

A Review of Stock Market Declines (1928 - Sept. 2022)

A Look: At Averages, Rallies, and Recessions



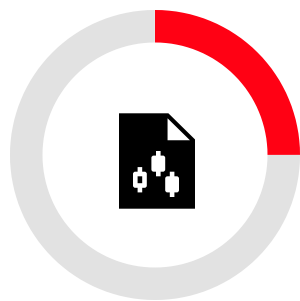
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35 Declines of 10%+ Since 1928

The Average Decline of 10% or more:



25.42%
Avg. decline

Lasts almost 11 months

Financial Markets and the global economy have remained volatile since the beginning of COVID, in early 2020.

Elevated levels of stimulus across the globe, coupled with frothy valuations ultimately led to inflation in 2022. Year to date, most financial assets have been in decline as the dollar has been on a historic rise.

Based on our Three Dials and the challenging environment, we began taking a defensive stance early in 2022. Playing defense has been the right choice. However, for the first time since 1976, bonds are down double digits along with stocks.

Stock declines happened a cumulative 31 out of 94 years



67% of the time
stocks rallied

33% of the time stocks declined

To better interpret our current environment, we did a study of past stock market declines dating back to 1928.

In total, the data we looked at covers 94 years. So, we're looking at roughly the modern history of the stock market. This includes various cycles and environments rather than small sample sets which may or may not include similarities to today's environment.

While no two markets are the same, past behaviors can provide clues. Past data is not indicative of the future, but we can use it to get a better grasp on the averages to expect. We can use this to make better decisions in our process.

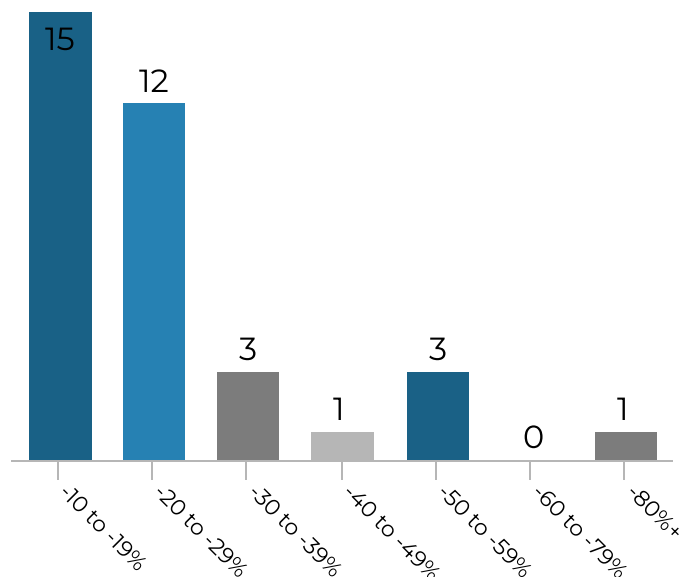


Analysis of Stock Declines

The S&P 500 is down **24.77%** through **9/30/22**. Over the last 94 years, since 1928 we've seen 35 pullbacks greater than -10%. The average selloff is 25.42%.

When markets have pulled back -20 to -30%, the average return in the **following 12 months has been 33.5%**.

Number of declines greater than -10%



25.42%

Most Common Top: July
Avg lasts about 11 months

36.16%

Most Common Bottom: October
Avg rally 12 months later

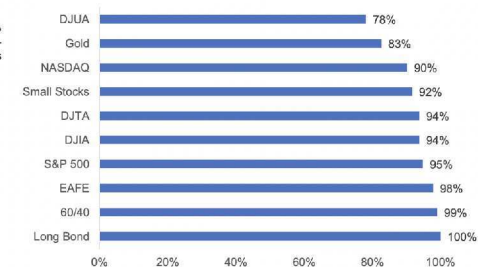
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It Is Not Your Fault

The third quarter is almost over, and for most the end could not come soon enough. To put the first three quarters into perspective we have ranked the yearly performance of major assets and indices compared to prior years. There was no place to hide, not even in gold.

The 30-year long bond, for example, is down 33.92% for the year, and since 1928 is the worst performance ever. The S&P 500 is down 23.5% which is worse than 95% of all other years.

Percentile of Worst Year¹



Jeffrey Yale Rubin
jrubin@birinyi.net
203-341-0833

Birinyi Associates, Inc.

¹ All indices begin in 1928 except the following: EAFE - 1977, Nasdaq - 1971, Gold - 1976.

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Comparing Recessions and Stock Returns

It looks like we are headed for a recession. Stocks usually drop before the recession is announced as the market anticipates this and they usually bottom before the recession is over. Since 1968, according to St. Louis Fed data, there have been eight recessions. During these periods stocks dropped on average 36.56%.

Again, we are now down 24.77% on the S&P 500 through the end of September 2022 and the market is nine months removed from January highs.



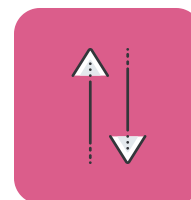
Recessions last about 377 days or 1 yr

377 Days



Stocks top on avg 220 days or 7/mo before recessions start

220 Days



Stocks bottom on avg 72 days or 2/mo before recessions end

72 Days



The avg decline around a recession lasts 524 days or 16/mo

524 Days

When the S&P 500 is Down 25% or Worse Since 1950

| Peak | Trough | % Decline | +1 Year | +3 Years | +5 Years | +10 Years |
|-----------------|-----------|---------------|--------------|--------------|--------------|---------------|
| 12/12/1961 | 6/26/1962 | -28.0% | 31.2% | 69.2% | 94.8% | 171.1% |
| 11/29/1968 | 5/26/1970 | -36.1% | 32.2% | 44.3% | 27.9% | 97.5% |
| 1/11/1973 | 10/3/1974 | -48.2% | 1.4% | 23.8% | 42.0% | 188.4% |
| 11/28/1980 | 8/12/1982 | -27.1% | 43.9% | 81.2% | 238.6% | 403.9% |
| 8/25/1987 | 12/4/1987 | -33.5% | 14.7% | 34.1% | 96.8% | 387.1% |
| 3/24/2000 | 10/9/2002 | -49.1% | 0.2% | 1.9% | 21.5% | 38.3% |
| 10/9/2007 | 3/9/2009 | -56.8% | -6.9% | 3.7% | 61.2% | 209.6% |
| 2/19/2020 | 3/23/2020 | -33.9% | 56.4% | ??? | ??? | ??? |
| 1/3/2022 | 9/30/2022 | -25.2% | ??? | ??? | ??? | ??? |
| Averages | | -37.6% | 21.6% | 36.9% | 83.3% | 213.7% |

Data: Ycharts

source: https://www.hamiltonlane.com/Insight/Weekly-Research-Briefing/Dont-You-See-It/?utm_source=wr&utm_medium=e&utm_campaign=100422#two

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