Commentary

S&P 500 Correction: The medicine nobody wants to take

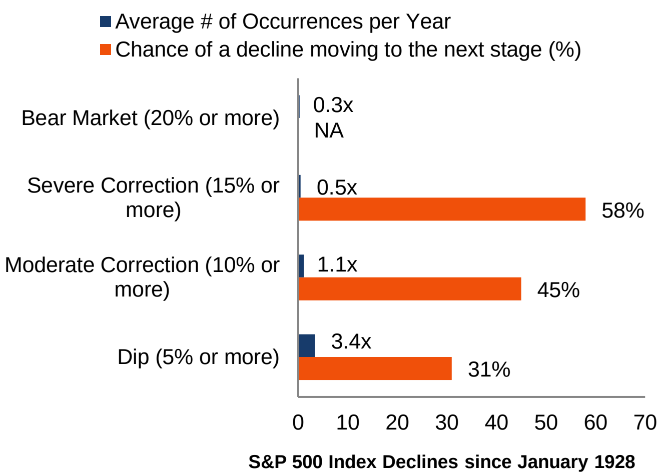
- The S&P 500 dipped into correction territory (a 10% decline) amid concerns about interest rate hikes, inflation and war.
- On average, a correction in the U.S. stock market occurs every year or so and takes less than a year to recover.
- Despite the concern that corrections tend to cause, they are necessary for the health of the overall market.

This week, the S&P 500 Index fell into correction territory—that is, it declined by 10% or more from its most-recent high. The drop was triggered by a variety of factors, including the impending balance sheet reduction and eventual interest-rate hikes from the Federal Reserve, persistent inflation and the escalation of conflict between Russia and Ukraine.

The decline comes just short of the two-year anniversary of the previous correction, which took place on February 27, 2020. That downturn was driven by a sharp rise in fears about COVID-19.

While nobody likes to see markets fall, Exhibit 1 provides some perspective: on average, U.S. stock-market corrections occur about once every year.

Exhibit 1: Corrections are common



Source: Ned Davis Research, SEI. Data spans 1/1/1926-2/22/2022. Data are computed from the S&P 500 Index since 1957 and S&P 90 Index from 1926 to 1957. Index returns are for illustrative purposes only and do not represent actual investment performance. Index returns do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. Past performance does not guarantee future results.

While it is understandable that investors may be alarmed when the market falls, it is important to recognize three important facts about stock-market corrections: they are quite common; they aren't typically tied to an economic crisis; and they are actually necessary for the health of the overall market.

A more detailed look back provides additional perspective. As seen in Exhibit 2, the average recovery period for declines of less than 30% is less than six months. That's just a temporary setback for a long-term investment strategy, and about half of all corrections since 1966 have resolved themselves in less than five months.

Exhibit 2: Declines in the S&P 500 Index

Peak to Trough Decline	Months to Recovery
10%-20%	4.4
20%-30%	5.5
>30%	37.2
all	11.6

Source: National Bureau of Economic Research, Bloomberg. Data spans 1/1/1966-2/22/2022.

Corrections don't last forever

While stock markets have had a good run since early 2020 amid mostly calm conditions, we're not surprised by recent volatility. Although no one likes to see the value of their investments decrease, we know that markets don't climb straight up forever.

We don't equate higher volatility with a high likelihood that we're heading toward a bear market or a recession in the near future. Ups and downs are a normal part of the investment cycle. If the current decline is making you nervous, talk to an investment professional about your long-term financial goals and whether your current portfolio supports those goals.

Important Information

This material represents an assessment of the market environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. This information should not be relied upon by the reader as research or investment advice and is intended for educational purposes only.

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