First Citizens Wealth™ | Making Sense

US Stock Market Performance Following Drawdowns | September 2024

A month ago, the S&P 500 sold off 8% after a disappointing July employment report collided with the ongoing unwind of the Japanese Yen carry trade and summer-market illiquidity. Since that sell-off, the index has recouped nearly all of its losses in one of the fastest rebounds of the last few years. With this recent spate of volatility in the rearview mirror, what did we learn? And what should remain in focus going forward if equity markets remain volatile?

Equity indices have regularly notched all-time highs over the course of this year (in fact, 38 out of 167 S&P 500 trading days have closed at records). In periods like this, it is possible to overlook the basic fact that when an index is not at an all-time high, it is necessarily in a drawdown. **Since 1950, the S&P 500 has actually been in a drawdown of 8% or greater for just over 40% of the time, and down at least 5% for over 50% of the time.** What happens next? History shows us that the index has typically rebounded, especially after a few months (see Exhibit 1 below).

In each instance since 1950 when the S&P 500 was down at least 5%, 10%, and 20% from its peak, median returns post-selloff exceeded +5% after six months and +12% after twelve months. Of course, in some cases recoveries took longer, but in most instances the index had rebounded to some extent (see Exhibit 2 below).

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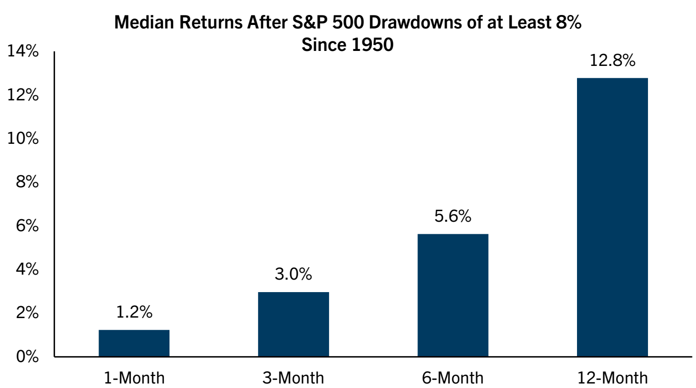
What is next from here? We remain constructive on US equities despite somewhat elevated valuations. Margin expansion is ongoing, and barring a material further weaking in the labor market, economic fundamentals suggest solid future earnings growth. Our 12-month ahead price target for the S&P 500 is 5,900 (about +5% from today's writing). That said, we think the recent market volatility may be more of a feature than a bug going forward. **Future drawdowns could be on the horizon, but history shows us that rebounds are typical, potentially within a few months and sometimes over a more extended period. But time in the market pays off in the long term regardless of near-term fluctuations.**

Exhibit 1: The S&P 500 Has Typically Rebounded Following 8% Drawdowns



Source: Bloomberg, First Citizens Wealth

Exhibit 2: Since 1950, Median Returns Exceeded 12% One Year After Significant Drawdowns

S&P 500 Returns Since 1950			
After a drawdown of…	Timeframe	Median Return	Positive Occurrences
-5%	6-Month	+5.3%	67%
	12-Month	+12.1%	76%
-10%	6-Month	+5.6%	68%
	12-Month	+12.8%	79%
-20%	6-Month	+7.0%	76%
	12-Month	+12.7%	87%

Source: Bloomberg, First Citizens Wealth

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