BAIRD
Private Wealth Management

In the Markets Now

What does a correction look like?

We believe in the old saying: a picture is worth a thousand words. Here, we aim to recap recent market action and provide some perspective to investors.

PWM Equity & Fixed Income Research
Ross Mayfield, CFA
Investment Strategy Analyst

December 2021

WHERE VARIOUS LEVELS OF SELLOFF COULD LEAVE THE MARKET

As we head into the new year, plenty of market uncertainty remains. The coronavirus has proven stubbornly persistent, the Federal Reserve is getting aggressive about tighter policy, and inflation has, well, also proven stubbornly persistent. Further, there is a sense that after three straight years of ~20%+ returns for the S&P, there is simply nowhere to go but down. We disagree for a number of reasons, but just as a thought exercise, let's examine how things might look if the market did correct.

The S&P 500 closed on Wednesday December 8 at 4,701. In our table, we show where the market would be after various levels of selloff, and when the S&P was at each point last. For comparison, we also listed what the S&P 500 price/earnings (P/E) ratio was on those dates to get a sense of how expensive or cheap the market looked.

The results of this exercise proved very interesting. For example, **a market selloff of 15%—the average non-recession correction over the last 50 years—would only set the market back about nine months.** With employment strong, consumer balance sheets healthy, and policy still accommodative, our friends at Strategas think the odds of a 2022 recession are quite low, so this could be a good base case. But should a cataclysmic event occur and the market truly take it on the chin, a 30% pullback would only set us back a little over a year. Further, a crash of that nature has historically been a once-a-decade occurrence, so it's unlikely if tradition holds.

If the market fell:	Then the S&P 500 would be:	The last time the S&P 500 sat below that level was:	And the P/E ratio* on that date was:
-5%	4,466	10/14/2021	24.7
-10%	4,231	6/21/2021	26.9
-15%	3,996	3/31/2021	28.5
-20%	3,761	1/29/2021	27.8
-25%	3,526	11/6/2020	26.6
-30%	3,291	10/30/2020	24.7
Current	**4,701**	**12/8/2021**	**24.3**

*TTM P/E, per FactSet

More importantly, however, is that by P/E ratio, the market is cheaper today (within a hair of all-time highs) than it was at much lower prices over the past year. Why? **Because the recovery in corporate earnings—the lifeblood of stock prices—has been just as robust as the recovery in stock prices.** Around 13 months ago, the S&P 500 was 25% lower, the outlook for the economy was less certain, and the market was *still* more expensive. Things look much different today. And with earnings set to grow by ~10% in 2022, there is room yet to run.

Of course, volatility and corrections are a major part of investing, so they should be expected. But sans a major earnings recession (again, an unlikelihood by our estimation), any selloffs would only serve to make the market look cheaper and more attractive to long-term investors. And in the end, even larger corrections would only set us back around a year. Remember, timing a market top is nearly impossible, but preparing for the inevitable volatility is a must. Talk to your Baird Advisor today.

Disclosures

This is not a complete analysis of every material fact regarding any company, industry or security. The opinions expressed here reflect our judgment at this date and are subject to change. The information has been obtained from sources we consider to be reliable, but we cannot guarantee the accuracy.

This report does not provide recipients with information or advice that is sufficient on which to base an investment decision. This report does not take into account the specific investment objectives, financial situation, or need of any particular client and may not be suitable for all types of investors. Recipients should not consider the contents of this report as a single factor in making an investment decision. Additional fundamental and other analyses would be required to make an investment decision about any individual security identified in this report.

For investment advice specific to your situation, or for additional information, please contact your Baird Financial Advisor and/or your tax or legal advisor.

Fixed income yield and equity multiples do not correlate and while they can be used as a general comparison, the investments carry material differences in how they are structured and how they are valued. Both carry unique risks that the other may not.

Past performance is not indicative of future results and diversification does not ensure a profit or protect against loss. All investments carry some level of risk, including loss of principal. An investment cannot be made directly in an index.

Other Disclosures

UK disclosure requirements for the purpose of distributing this research into the UK and other countries for which Robert W. Baird Limited holds an ISD passport.

This report is for distribution into the United Kingdom only to persons who fall within Article 19 or Article 49(2) of the Financial Services and Markets Act 2000 (financial promotion) order 2001 being persons who are investment professionals and may not be distributed to private clients. Issued in the United Kingdom by Robert W. Baird Limited, which has an office at Finsbury Circus House, 15 Finsbury Circus, London EC2M 7EB, and is a company authorized and regulated by the Financial Conduct Authority. For the purposes of the Financial Conduct Authority requirements, this investment research report is classified as objective.

Robert W. Baird Limited ("RWBL") is exempt from the requirement to hold an Australian financial services license. RWBL is regulated by the Financial Conduct Authority ("FCA") under UK laws and those laws may differ from Australian laws. This document has been prepared in accordance with FCA requirements and not Australian laws.