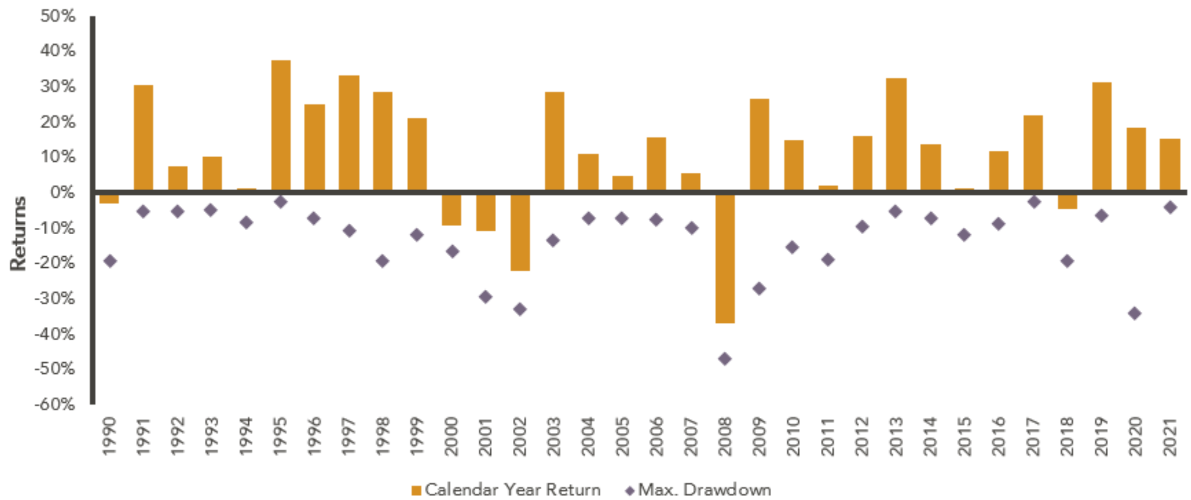
Chart of the Month

July 2021

Is the market due for a correction?

History indicates that the second half of 2021 could see a pullback in equity markets, as the S&P 500 has averaged a 14% annual drawdown since 1990 (compared to just 4% in the last six months)



Source: Bloomberg as of June 30, 2021

One interesting data point when assessing the market is to look at the drawdown. Drawdown measures the maximum drop of the market in a calendar year. Over the last 31 years the market, as represented by the S&P 500, has seen a drawdown of almost 14% on average per year. However, year-to-date (as of June 30, 2021), drawdown is 4.1%. When evaluating recent market downturns, the stretch from 2000-2002 followed the bursting of the Dot-Com Bubble and the sell-off continued through 2002 when the drawdown reached 33%. During that period investors had the option of investing in the bond market since yields were much higher than they are today. The period from 2008 - 2009 saw huge swings in the direction of the market with drawdowns of 47% in 2008 and 27.2% in 2009 followed by a long stretch where the market has been positive each year since with the exception of a slight decline in 2018.

After rebounding from the Coronavirus-related sell off in 2020, where the drawdown reached 33.8%, the market today is struggling with the prospect of renewed inflation. At the same time, bond yields are extremely low and are in negative territory net of inflation. There is no way of knowing where the market will go from here, but if the market were to experience a drawdown closer to the past average of 14%, investors may begin to redeploy some of the $5 trillion estimated in money market accounts back into the market.

About Operose Advisors

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