On The Mark



October 2023

Negative News ≠ Negative Markets

Key Takeaways

- Negative news creates fear for investors which can lead to emotional investment decisions due to worries about ensuing negative markets.
- Negative news can provide great investment opportunities, but it takes a strong stomach and the ability to shut out the noise to do whats right for the portfolio.

Scary headlines, recessions, and bear markets all have negative connotations and create fear in the minds of investors. Fear drives emotions, which can lead to investment mistakes. Moving out of the market at the wrong time can cause long-term damage to portfolio values.

Scary headlines

News headlines tend to be sensationalized, trying to create a reaction. But bad news can provide some great investment opportunities. Below are six different major events over multiple decades and the subsequent 10-year annualized return of the US equity market.

| Event | Date | Return |
|-----------------------|------------|--------|
| Pearl Harbor bombed | 12/7/1941 | 16.2% |
| Sputnik Launched | 10/4/1957 | 12.1% |
| Kennedy Assassanation | 11/12/1963 | 7.0% |
| Nixon Resigned | 8/9/1974 | 12.9% |
| Black Monday | 10/19/1987 | 18.9% |

Lehman Bankruptcy 9/15/2008 11.7%

Source: Capital Group, "Guide to Market Recoveries, 2023 edition", US equity market represented by S&P 500

Recessions

Recessions create fear that worse times are to come. The economy is suffering, and people need to buckle down and prepare for harder times. But economic data is backward-looking, while markets are forward-looking.

As shown below, in five of the last six recessions, US equity markets trended upwards and saw some substantial returns. The reason for this is that the market is looking forward to an improving economy and tends to rebound six months prior to the economy bottoming.

| Recession period | Return |
|------------------------|--------|
| 6/1/1980 - 7/8/1981 | 16.1% |
| 1/6/1982 – 7/8/1983 | 40.2% |
| 4/25/1991 – 12/22/1992 | 16.1% |
| 11/26/2001 - 7/17/2003 | -15.2% |
| 12/1/2008 - 9/20/2010 | 40.0% |
| 6/8/2020 - 7/19/2021 | 31.7% |

Source: Factset. US equity market represented by S&P 500

Bear markets

Bear markets can be painful for an investor's portfolio and create a stomach-churning ride. Emotions run wild, and staying invested, let alone investing in the market, is gutwrenching. But the other side of a bear market is where some of the best returns are found in the market.

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US Equity Market Returns Following Five Deepest Bear Markets (1929-2022)

| Year after Bear Market | Return |
|------------------------|--------|
| Year 1 | 70.9% |
| Year 2 | 12.7% |
| Year 3 | 9.8% |
| Year 4 | 26.3% |
| Year 5 | 10.2% |

Source: Capital Group, "Guide to Market Recoveries, 2023 edition". US equity market represented by S&P 500

Looking at the five deepest bear markets, the average fiveyear annualized return was 23.1%. But what's interesting, as shown above, is that most of that return is driven by returns seen in the first year following the bear market.

Shutting out the noise

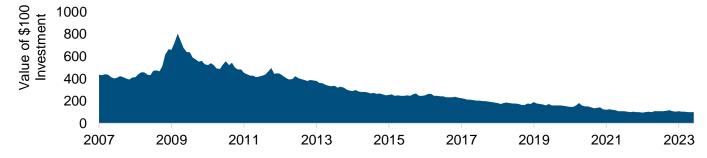
In today's world, news and opinions hit us from all angles. There's no wonder emotions run wild, and worries rise about investment portfolios. But the negative news does not always mean negative markets. In fact, it can actually provide some great investment opportunities.

While it's hard to stay invested during these times, putting cash to work in the market is even harder. But if investors can shut out the noise, focus on the long term, and take that gut-wrenching leap, portfolios can benefit from some of the best returns seen in the equity market.

To prove this point, below is a graphical representation of \$100 invested on a monthly basis into the US equity market starting in 2007. Each data point represents the value of each \$100 as of June 2023. What is clear to see is that the \$100 invested during the depths of the Global Financial Crisis had the greatest value in the portfolio.

Long-term returns are only achieved by staying disciplined, shutting out the noise, and doing what's right for your long-term goals. And that's spending time in the market rather than trying to time the markets.

Final Value of each \$100 monthly investment in US equities starting in 2007



Source: Zephyr Style Advisor. US equities represented by S&P 500

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