



ASSET ALLOCATION INSIGHTS

Investing in Equities Amid a Crisis

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KEY INSIGHTS

- An analysis of previous market sell-offs implies that timing the market bottom perfectly may not be necessary to achieve a positive outcome.
- In our view, patient, long-term investors could potentially reap gains whether they buy stocks early or late in a downturn.

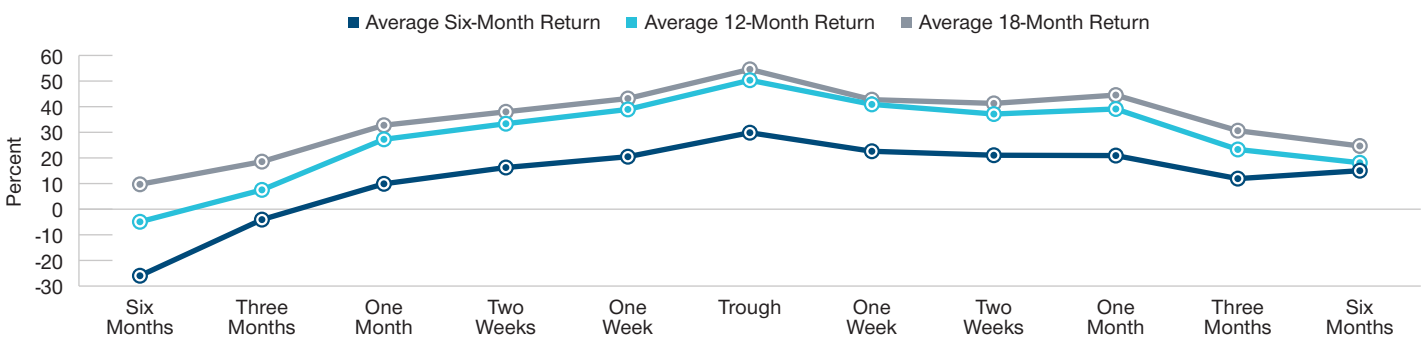
During periods of market stress, it can be incredibly difficult to gauge when to invest in stocks in order to benefit from the pursuant recovery. Our multi-asset team’s recent analysis of prior market sell-offs concluded that investors may not have to time the market bottom perfectly to have a positive outcome.

We reviewed daily pricing data for the S&P 500 Index over 90 years from January 3, 1928, to January 31, 2020, and found 17 instances where the index declined by 15% or more.¹ We then examined the performance difference between the stock index and U.S. bonds during those drawdowns and subsequent recoveries.

We discovered that, on average, stocks outperformed bonds over the ensuing 18 months whether a hypothetical investor bought them six months before the market bottom or six months afterward. Results were positive either way, but hypothetical purchases made after the market bottom typically resulted in stronger gains. However, results over shorter-term horizons (six and 12 months) were mixed.

How Early Is Too Early?

Forward Relative Returns¹ for U.S. Equities vs. U.S. Bonds²



Past results are not a reliable indicator of future results. Not representative of actual investment results.

US Equities are based on daily price returns for the S&P 500 Index, January 3, 1928, through January 31, 2020.

Source: Standard & Poor’s (see Additional Disclosure).

Chart shows the average subsequent returns at different time periods before, after and at the trough (market bottom) over the 17 instances of the S&P 500 Index decline.

¹ Relative returns represent the outperformance or underperformance of stocks compared to bonds.

² Fixed income data use an estimate of daily interpolated Ibbotson returns for the earlier time period from January 3, 1928, to December 29, 1961, and 5-yr. U.S. Treasury total returns where daily data are available from January 2, 1962, to January 31, 2020.

¹ To identify what constitutes a trough or major drawdown event, we used S&P 500 Index price data from January 3, 1928, to April 3, 2020, to calculate the drawdowns from a previous peak (each peak being an absolute peak) and then identified the dates with the largest drawdown corresponding to each peak. From that, we implemented a 15% maximum drawdown threshold in order to find the historic dates that have had major drawdowns.

We also found that “hit rates”—how often relative returns were positive for stocks—were higher closer to the market bottom. Over an 18-month horizon, hit rates were higher, on average, for stocks bought three months before or after the bottom versus six months before or after the bottom. Once again, buying late provided slightly better relative results.

Our study suggests that investors need not be overly focused on timing market bottoms perfectly. We believe that patient investors with long-term investment horizons could potentially benefit regardless of whether they invest in stocks early or late in a downturn.

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