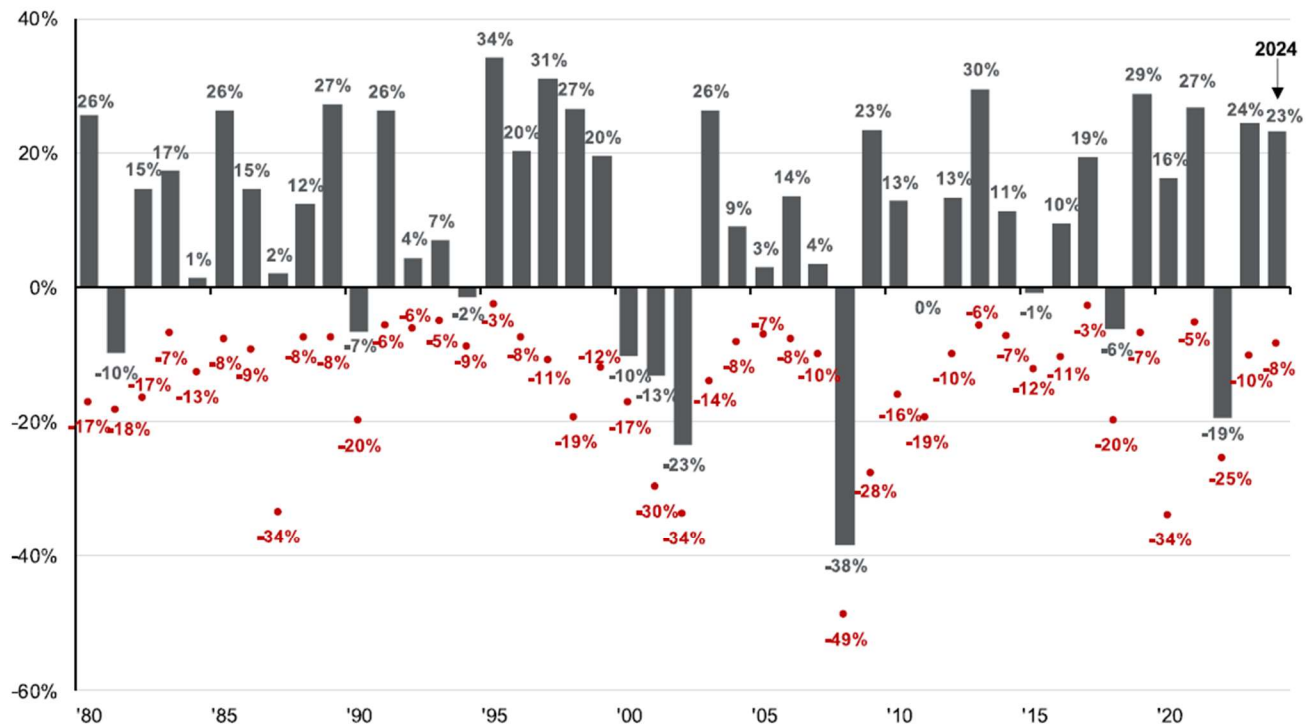


When you think about the current market you must consider the last two years. 2023 and 2024 spoiled us with double digit market returns and very low volatility. The stock market is an incredible wealth generator over the long run, but as with everything, it comes at a cost. The price you pay for excess returns is the emotional stress during periods of market volatility. For those that can't stomach volatility, there are other investment products available with lower long-term rates of return.

Market volatility is very common, and more common than most people think. We average -10% corrections every 12-14 months, and three -5% corrections each year. The chart below goes back to 1980; the grey bar shows the calendar year return for the market and the red dot shows the largest intra-year decline. The average decline each year is -14% (a little skewed because of 2000-2002, 2008 and other bear markets). So, it's very common, and healthy, to go through what we're currently experiencing, even though headlines may have you feeling otherwise.

### S&P intra-year declines vs. calendar year returns

Despite average intra-year drops of 14.1%, annual returns were positive in 34 of 45 years



Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management.

Returns are based on price index only and do not include dividends. Intra-year drops refers to the largest market drops from a peak to a trough during the year. For illustrative purposes only. Returns shown are calendar year returns from 1980 to 2024, over which time period the average annual return was 10.6%.

Guide to the Markets - U.S. Data are as of December 31, 2024.

J.P.Morgan  
ASSET MANAGEMENT

What causes those short-term market declines changes every year as the world is in a constant state of flux. Right now, it's tariffs, but I'm confident other than COVID, most can't recall previous catalysts. Do any of the following ring a bell?

- **August 2024:** The Yen Carry Trade - market down -9%
- **Fall 2018:** Rising Rates, **Trade War, Tariffs, Global Slowdown/ Recessions** - market down -21%
- **2015 thru 2016:** Greece Default, China Slowdown, EM Currencies, Falling Oil, North Korea - market down -15.2%

Don't feel bad if they don't, even we forget some of these events. The important thing to understand is that what causes the BIG down markets, the bear markets, are not topics the news discusses daily. What causes the big down markets are the things no one is expecting. Take the last 25 years for example. The down market from 2000-2002 began with the Tech Bubble, but it was 9/11 that sent it into bear market territory. 2008 was the Global Financial Crisis. No one anticipated how intertwined the entire global financial markets were with sub-prime mortgages. 2020 surprised everyone with COVID. So, what will likely cause the next bear market will not be tariffs, it will be something none of us are predicting.

These corrections are important for the market though, especially after two strong years because it weeds out the money that has been invested based off speculation. Monies that have come into the market buying stocks/assets that were overvalued because of sentiment only (.com bubble anyone?). It allows the market to reset and investors to turn their focus to what matters. It shifts us back to the fundamentals of how companies are doing, are they expected to do better in the future, do they have good balance sheets and strong cashflow? Investing based off momentum and speculation never lasts over the long-term, and we don't want it to, so we need these market corrections to 'cleanse' irrational exuberance and get us back on a sustainable path

"Well, what if it's different this time?". I'm not here to say that it's not different this time because it always is. What creates worry for investors will vary. What isn't different is that our system has and will continue to reward innovation, efficiency, risk-taking, etc. So, while you may not have any confidence in the current environment, have confidence in the companies that are producing the goods and services you use every day. Have confidence in innovation and the creativity of humanity that will create new products, services, and efficiencies which will drive the market up over time. Finally, have confidence in the companies that you're investing in that have shown their

ability to adapt to all different market, economic, and political environments over the last 30, 50, and sometimes 100+ years. Every prior market downturn since the inception of public stock ownership eventually became a new all-time high - *why would this time be any different?*

Oh, and if you're worried about a recession, don't be. We will go through a recession at some point in the future, as it's a normal and natural part of the economic cycle, but recession doesn't equal bear market. In fact, the only recession in the last 75 years that resulted in a bear market was 2008 because the recession stemmed from the global financial markets (see chart below). 2008 was the outlier and if you take out 2008, we've averaged a positive return during recessions. Even better, the returns following recessions are historically strong.

S&amp;P 500 Index Price Return

Recession Start Date	Duration (Months)	Return During Recession
July 1953	10	18%
August 1957	8	-4%
April 1960	10	17%
December 1969	11	-5%
November 1973	16	-13%
January 1980	6	7%
July 1981	16	6%
July 1990	8	5%
March 2001	8	-2%
December 2007	18	-38%
February 2020	2	-1%
<b>Average return</b>		<b>-1%</b>
<b>Number of positive periods (%)</b>		<b>45%</b>

## Did you know? 🍷

**+16%**  
Average S&P return  
1 year after  
recession

**+31%**  
Average S&P return  
3 years after  
recession

**+56%**  
Average S&P return  
5 years after  
recession

Source: Morningstar, NBER. Cumulative price return of the S&P 500 Index. Past performance is not indicative of future returns. Recession duration is measured from the first day of the month following the peak month, to the end of the trough month.

My best advice is to be patient through tough markets, turn your attention away from the news and media and on to the things that matter in life (family, friends, hobbies, etc.). Watching the news all day is never going to make you feel better about the state of current affairs in good times or bad. Most importantly, remember that your portfolio and financial plan was built to withstand all the curveballs that life can throw.

- Tyler O. Vallano, CFP®