



Bear Markets: More Pain, Then Gain

June 2022

The history of Bear Markets makes for gloomy reading¹. However, this brief note focuses on what we might expect once the -20% threshold has been crossed. How has the market (S&P 500) performed after entering a Bear Market?

Key Takeaways

- After entering a bear market, defined as the first day that the S&P 500 closes more than 20% below the recent high, from that date **the 1-year forward total return averages 14%** and in only four bear markets was the subsequent 1-year return negative (see Table 1 below).
- **Put another way, after entering a bear market, the S&P 500 had a positive return in the following 1-year period more than 70% of the time (10 out of 14).** This is a small sample, and the 20% definition is arbitrary. Yet, this statistic points to the resiliency of markets, and the US economy, over a ~100-year period.
- Cumulative returns in the subsequent two and three years are also positive with notable exceptions being the Great Depression and 2000's Dot-Com Bubble. There is wide dispersion to consider. In some instance it takes years for bear market losses to be recouped. However, the median path of the S&P is clearly upward, particularly about a hundred days after entering a bear market (see Chart 1 below).
- Bear markets average 1.6 years (peak to trough) and see declines of ~39% across 14 bear markets since 1929 (not including the current bear market which may not have bottomed yet). Expectedly, most bear markets are associated with economic recessions. However, the few that were not tended to be shorter in duration and with peak to trough declines moderately less severe than the full-sample average.
- The bear market most salient for today is the so-called "**Volcker Bear**" that began in late-1980 and lasted until 1982. Fed Chair Paul Volcker attacked double digit inflation with a series of rate hikes and induced recessions. In this instance, after trading into a bear market in February 1982, the market rebounded strongly beginning in the second half of the year as policy rates began to be cut to more normal levels (i.e., below 10%). US inflation peaked in early-1980 but remained above 10% until late-1981. **The takeaway: inflation must be tamed, and the monetary policy stance pivoted, before the next enduring market rally can begin to take shape.**

Table 1. S&P 500 Bear Markets Since 1929

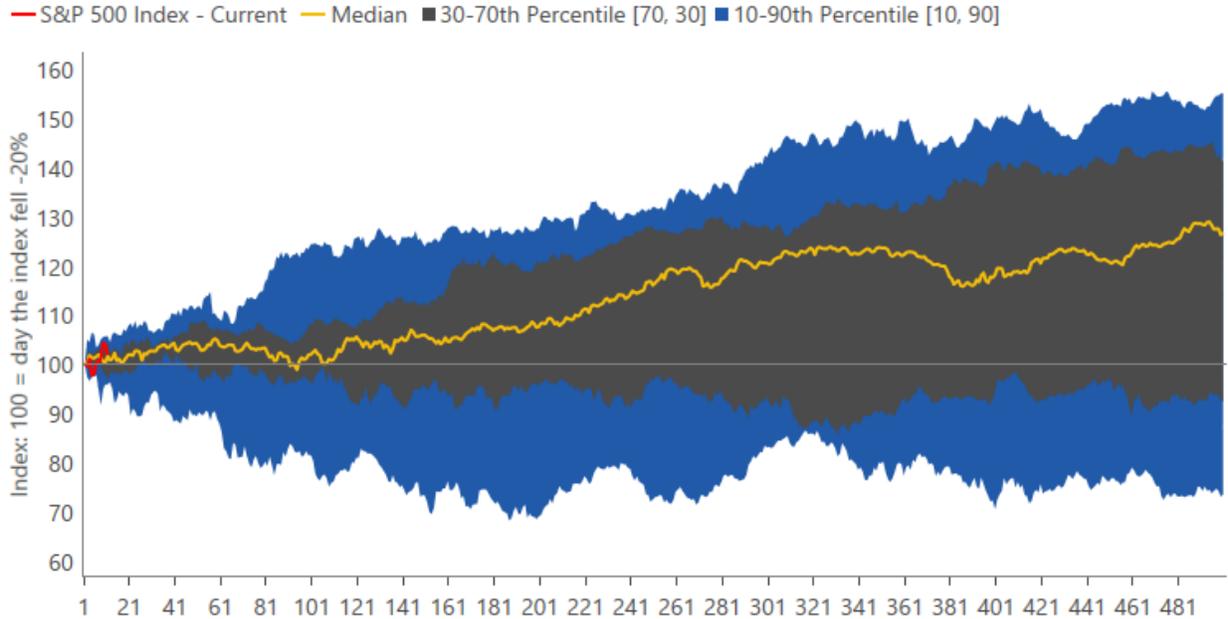
Bear Market Associated Event	Associated Recession?	Entered Bear Market	Bear Market Duration (Years)	Percent Decline (Peak to Trough)	S&P 500 Total Return From Date Entering Bear Market (%)		
					Return 1 Year Forward	Return 2 Year Forward (Cumulative)	Return 3 Year Forward (Cumulative)
Great Depression	*	Oct-29	2.7	-86.2	-21.5	-55.7	-68.8
Great Depression Pt 2	*	Sep-37	5.1	-60.0	-9.8	-5.0	-12.8
WWII	*	Sep-46	3.0	-29.6	4.3	16.8	21.6
Post-War Profit Slump	*	Oct-57	1.2	-21.6	36.2	55.1	51.3
Flash Crash of '62 (Kennedy Slide)		May-62	0.5	-28.0	30.7	54.9	75.6
Vietnam War		Aug-66	0.7	-22.2	29.0	41.5	41.1
Policy Tightening (late-Vietnam)	*	Jan-70	1.5	-36.1	17.1	30.8	50.5
Oil Embargo/Watergate	*	Nov-73	1.7	-48.2	-23.9	3.8	21.5
Volcker's Bear	*	Feb-82	1.7	-27.1	38.0	52.9	86.3
Black Monday		Oct-87	0.3	-33.5	27.9	66.0	54.7
Gulf War	*	Oct-90	0.2	-19.9	33.5	45.3	70.8
Dot-Com Bubble	*	Mar-01	2.5	-49.1	0.1	-29.7	-0.3
Global Financial Crisis (GFC)	*	Jul-08	1.4	-56.8	-27.7	-11.2	15.6
Covid Pandemic	*	Mar-20	0.1	-33.9	61.8	74.8	???
Current Bear Market	???	Jun-22	???	???	???	???	???
Average >>>			1.6	-39.4	14.0	24.3	31.3

Source: BNY Mellon Investment Management, Bloomberg; Data as of June 16, 2022

¹ The Securities and Exchange Commission (SEC) defines a bear market as: "A time when stock prices are declining and market sentiment is pessimistic. Generally, a bear market occurs when a broad market index falls by 20% or more over at least a two-month period". Source: <https://www.investor.gov/introduction-investing/investing-basics/glossary/bear-market>

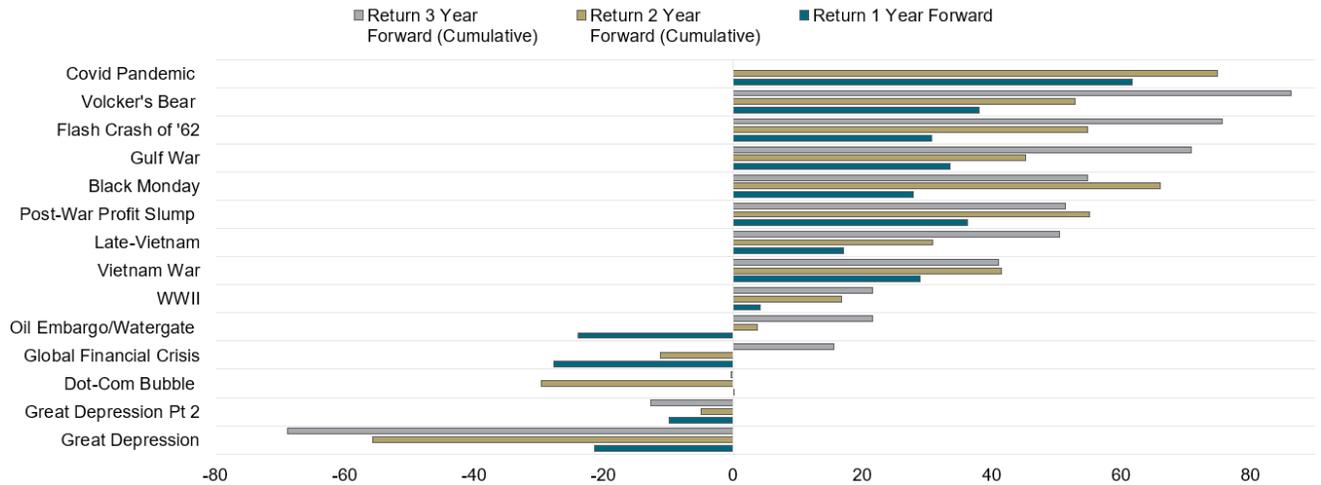


Chart 1. S&P 500 Performance After Declining More Than 20% From Recent High



Source: Macrobond, BNY Mellon Investment Management, S&P Dow Jones Indices
Data as of 6/29/2022

Chart 2. S&P 500 Total Return, From Date Entering Bear Market (%)



Source: BNY Mellon Investment Management, Bloomberg; Data as of 6/24/2022

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