

Long-Term Perspective: Market Volatility is the Price of Admission for Investing

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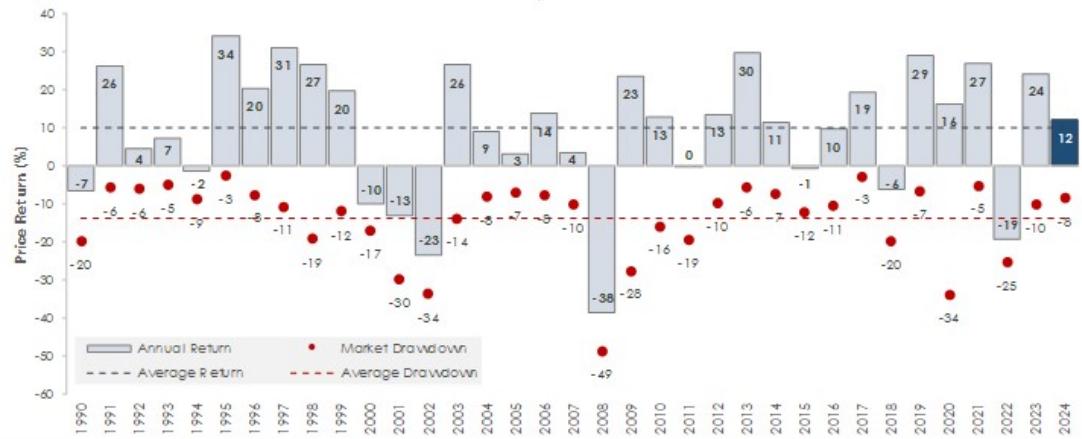
Investment Management

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The S&P 500, a testament to the resilience of the market, gained over +15% in the first six months, marking its 16th highest first-half return since 1931. The equity market's rise continued into early July, and the index set a new all-time closing high on July 16th. However, the stock market experienced increased volatility as it traded lower over the past few weeks. The selloff accelerated in the first week of August after a report showed unemployment rose to 4.3% in July, a nearly 3-year high. The recent volatility, a notable change from the first half's steady climb, saw the S&P 500 at one point -8% below its all-time high from mid-July.

History shows that stock market drawdowns are a natural part of investing. The chart below graphs the S&P 500's price return yearly since 1990. The navy line shows the index has produced an average annual return of nearly +10%. Still, the bottom half of the graph shows that a lot can happen within the market throughout the year. The red dots show the S&P 500's most significant intra-year yearly decline. Since 1990, 32 of 35 years have had an intra-year selloff of -5% or more. Nineteen years have had a selloff of -10% or more, with six years seeing a drawdown greater than -20%.

Stock market volatility is an inherent aspect of investing, serving as the price of admission. In the short term, markets fluctuate as data changes, and investors react to new information. However, in the long term, corporate earnings and economic growth are the primary influencers of the market. While seemingly at odds with recent earnings and financial data, the recent market volatility should be viewed in the context of the market's long-term trajectory. With over 90% of companies reporting, S&P 500 earnings grew more than +10% year-over-year in the second quarter. Wall Street analysts anticipate an additional +10% earnings growth over the next 12 months. Unemployment, while rising, remains low by historical standards. Consumer sentiment is on the rise as inflation eases, and retail spending continues to expand. The chart below provides a perspective on the recent volatility, and the market's swift recovery serves as a timely reminder of the benefits of a long-term investment mindset, encouraging investors to stay the course.

FIGURE 1 – Historical S&P 500 Returns and Drawdowns by Calendar Year


Source: Standard and Poor's based on S&P 500 index. Past performance does not guarantee future results. Data from January 1st, 1990 to August 10th, 2024.

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The Russell 2000 index measures the performance of approximately 2,000 small-cap US equities.

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The MSCI Emerging Markets Index captures large and mid cap representation across 24 Emerging Markets (EM) countries.

The Nasdaq 100 Index is a stock index of the 100 largest companies by modified market capitalization trading on Nasdaq exchanges.

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The CBOE VIX Index is a calculation designed to produce a measure of constant, 30-day expected volatility of the U.S. stock market, derived from real-time, mid-quote prices of S&P 500® Index (SPX®) call and put options.

The Magnificent 7 is a group of major tech companies with stock growth that, on average, far outpaced the high-performing S&P 500® in recent years.

Coined in 2023, the group consists of Alphabet, Amazon, Apple, Meta Platforms, Microsoft, Nvidia, and Tesla.

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The Bloomberg US Aggregate Bond Index is used as a benchmark for investment grade bonds within the United States. This index is important as a benchmark for someone wanting to track their fixed income asset allocation.

The Bloomberg US Corporate Index covers performance for United States corporate bonds. This index serves as an important benchmark for portfolios that include exposure to investment grade corporate bonds.

The Bloomberg US Corporate High Yield Index covers performance for United States high yield corporate bonds. This index serves as an important benchmark for portfolios that include exposure to riskier corporate bonds that might not necessarily be investment grade.

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The Prime Rate is the interest rate that commercial banks charge their most creditworthy corporate customers. The prime rate is derived from the federal funds rate, usually using fed funds + 3 as the formula.