Capital Markets Strategy
Essential inCights for the C-Suite

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Chart of the Day

History suggests that US stocks have further to fall.

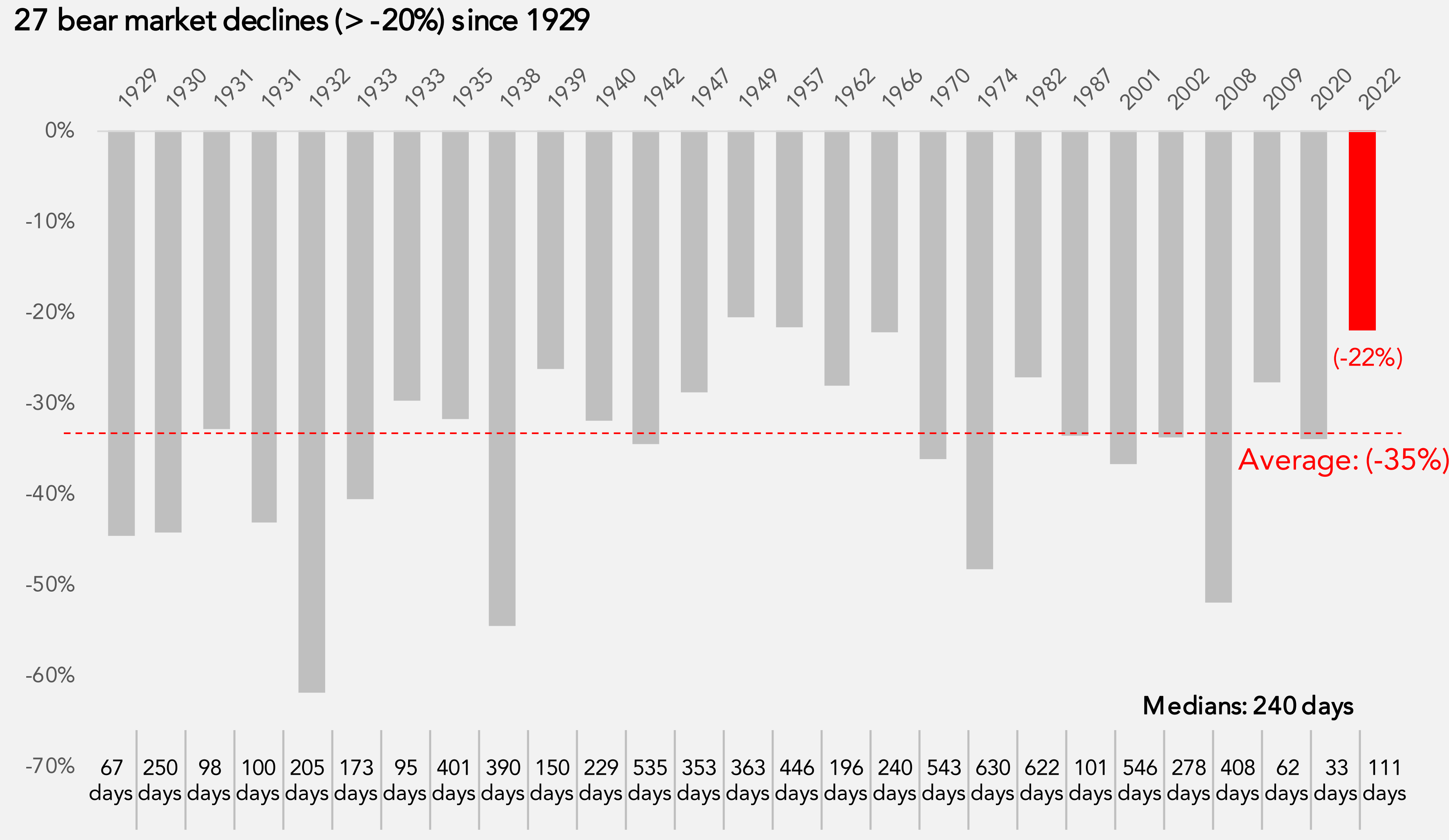
Over the nearly 100 years since the stock market crash of 1929, there have been 27 bear markets (i.e., decline > 20%), with an average peak-to-trough decline of 35% historically (-27% when not accompanied by recession). As of this past Monday, June 13, the **US stock market had declined 22% from its Jan 3 peak 111 days** earlier on the back of COVID and Ukraine crisis induced inflation, and subsequent Fed tightening.

While the pace of this bear market (111 days) has been more rapid than the 289 day average historically, the depth of this selloff has thus far been more modest by comparison. **For example, US equities dropped a steeper 52% during the GFC bear market of 2008-9 (and lasted a year!), and 34% during the COVID crisis of March 2020.** In addition, once stocks enter a bear market, they have historically taken an additional 52 days to bottom out.

Looking ahead, volatility is likely to remain elevated until the market has greater visibility that "peak inflation" has been reached, perhaps sometime later in Q3. This, in turn, will ease both stagflation concerns, as well as earnings downgrades emanating from US dollar strength. **The good news is that since 1950, the S&P 500 has risen 75% of the time in the year following the trough of a bear market decline,** with average gains of +6% and +17% over the subsequent 3 and 12 months, respectively.

The two periods where equities most notably underperformed 12 months after a bear market decline were during the 2009 GFC and in the early 1970s. The obvious concern here is that the latter period, early 1970s, was the last time that we had a comparable global supply side shock of this size.

Since the stock market crash of 1929, there have been 27 bear market declines (i.e., 20%+), with an average peak-to-trough decline of 35% (-27% when not accompanied by recession).



Source: (1) Nicholas Jasinski, Barron's. WSJ. Bloomberg. FT. Oxford Economics ("Equities: Bear Market Begins").

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