Market Corrections: More Common Than You Think

February 2020

- Equity markets around the globe fell into correction territory on intensifying concerns about the coronavirus.
- On average, a correction in the U.S. stock market occurs every year or so and takes about three months to recover.
- Despite the concern that corrections tend to cause, they are necessary for the health of the overall market.

On February 27, 2020, barely two months after returning an impressive 31.49% gain for 2019, the S&P 500 Index fell into correction territory—that is, when a stock-market index declines by 10% or more from its most-recent high. The drop was triggered by a sharp rise in fears about the China-born coronavirus and the impact of its rapid spread on the global economy.

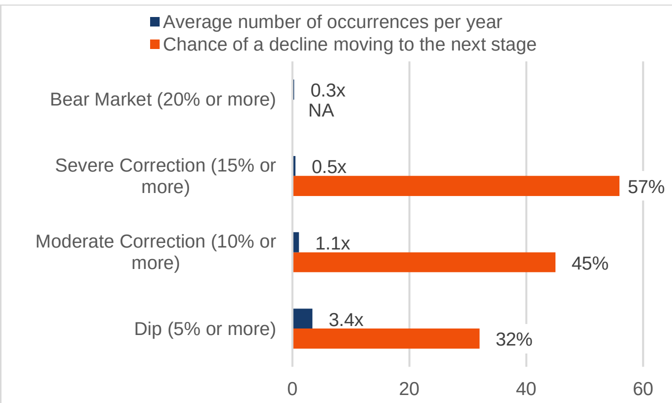
It's understandable that investors may be alarmed by such a dramatic market plunge, but it's important to recognize three important facts about stock-market corrections:

1) They are quite common.
2) They aren't typically tied to an economic crisis.
3) They are actually necessary for the health of the overall market.

Corrections are common

Exhibit 1 provides some perspective: On average, U.S. stock-market corrections occur about once every year.

Exhibit 1: Corrections are Common



Number of Occurrences per Year (Blue Bar) or Probability in Percent (Orange Bar) (as of 12/31/2019) Start date: 1926.

Source: Ned Davis Research, Standard & Poor's, SEI
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.

Before this month, the most recent correction in the S&P 500 Index took place in September 2018 as intensifying trade tensions and rising interest rates took a toll on stock prices. Prior to that, in February of the same year, a surprise jump in average hourly earnings and an increasingly hawkish Federal Reserve drove the U.S. equity market sharply below recent its high.

Corrections don't usually equal crisis

A further look back provides additional perspective: As seen in Exhibit 2, the average recovery period for declines of 10% or more is about 12 months. This may sound like a long time, but one year is just a temporary setback for a long-term investment strategy.

Exhibit 2: Notable Declines in the S&P 500 Index

Peak Date	Trough Date	Recovery Date	Days from Trough to Recovery	% Loss
2/9/1966	10/7/1966	5/5/1967	210	-22.18%
10/9/1967	3/5/1968	4/29/1968	55	-10.04%
11/29/1968	5/26/1970	3/6/1972	650	-36.06%
4/28/1971	8/9/1971	1/18/1972	162	-10.73%
9/8/1971	11/23/1971	12/20/1971	27	-11.03%
1/11/1973	10/3/1974	7/14/1980	2111	-48.20%
11/7/1974	12/6/1974	1/27/1975	52	-13.56%
6/30/1975	8/21/1975	1/12/1976	144	-12.73%
9/21/1976	3/6/1978	9/12/1978	190	-19.41%
9/12/1978	11/14/1978	8/10/1979	269	-13.55%
10/5/1979	11/7/1979	1/18/1980	72	-10.25%
2/13/1980	3/27/1980	7/7/1980	102	-17.07%
11/28/1980	8/12/1982	11/3/1982	83	-27.11%
10/10/1983	7/24/1984	1/21/1985	181	-14.38%
8/25/1987	12/4/1987	7/26/1989	600	-33.51%
7/16/1990	10/11/1990	2/11/1991	123	-19.92%
7/17/1998	8/31/1998	12/18/1998	109	-19.34%
4/7/2000	10/9/2002	9/18/2007	1805	-48.77%
11/27/2002	3/11/2003	5/27/2003	77	-14.71%
10/9/2007	3/5/2009	3/28/2013	1484	-56.39%
4/15/2010	7/2/2010	11/4/2010	125	-15.61%
4/29/2011	10/3/2011	2/24/2012	144	-19.39%
5/21/2015	8/25/2015	7/11/2016	321	-12.35%
11/3/2015	2/11/2016	6/7/2016	117	-13.31%
1/26/2018	2/8/2018	7/26/2018	168	-10.20%
9/20/2018	12/24/2018	4/23/2019	120	-19.78%

Source: National Bureau of Economic Research (as of 12/31/2019)

Corrections don't last forever

When markets correct, we think it's best to just wait. And, as history shows, there's a solid chance of recovering correction-related losses relatively quickly. No one likes to see the value of their investments decrease, but we know that ups and downs are a normal part of the investment cycle.

Index Definitions:

S&P 500 Index: The S&P 500 Index is an unmanaged, market-capitalization-weighted index that consists of 500 of the largest publicly-traded U.S. companies and is considered representative of the broad U.S. stock market.

Important Information

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