' fall should be a wakeup call, if any were still needed, for long-term investors: When high-momentum growth stocks fall out of favor with investors, they can sell off dramatically. Portfolios must be built to withstand changing market conditions and the volatility that often characterizes high-flying stocks.

The reasons for the fall of Netflix and Facebook—now called Meta-have to do with their growth prospects against a backdrop of rising interest rates. To help tame surging inflation, the Federal Reserve in March raised the benchmark federal funds rate for the first time since 2018; Wall Street expects the central bank to continue raising rates aggressively through this year and perhaps beyond. Rising interest rates are bad for growth stocks, a category that includes Netflix and Meta, whose valuations are predicated on robust future earnings.

Because growth companies are more dependent on borrowing, higher interest rates cut deeper into their earnings. Inflation also weakens the value of each dollar of future earnings, another turnoff for investors. But what really concerns investors in the cases of Meta and Netflix are dimming prospects for the companies' revenue growth.

Netflix lost subscribers for the first time in more than a decade during the first quarter, and it projects that it will lose two million more during the second quarter. Most analysts had expected the streaming company to add nearly 20 million net subscribers this year. As for Meta, its shares crashed by 26% on Feb. 3 following disappointing fourth-quarter earnings and the news that it had lost daily users for the first time ever. Meta is facing fierce competition from TikTok, and privacy changes implemented by Apple have hurt its ability to lure advertisers' dollars.

Netflix and Meta are big, established companies. But in a high-inflation, rising-rate environment, they have no room for error. These larger economic forces are slowing the economy and punishing stocks of companies that don't deliver near-term earnings growth. In some cases, like Meta's, a growth stock may be beat up so badly that it becomes a buy. It's a good bet that more high-flyers will fall, and investors who determine the point at which their price becomes

attractive based on their earnings could be rewarded.

Meanwhile the market is rewarding value stocks—companies whose earnings are attractive compared with their stock price. The S&P 500 growth index is down 17% for the year, while the S&P value index is down just 2.6%.

The market's rotation to value is a reminder that long-term investors' portfolios must be built to endure different market and economic conditions. A collection of high-flyers like Facebook, Netflix and others might have done well during a period of low interest rates, low inflation, and work-from-home orders—but successful portfolios must be able to hold up during market downturns like the one we're experiencing now.

With economic headwinds likely to persist for at least several more months, this is a good time to review your investment holdings. Don't hesitate to reach out to us if you'd like to talk about how you can invest to achieve your goals.