An Overview of Market Resilience

Lessons from the past are reminders that the economy and the stock market have bounced back from very steep losses before.

**KEY INSIGHTS**

- Although each market upheaval has its own catalysts and characteristics, each recovery has pushed the market to new highs.
- Investors who have bailed out during steep market downturns locked in losses and gave up the opportunity to benefit from potentially significant gains when the market recovered.
- We believe that investors should avoid the temptation of upending plans that are intended to meet long-term investment goals.

The novel coronavirus pandemic has understandably tested even the most disciplined investor. With future economic performance so uncertain, some investors fled stocks or considered whether they should significantly reduce their equity exposure as the virus quickly spread.

Indeed, the longest bull market in history, which began in March 2009, ended in February 2020 with the onset of the quickest bear market in history (a decline of at least 20% in the S&P 500 Index).

While it’s important to acknowledge that the global economy has little modern-day experience with the level of disruption and hardship the pandemic has caused and will continue to cause, we believe that investors should avoid the temptation of upending plans that are intended to meet long-term investment goals.

Uncertainty and fear are powerful and expected emotions. But lessons of the past, from global depressions to wars, are reminders that the economy and the stock market have bounced back from very steep losses before, and each recovery has pushed the market to new highs.

“We counsel investors all the time that you have to maintain a long-term perspective,” says Judith Ward, CFP®, a senior financial planner with T. Rowe Price. “Over long periods of time, stocks have outperformed other financial assets and provided a better hedge against inflation.”

Rob Sharps, T. Rowe Price’s head of investments and group chief investment officer, adds, “We are acutely cognizant of the short-term risks, but I and other senior investment leaders and portfolio managers at T. Rowe Price firmly believe that, in time, the crisis conditions will ease...
and the markets will recover, and we are focused on the longer-term outlook.”

Sharps adds, “For investors with a long-term orientation, this isn’t the time to let a psychology of fear dominate their decision-making. We’ve faced challenging markets in the past and, in time, moved beyond them. We think this will be true again this time. By grounding their decisions in fundamental and thoughtful analysis, our investment professionals—on behalf of our investors—can best position themselves to manage risk in the short term and take advantage of attractive potential opportunities once we emerge from the immediate crisis.”

Each market upheaval has its own catalysts and characteristics. This can make

(Fig. 1) S&P 500 Performance: Postwar Recessions and Recoveries

On average, each of the 11 recessions since the end of World War II has lasted almost 22 months, and market recovery times have ranged from two months to a little over five-and-a-half years.

![Graph showing S&P 500 Performance: Postwar Recessions and Recoveries](image-url)

- **Decline From Peak to Recession Low (%)**
- **Principal Return From Recession Low After 6 Months (%)**
- **Principal Return From Recession Low After 12 Months (%)**

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<td><strong>Recession and S&amp;P Low Date</strong></td>
<td><strong>9/14/1949</strong></td>
<td><strong>6.8 months</strong></td>
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<td><strong>6/10/1957</strong></td>
<td><strong>22.80</strong></td>
<td><strong>37.74</strong></td>
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<td><strong>Recession and S&amp;P Low Date</strong></td>
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<td><strong>-50.60</strong></td>
<td><strong>31.15</strong></td>
<td><strong>30.67</strong></td>
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<td><strong>5/13/1970</strong></td>
<td><strong>19.92</strong></td>
<td><strong>27.12</strong></td>
<td><strong>29.81</strong></td>
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<td><strong>Recession and S&amp;P Low Date</strong></td>
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<td><strong>-60.66</strong></td>
<td><strong>17.53</strong></td>
<td><strong>37.09</strong></td>
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<td><strong>22.80</strong></td>
<td><strong>42.07</strong></td>
<td><strong>43.73</strong></td>
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<td><strong>14.80</strong></td>
<td><strong>9.80</strong></td>
<td><strong>31.02</strong></td>
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<td><strong>-45.83</strong></td>
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<td><strong>Recession and S&amp;P Low Date</strong></td>
<td><strong>10/11/1990</strong></td>
<td><strong>4.1 months</strong></td>
<td><strong>21.4 months</strong></td>
<td><strong>63.9 months</strong></td>
<td><strong>21.4 months</strong></td>
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<td><strong>Recession and S&amp;P Low Date</strong></td>
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<td><strong>37.09</strong></td>
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<td><strong>Recession and S&amp;P Low Date</strong></td>
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<td><strong>-56.78</strong></td>
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<td><strong>-36.49</strong></td>
<td><strong>19.44</strong></td>
<td><strong>25.30</strong></td>
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<td><strong>12/31/19</strong></td>
<td><strong>-56.78</strong></td>
<td><strong>52.75</strong></td>
<td><strong>68.57</strong></td>
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Source: T. Rowe Price calculations based on data from S&P Dow Jones Market Indices and RIMES as of 12/31/19.

*Low date for the S&P 500 Stock Index during recession, as defined by the National Bureau of Economic Research (NBER).

**Approximate time it took the S&P 500 Stock Index to recover to its pre-recession peak from its recession low.

A recession is a period of falling economic activity spread across the economy, lasting more than a few months, normally visible in real gross domestic product, real income, employment, industrial production, and wholesale-retail sales. The trough marks the end of the declining phase and the start of the rising phase of the business cycle. Economic activity is typically below normal in the early stages of an expansion, and it sometimes remains so well into the expansion.
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Comparisons difficult. Historically, however, the U.S. economy has always recovered from recessions, and a bull market has followed every bear market, reaching new highs. Of course, past performance cannot guarantee future results.

Recoveries From Recessions and Bear Markets

The Postwar Recessions and Recoveries chart (Fig. 1) reflects the 11 recessions between 1949 and 2009. On average, each lasted about 21.7 months, with the 2008–2009 recession lasting 18 months. The chart shows the S&P 500 Index lows reached during each recession and the corresponding principal returns for the 6- and 12-month periods that followed, as well as the time it took for the market to return to its pre-recession peak. While the average decline for the S&P 500 in past recessions has been 27.9%, the ensuing rebound has driven the index up an average of 27.3% after six months and up an average of 36.7% after a year.

For another perspective, the chart showing the trend in bear and bull markets since 1958 (Fig. 2) reflects the magnitude of gains compared with the magnitude of losses when markets declined at least 15%. The average market downdraft in these cases lasted 14 months, and the average loss was 31%. (The decline in the S&P 500 from the February 19 high this year exceeded that average decline in just one month.) The 10 bull markets over this period lasted 62 months, on average, with an average gain of 148%.

Investors who have bailed out during steep market downturns locked in losses and gave up the opportunity to benefit from potentially significant gains when the market recovered. History also shows that some of the most dramatic gains come in the initial stages of a bull market, sometimes rather suddenly.

“Stocks typically bottom when the economic environment stops getting worse, not when economic or earnings data are trending better,” says David Eiswert, manager of T. Rowe Price’s Global Stock Fund. “Given this, we need to focus on signs that indicate when it will stop getting worse as opposed to focusing on the elimination of all risk until things get better. As any crisis unfolds, the longer-term opportunities become potentially compelling. This crisis is no different.”
Because it is impossible to know when the market may enter a sustained rally, investors should maintain a diversified portfolio with an allocation to equities that is consistent with their time horizon, risk tolerance, and investment objectives. Investors too often make the mistake of selling in down markets and buying again after markets have rebounded, a likely prescription for poor returns. If portfolio adjustments are needed, consider making them gradually over a period of weeks or months.

Additionally, keep in mind that in the long run stocks have consistently outperformed bonds and cash. Based on rolling 1-, 10-, and 20-year periods from 1978 through 2019 (calculated monthly), stocks (measured by the S&P 500 Index) outperformed cash and bonds (measured by the Bloomberg Barclays U.S. Aggregate Index) in two-thirds of the one-year periods, 86% of the 10-year periods, and all of the 20-year periods. Stocks suffered a loss in 17% of the one-year periods compared with only 9% for bonds, but over rolling 10-year periods, stocks showed losses only 6% of the time, and there were no 20-year periods in which equities incurred a negative nominal return.

Given this track record, long-term investors might well view stock market downturns as potentially favorable opportunities to add to their equity holdings rather than reduce them.

How T. Rowe Price IsReacting

In managing through this crisis, T. Rowe Price draws on more than eight decades of experience, an extensive global research platform, and a rigorous approach to analyzing market and corporate fundamentals to take advantage of solid companies selling at attractive valuations.

Across the board, our portfolio managers remain consistent in their approaches, focusing on being disciplined, conducting detailed fundamental analyses of portfolio companies, and making decisions with a long-term view.

“When the market is in panic mode, we stay intently focused on our long-term perspective,” says Eric Veiel, T. Rowe Price’s head of U.S. Equity. “We parse out what has really changed and what has not. In periods of heightened volatility, our team of experienced analysts clinically assesses whether the factors driving that market volatility might actually change the fundamentals of companies in our portfolios, such as earnings, cash flow, and balance sheet strength.”

In fact, Veiel adds that the firm often uses market corrections to “upgrade” portfolios, adding to high-conviction existing holdings and investing in what we consider to be well-positioned, high-quality companies with strong management teams that were previously considered too expensive.

The coronavirus and the oil price shock have wreaked havoc with global financial markets and economies. Unfortunately, such sudden bursts in volatility are an inevitable part of investing. They also create opportunities, however, for long-term investors with the discipline to stay the course and look beyond the crisis. This may be a good time for investors to review their asset allocation and make sure it is aligned with their risk tolerance and time horizon for their goals. They might consider rebalancing to restore their equity exposure or adding lower-risk assets such as bonds to temper their risk exposure. In any event, they should maintain a well-diversified portfolio and resist the temptation to overhaul it amid extremely volatile markets.

Additional Disclosures

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Important Information

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