When Will It End?

COMMENTARY
March 2024

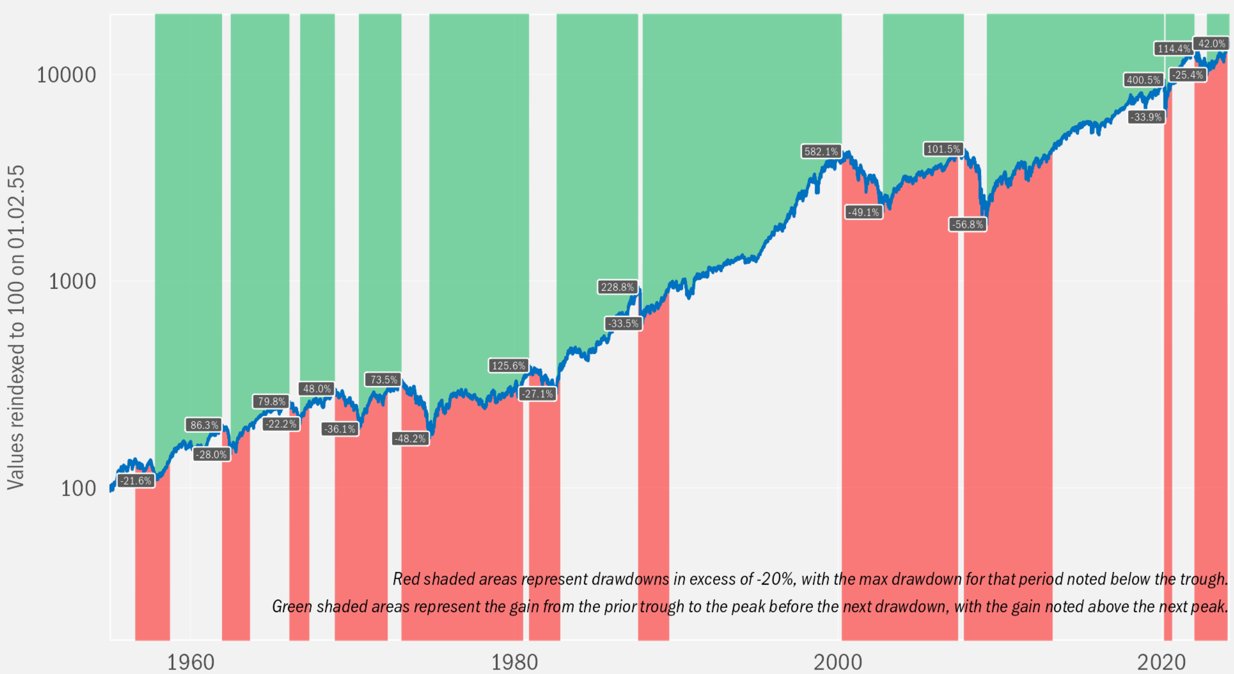
Though still relatively narrow in terms of the breadth of contributing stocks, the ongoing recovery from the 2021-22 bear market remains historically short and shallow. Past performance may tell us little in particular about the market's future. But the historical context may offer fair reasons to maintain an otherwise risk tolerance-appropriate market exposure, despite the fact that this rally has extended well above the prior market peak:

- Relative to all drawdowns of 20% or more since the end of World War II, the latest (01.04.22 through 10.12.22) was on the milder side of the spectrum, at 25.4%
- So, too, has been the 510-day run since the 10.12.22 trough, coming in at 42% so far, compared to an average of 171% gain for post-WWII bull markets that, on average, have lasted about 5 years
- Of course, that history tells us nothing about how long this bull market might run. But it does offer the reminder that bull markets tend to have been more generous and generally longer-lived
- Better, we think, always to keep in mind the historical range of market outcomes over time and adjust portfolio exposures according to investor comfort than to decide when to invest based on rather arbitrary market levels

Up. Up and...

In January, we showed that investors saw gains 81% percent of the time a year after the S&P 500 hit a new month-end peak. "Yeah, but…the one-year return from the New Year's 2022 peak was negative!" True. And the S&P 500 nearly turned in a loss for the ensuing two-year period as well. But those details serve as reminders that markets are volatile and often require time to produce gains. Speaking of time and gains, the U.S. stock market sits just a tick or two below all-time highs, having rebounded rather robustly from an interim drawdown in Q323 that followed a halting rise from the bear-market bottom of October 12, 2022. We've since heard lots of marveling at the pace of the gains along with sure statements that we're **due** for a pullback. Such pronouncements are at the same time partly true and not so. Eyeing on the word "due", there's an accuracy in acknowledging the fact that markets are short-term volatile (the range of 1-year outcomes spans -68% to 163%). But it's inaccurate to suggest that the market should fall just because it's gone up.

Figure 1: S&P 500 Historical Drawdowns and Gains



Daily price data (excludes the effects of dividends) from 01.02.55 to 03.05.24. Past performance is not indicative of future results. Investing in securities involves risk, including risk of losing some or all the invested capital. There is no guarantee that any investment or investment strategy will achieve its objective. Drawdown may be measured as the maximum loss from a prior peak value or the length of time the portfolio requires to return to breakeven after a prior peak. One cannot directly invest in an index. SOURCE: SRCM using data from Bloomberg

...Up More?

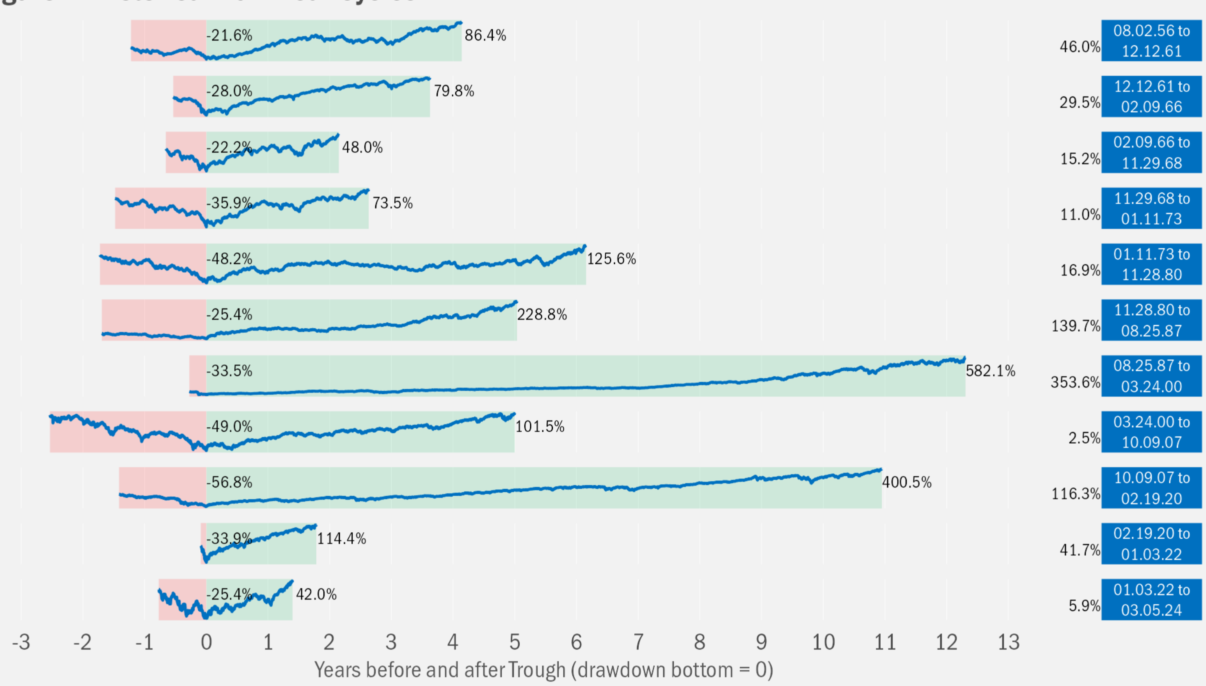
Either way, the word "due" is a poor choice as it confers a sense of immediate inevitability based on the recent past, rather than a general inevitability that stems from the inherent natural tendencies of the market. There exists no law of market gravity that strengthens the further aloft the market flies. As we have stated so often on these pages in the past, market returns have tended toward more positive outcomes as the length of the holding period increases. That is…the market has always gone up over time.

But the paths up from each interim down in the aggregate demonstrate no obvious characteristics in terms of duration or magnitude. As we show in Figure 2 and Figure 3, the major market drawdowns since World War II (declines of 20% or more, generally deemed a "bear" market) have varied widely in the depths reached, from the barely-a-bear 21.6% drop in 1957 to the 56.8% plunge during the Financial Crisis of 2007-08. As varied, have been the gains subsequent to the troughs. Those looking for an obvious reason for the market to pull back from the relatively minor 42.0% to-date gain from the 10.12.22 market trough won't find one in these data.

Not "Due" ≠ Not Possible

Our skeptical take on the market prognostications of others, nonetheless, should not be read as confidence that gains will continue uninterrupted. Perhaps not so obvious in Figure 2 are the interim declines in between bull-market peaks. Let's not forget, too, that the market barely regained a prior market peak in October 2007 before beginning its most dramatic slide in post-War history (the column of percentages at the right shows the full-cycle price return of the index). **The upshot: investors should be braced for volatility and drawdown at all times—regardless of the market's level or direction and pace of change—adjusting portfolio exposure to market risk to match comfort with potential declines.**

Figure 2: Historical Bull-Bear Cycles



Daily price data (excludes the effects of dividends) from 01.03.55 to 03.05.24. Past performance is not indicative of future results. Investing in securities involves risk, including risk of losing some or all the invested capital. There is no guarantee that any investment or investment strategy will achieve its objective. Drawdown may be measured as the maximum loss from a prior peak value or the length of time the portfolio requires to return to breakeven after a prior peak. One cannot directly invest in an index. SOURCE: SRCM using data from Bloomberg

Figure 3: Dates of S&P 500 Historical Drawdowns and Subsequent Gains

Drawdown Begin	Drawdown Trough / Gain Begin	Drawdown End	Duration of Drop (days)	Length of Drawdown (days)	Days to Breakeven	Gain Peak	Duration of Gain (days)	Percent of Gain Days to Breakeven
08.03.56	10.22.57	09.24.58	445	782	337	12.12.61	1512	22%
12.13.61	06.26.62	09.03.63	195	629	434	02.09.66	1324	33%
02.10.66	10.07.66	05.04.67	239	448	209	11.29.68	784	27%
12.02.68	05.26.70	03.06.72	540	1190	650	01.11.73	961	68%
01.12.73	10.03.74	07.17.80	629	2743	2114	11.28.80	2248	94%
12.01.80	08.12.82	11.03.82	619	702	83	08.25.87	1839	5%
08.26.87	12.04.87	07.26.89	100	700	600	03.24.00	4494	13%
03.27.00	10.09.02	05.30.07	926	2620	1694	10.09.07	1826	93%
10.10.07	03.09.09	03.28.13	516	1996	1480	02.19.20	3999	37%
02.20.20	03.23.20	08.18.20	32	180	148	01.03.22	651	23%
01.04.22	10.12.22	01.19.24	281	745	464	03.05.24	510	91%

Daily price data (excludes the effects of dividends) from 01.03.55 to 03.05.24. Past performance is not indicative of future results. Investing in securities involves risk, including risk of losing some or all the invested capital. There is no guarantee that any investment or investment strategy will achieve its objective. Drawdown may be measured as the maximum loss from a prior peak value or the length of time the portfolio requires to return to breakeven after a prior peak. One cannot directly invest in an index. SOURCE: SRCM using data from Bloomberg

Figure 4: S&P 500 Historical Range of Returns by Time Horizon

Monthly data from 01.31.26 to 02.29.24. Past performance is not indicative of future results. Investing in securities involves risk, including risk of losing some or all the invested capital. There is no guarantee that any investment or investment strategy will achieve its objective. One cannot directly invest in an index. SOURCE: SRCM using data from Bloomberg

Important Information

The S&P 500 Index measures the performance of the large-cap segment of the U.S. equity market.

Publication: 03.06.24 2024-SRCM-09