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BEAR MARKETS AND RECESSIONS

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Bear markets are part of normal market trends and are a sign of stocks going down in value for an extended period. Since 1928, the S&P 500 has experienced 26 bear markets. Strictly speaking, a bear market is simply Wall Street jargon for a stock market decline of at least 20 percent. However, not every bear market leads to a recession.

Really, the fact that we are in a bear market means that a lot of people have already lost significant money. Panicking only makes matters worse. For those who are taking large losses for the first time, a bear market can be the shattering of dreams, a time for suffering and grief. Financial markets are cyclical in nature. For every bear market, a bull market follows. For the same 26 bear markets seen since 1928, there have been 27 bull markets.

With the Federal Reserve raising the benchmark federal funds rate 0.75 percentage points on Wednesday, and forecasting further increases to combat higher inflation, we certainly could be headed toward another recession. However, we are wise to recognize that bear markets and their far more troubling cousins, recessions, are *not* rare or truly unexpected events, even if the relative calm of the last decade may deceive us into thinking so. This chart from Invesco traces the history of bull and bear markets and the performance of the S&P 500 during those periods.

The Bottom Line

The most recent bear market was the result of a global health crisis, COVID-19, compounded by fear, which initially triggered a wave of layoffs, corporate shutdowns, and financial disruptions. These financial disruptions led to nearly $5 Trillion poured into an economy where few available goods and services were available. The invasion of Ukraine caused a spike in oil prices and inflation. These factors led the Federal Reserve to tamp down spending demand with higher interest rates. Still, as always, markets will recover, over time.

The average length of a bear market is around 9.5 months and occur, on average, around 3.5 years apart from each other. Long-term investors (5 or more years), like all of us, may be frustrated with bear markets; but we'll generally see our portfolios grow again over time as the market shifts back to a bull market.

If you want to discuss this further, please call, email, or stop by. Thank you – Derrell Crimm, CFP®

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