SHEPHERD FINANCIAL PARTNERS

A Closer Look at Bear Markets

The S&P 500 Index is inching closer to bear market territory (a 20% correction based on closing prices). Going back to World War II, we found there have been 14 bear markets, with seven taking place during a recession and seven without an accompanying recession.

NOT ALL BEAR MARKETS ARE EQUAL

S&P 500 Index Bear Markets Since WWII

Month of Peak	Month of Trough	% Decline	Recession?
05/1946	05/1947	-29%	No
08/1956	10/1957	-22%	Yes
12/1961	06/1962	-28%	No
02/1966	10/1966	-22%	No
12/1968	05/1970	-36%	Yes
01/1973	10/1974	-48%	Yes
09/1976	03/1978	-19%	No
11/1980	08/1982	-27%	Yes
08/1987	12/1987	-34%	No
07/1990	10/1990	-20%	Yes
07/1998	08/1998	-19%	No
03/2000	10/2002	-49%	Yes
10/2007	03/2009	-56%	Yes
04/2011	10/2011	-19%	No
	Avg (All)	-31%	
	Avg (Recessions)	-37%	
	Avg (No Recession)	-24%	

Source: LPL Research, FactSet 12/20/18

We take some liberty with the 20% bear market definition and count 19% drawdowns based on closing prices in this analysis. These drawdowns were 20% based on intraday prices.

The modern design of the S&P 500 stock index was first launched in 1957. Performance back to 1950 incorporates the performance of predecessor index, the S&P 90.

All indexes are unmanaged and cannot be invested into directly. All performance referenced is historical and is no guarantee of future results.

As the LPL Chart of the Day shows, the seven bear markets that accompanied a recession were quite painful, losing 37% on average. On the flipside, non-recessionary bears weren't as painful. Looking at the previous four, three of them ended at 19% corrections (reaching the 20% threshold intraday). While stocks fell 34% drop in 1987 without an accompanying recession, conditions were quite different than they are now. Remember, the S&P 500 was up more than 40% year to date in August 1987, so a potential violent snapback was likely. "The bottom line is that you can have bear markets without a recession," explained LPL Senior Market Strategist Ryan Detrick. "But, as we've seen over the past 40 years, if the economy is on firm footing, bears tend to stop around a 20% loss and the occurrences of a massive drop are quite limited."

Two Other Important Considerations

The S&P 500 was down 4.8% in 2018, yet earnings and gross domestic product (GDP) growth have been quite impressive, while stock valuations (price/earnings ratio, or PE) have compressed. We previously saw stocks pause amid a strong economic backdrop with a drop in PEs in 1984 (real GDP 7.3% and earnings 21%) and 1994 (real GDP 4.0% and earnings +19%). Both 1985 (26% earnings) and 1995 (35% earnings) rebounded with strong S&P 500 returns. Could 2019 continue this trend?

Additionally, the midterm election year historically is the most volatile out of the four-year presidential cycle. In fact, since 1950, the S&P 500 in a midterm year has pulled back an average of 16.9%—the most out of the four-year cycle. The good news? From the closing low in a midterm year, a year later stocks have been higher 17 of the last 17 times. Given the S&P 500 just made a new closing low on Christmas eve, could this actually be a potentially good signal?

Shepherd Financial Partners
1004 Main Street
Winchester, MA 01890
T 781.756.1804 Fax 781.729.4356
www.shepherdfinancialpartners.com

Source: https://lplresearch.com/2018/12/20/fed-delivers-dovish-hike-markets-wanted-more/