RBC Global Asset Management

INVESTOR INSIGHTS

Examining bear markets

June 2022

As long-term investors know, over the life of their investments there are inevitably times when uncertainty prevails and markets aren't able to shake off the headlines. With the benefit of hindsight, these memorable days often look like attractive times to invest. However, in the moment they often feel like anything but.

With the market recently dipping into bear market territory (deemed as a 20% decline from the market highs), many wonder: What does this mean for their investments? When are markets going to turn around? While predicting the near-term direction of markets is incredibly difficult, history provides some good context for the long-term direction.

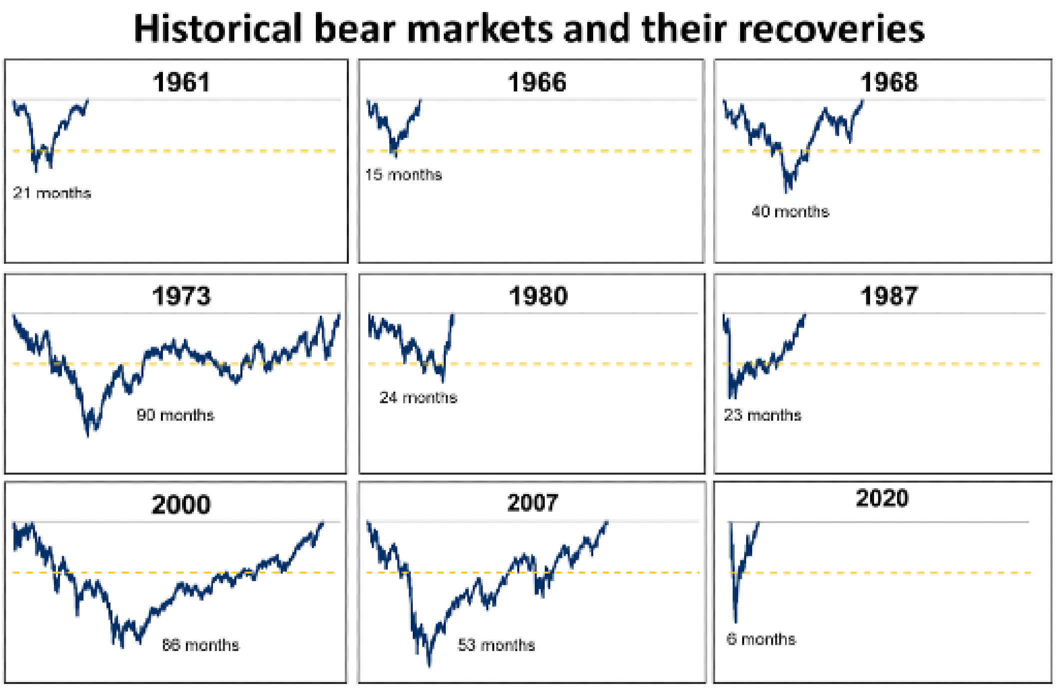
How often do bear markets occur?

- Over the past 60 years, U.S. equities have experienced 10 distinct bear market events. On average, they tend to occur every 7 years.
- The last bear market occurred in 2020. It was the quickest one on record, dropping 20% in one month and recovering within 6 months.
- The decline associated with these bear market events, along with their subsequent market recoveries (back to the preceding all-time high), account for half of all trading days.

This suggests bear markets and their recoveries are a regular part of long-term investing. Despite how painful and unusual it feels at the time, the occurrence of a bear market is not, in of itself, an abnormal experience.

What do bear market recoveries normally look like?

As the chart below shows, there's no real 'normal' when it comes to bear markets. They come in all sorts of shapes and sizes.



Source: RBC GAM, Bloomberg. Analyzing S&P 500 Index bear markets from 1960 to 2022. Bear markets labelled based on year of index peak before decline. Charts scaled to depth of the deepest bear market (which occurred during the Global Financial Crisis as markets fell over 56% from October 9, 2007 to March 9, 2009) and based on the longest bear market and recovery which spanned 1,899 trading days from January 11, 1973 to July 17, 1980. Yellow line represents 20% decline threshold. Timeframe noted represents full period from the initial peak to when the market fully recovers and reaches a new all-time high.

Key takeaways:

- **On the way down.** Some bear markets find their bottom quickly. For example, Black Monday in 1987 bottomed out after just 39 days. Others may take a bit longer. Following the Tech Wreck in 2000, it took markets nearly 2.5 years to find a bottom as other events such as 9/11 and a wave of accounting scandals weighed on investors. On average, the bottom occurs about 14 months after the peak. Today's bear market drawdown has so far occurred over a period of about 5 months.
- **On the way back up.** Some recoveries occurred very quickly. In the early 1980s, we saw markets bottom and set all-time highs within 59 days. Other recoveries took longer. For instance, it took markets over 5 years to recover from the 1973-74 market crash, though that largely was a result of rolling recessions over the same period. What seems to matter the most when it comes to recovery periods is whether a recession occurred at the same time and the direction of monetary policy.

All this goes to show that, while the market movements we've seen in 2022 may be feeling quite uncomfortable, markets will likely quickly follow once investors begin to see the path toward recovery. Not every bear market needs to be as deep as that experienced during the Global Financial Crisis, nor have a recovery as long as that experienced in the 1970s. In fact, as the chart below shows, returns in the years following bear markets are quite strong on average. The market is nearly 14% higher after one year and 27% higher after three years.

Historical bear markets and subsequent performance

Year	Peak Date	-20% Date	1Y	3Y	5Y	10Y
1961	Dec 12,1961	May 28, 1962	26.1%	59.3%	63.9%	99.4%
1966	Feb 09, 1966	Oct 03, 1966	29.0%	24.4%	32.1%	39.1%
1968	Nov 29,1968	Jan 29, 1970	11.9%	35.4%	-9.8%	33.1%
1973	Jan 11, 1973	Nov 27, 1973	-26.9%	7.8%	0.3%	74.7%
1980	Nov 28, 1980	Feb 22, 1982	30.4%	60.7%	155.8%	268.7%
1987	Aug 25, 1987	Oct 19, 1987	23.2%	39.0%	84.6%	319.9%
2000	Mar 24, 2000	Mar 12, 2001	-1.2%	-5.0%	8.6%	10.5%
2007	Oct 09, 2007	Jul 09, 2008	-29.1%	8.0%	32.7%	123.7%
2020	Feb 19, 2020	Mar 11, 2020	43.7%	[redacted]	[redacted]	[redacted]
		Average	***11.9%***	***28.7%***	***46.0%***	***121.1%***
		Median	***23.2%***	***29.9%***	***32.4%***	***87.0%***

Source: RBC GAM, Bloomberg. As of June 13, 2022. Analyzing S&P 500 Index returns following 20% declines between 1960 and 2022. An investment cannot be made directly into an index. The graph does not reflect transaction costs, investment management fees or taxes. If such costs and fees were reflected, returns would be lower. Past performance is not a guarantee of future results.

Investors are facing a lot of uncertainty these days. In these situations, it's important to remember that while the volatility feels uncomfortable, markets have proven resilient over time. Remaining focused on the long term helps ensure investors stay true to their plan.

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