Richard Bernstein Advisors

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RBA Quick Insights

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Anatomy of a bear market

The bull market — which lasted almost eleven years and resulted in S&P 500® returns of over 500% — is officially over, having shifted from bull to bear market in a mere 16 trading days. Such a violent sell-off has prompted many to ask whether or not they should be jumping back into the market. First off, nobody knows where the market will bottom. There may be a component of market technicals that determines the ultimate level, but more importantly, the timing of that bottom will be determined by the fundamentals. The table below and chart on the next page should provide some historical context for thinking about bear markets. Here are some key takeaways:

- A typical bear market lasts more than a year (particularly those coinciding with economic recessions), wiping out over three years of market returns, which in this case would put the S&P 500® back at December 2016 levels around 2,200-2,300.
- Markets do not move in straight lines. Every bear market that has occurred since the 1970s — with the exception of the 1990 bear market, which technically did not actually cross the 20% bear market threshold — has been accompanied by significant rallies on the way down.
- Each bear market is unique, but there does seem to be a decent relationship with the starting valuation and the magnitude of the subsequent drawdown. The abnormally high starting valuations this time would suggest nearly 40% downside from the peak (S&P 500® <2,100) vs. the typical 30%.

This bear market is not just about the coronavirus, which in isolation, should be worth no more than 5-8% of the long-term fair value of the S&P 500®, by our estimates. The pandemic represents a shock to a patient with preexisting conditions (weak growth, tightening liquidity, high valuations and bullish investor sentiment), and which has brought about a second shock of collapsing oil prices. The market is hardly cheap, even after the dramatic sell-off, particularly when you consider that the E (EPS) that represents the denominator of the P/E ratio is likely to fall significantly in the coming months. At RBA, valuation is a secondary consideration to underlying profit trends. We have yet to see the first-order impact to corporate profits and economic data, let alone the second-order effects if this leads to a recession (layoffs, confidence and credit stress). Thus, we find it premature to turn bullish despite the short-term market technicals indicating that it had been oversold.

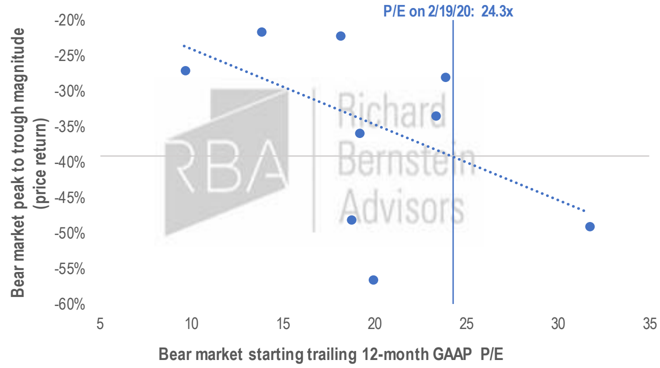
Characteristics of the last ten S&P 500® bear markets since 1950

Peak date	Trough date	Duration (years)	Within 6m of recession	Magnitude (%)	Years of gains lost*	# of 5%+ rallies	# of 10%+ rallies
Aug 02, '56	Oct 22, '57	1.2	Yes	-22%	1.2	3	1
Dec 12, '61	Jun 26, '62	0.5	No	-28%	3.1	1	0
Feb 09, '66	Oct 07, '66	0.7	No	-22%	2.4	2	0
Nov 29, '68	May 26, '70	1.5	Yes	-36%	7.1	3	0
Jan 11, '73	Oct 03, '74	1.7	Yes	-48%	11.9	11	2
Nov 28, '80	Aug 12, '82	1.7	Yes	-27%	12.2	5	2
Aug 25, '87	Dec 04, '87	0.3	No	-34%	1.5	3	2
Jul 16, '90	Oct 11, '90	0.2	Yes	-20%	3.3	1	0
Mar 24, '00	Oct 09, '02	2.5	Yes	-49%	3.2	13	4
Oct 09, '07	Mar 09, '09	1.4	Yes	-57%	11.4	15	4
	Median	**1.3**		**-31%**	**3.2**	**3**	**2**

Source: Richard Bernstein Advisors LLC, Bloomberg, S&P

* Years since the bear market trough level was originally reached

Bear market starting trailing 12-month S&P 500® GAAP P/E ratio vs. subsequent market drawdowns



Source: Richard Bernstein Advisors LLC, Bloomberg, S&P

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