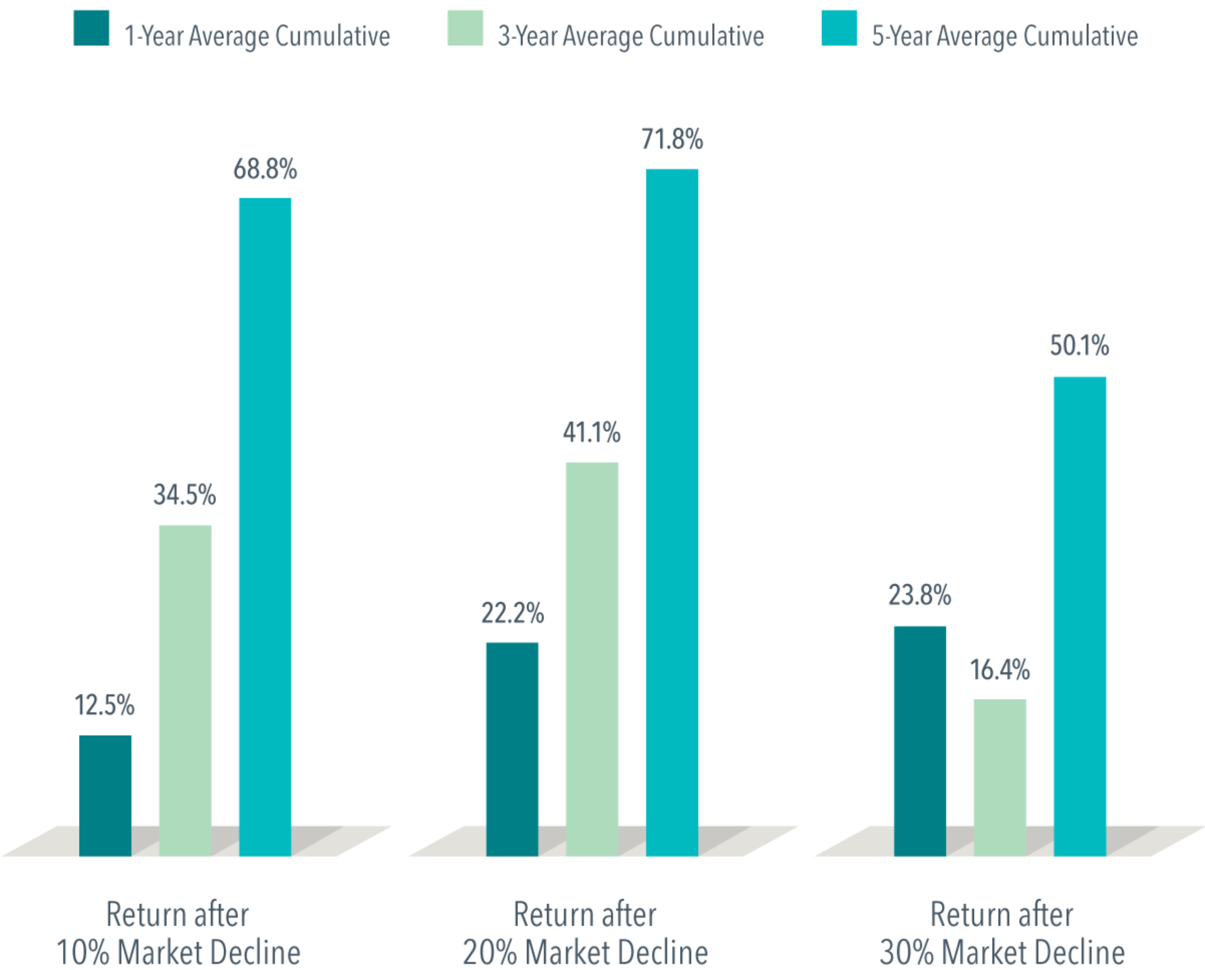
History Shows That Stock Gains Can Add Up after Big Declines…..

Sudden market downturns can be unsettling. But historically, looking at the major US market for example, US equity returns following sharp declines have, on average, been positive. Broad market index tracking data since 1926 in the US shows that stocks have tended to deliver positive returns over one, three, and five year periods following steep declines. Cumulative returns show this trend to striking effect:

Bouncing Back

Fama/French Total US Market Research Index Returns, July 1926-December 2021



Past performance is no guarantee of future results

On average, just one year after a market decline of 10%, stocks rebounded 12.5%, and a year after 20% and 30% declines, the cumulative returns topped 20%. Over three years, stocks bounded back more than 30% from declines of 10% and 20%, although – while still positive – returns were not as impressive after 30% declines. But five years after market declines of 10%, 20%, and 30%, the average cumulative returns all top 50%.

As we always say, a look at the data makes a strong case for staying with the plan. Handsome rebounds after steep declines can help put investors in a position to capture the long term benefits the markets offer. A lesson I saw first following Black Monday on 19th October 1987, when after a record fall the market recovered quickly and went on to a new high in 2 years. No recession followed until the oil crises of the 1990s!

In USD. Market declines or downturns are defined as periods in which the cumulative return from a peak is –10%, –20%, or –30% or lower. Returns are calculated for the 1-, 3-, and 5-year look-ahead periods beginning the day after the respective downturn thresholds of –10%, –20%, or –30% are exceeded. The bar chart shows the average returns for the 1-, 3-, and 5-year periods following the 10%, 20%, and 30% thresholds. For the 10% threshold, there are 29 observations for 1-year look-ahead, 28 observations for 3-year look-ahead, and 27 observations for 5-year look-ahead. For the 20% threshold, there are 15 observations for 1-year look-ahead, 14 observations for 3-year lookahead, and 13 observations for 5-year look-ahead. For the 30% threshold, there are 7 observations for 1-year look-ahead, 6 observations for 3-year look-ahead, and 6 observations for 5-year look-ahead. Peak is a new all-time high prior to a downturn.