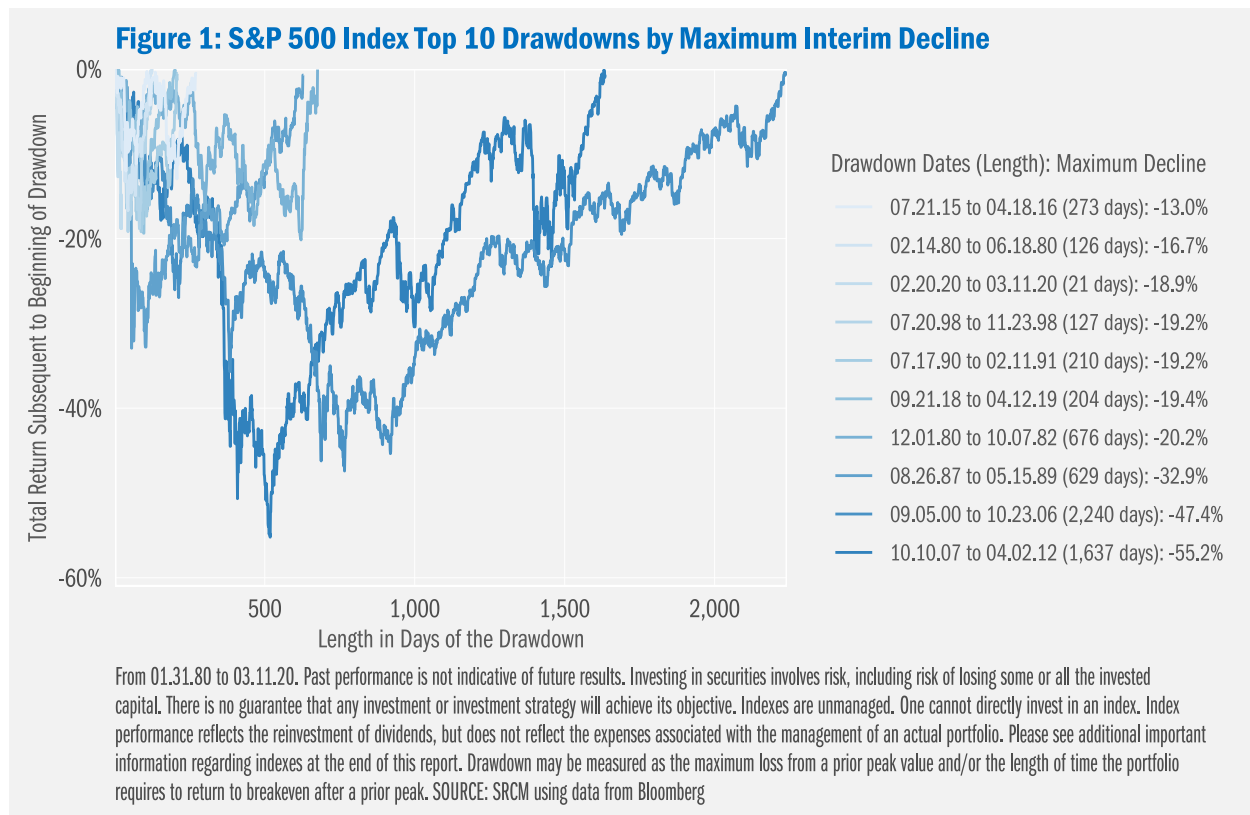


BEARING THE BEAR

As markets roil, it's increasingly evident that the eventual depth of this downturn will depend on the breadth and duration of the dual contagions now spreading across the globe: the coronavirus outbreak and the oil price war. With the actual disease threatening human life and macroeconomic growth, potential duress in the energy sector threatens to jump from oil companies into the financial sector and beyond. Headlong into the market plunge, we sought some perspective—and even some reassurance—from history. Though we find a wide range of durations for past market drawdowns, just as obvious from the data is the fact that, in its having reached another peak just a few weeks ago, the equity market eventually recovered from every prior drawdown.

Fresh Worries

During trading today, the S&P 500 dropped more than 20% from its all-time high close on February 19 of this year. That decline otherwise would have marked the market a bear had the final hour of trading not seen a few more buyers than sellers. Now that we're knee-deep in the decline, we can look to history to see how bad it might get and how long it might take to recover. In Figure 1, we show the worst 10 declines in the S&P 500 from a prior peak, along with the length of time it took the index to recover back to breakeven.



Somewhat intuitively, the deeper the dive, the longer the time to resurface. Nonetheless, looking further out from prior drawdowns, in Figure 2 we show that well more often than not one has been made whole (and often well more than whole) in the decade following a market correction.

But, there is no formula there to determine or even estimate where we'll go from here. As we write this, the U.S. announced a 30-day ban on non-U.S.-citizen travel from Europe. The NBA suspended its season and the NCAA said its March men's and women's tournaments will be played in nearly empty venues. Many more cities and towns are limiting or banning large gatherings of people. As the nation begins a more serious attempt to stall the spread of COVID-19, markets are likely to pivot off new themes that arise. And that likely means more volatility to come.

Of course, to have achieved those longer-term outcomes, one would have to have remained invested through the tumult. Please know that we welcome your calls to discuss recent portfolio performance and help you place that performance in the fuller context of your financial plans.

Figure 2: S&P 500 Index Historical Drawdowns and Subsequent Performance

Dollar amounts show value of \$10,000 invested at the various initial index peaks

Initial Peak	Susequent Low	Percent Drawdown	At Low	5 Years from Peak	5 Years from Low	10 Years from Peak	Peak to Present
01.03.1990	01.30.1990	-10.04%	\$8,996	\$14,880	\$15,205	\$51,716	\$144,091
10.08.1997	10.27.1997	-10.75%	\$8,925	\$8,696	\$9,779	\$18,509	\$42,554
03.27.2000	04.14.2000	-11.14%	\$8,886	\$8,287	\$8,228	\$9,166	\$26,472
10.11.1983	07.24.1984	-11.37%	\$8,863	\$19,537	\$24,102	\$38,078	\$380,184
07.19.1999	10.15.1999	-11.80%	\$8,820	\$8,351	\$8,444	\$7,910	\$28,742
02.14.1980	03.27.1980	-16.71%	\$8,329	\$19,810	\$19,569	\$43,144	\$670,417
07.20.1998	08.31.1998	-19.19%	\$8,081	\$8,979	\$9,132	\$12,513	\$34,838
07.17.1990	10.11.1990	-19.20%	\$8,080	\$17,710	\$18,350	\$51,722	\$137,965
12.01.1980	08.12.1982	-20.16%	\$7,984	\$18,341	\$31,868	\$34,732	\$540,737
08.26.1987	10.19.1987	-32.93%	\$6,707	\$14,577	\$14,685	\$36,475	\$167,473
09.05.2000	10.09.2002	-47.42%	\$5,258	\$8,681	\$11,599	\$8,751	\$26,452
10.10.2007	03.09.2009	-55.22%	\$4,478	\$10,228	\$13,827	\$20,237	\$22,806

From 01.31.80 to 03.11.20. 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. Indexes are unmanaged. One cannot directly invest in an index. Index performance reflects the reinvestment of dividends, but does not reflect the expenses associated with the management of an actual portfolio. Please see additional important information regarding indexes at the end of this report. SOURCE: SRCM using data from Bloomberg

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