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Stay the Course: Market Corrections Are Nothing New

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"The key to making money in stocks is not to get scared out of them."

-Peter Lynch, American investor, mutual fund manager, author and philanthropist

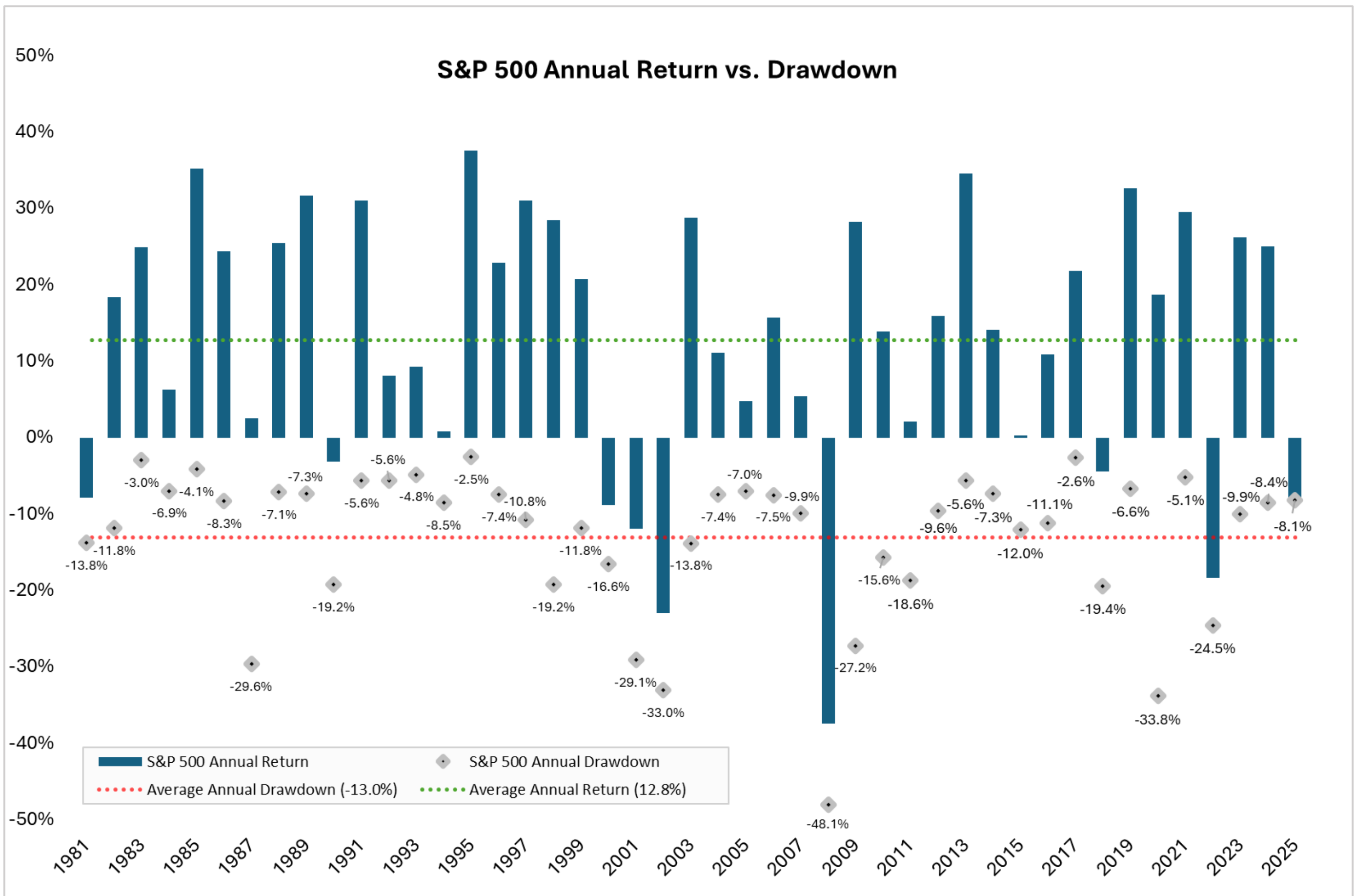
Since the S&P 500 peaked on February 19, 2025, U.S. equity markets have been in a period of increasing duress. The sell-off can largely be attributed to the uncertainty surrounding U.S. trade policy that has led to weaker expectations for growth and higher forecasts for inflation, stoking recession and stagflation fears. On Monday, March 10, 2025, the Nasdaq Composite was down 4.0%, while the S&P 500 and Dow fell 2.7% and 2.1%, respectively. The Nasdaq and Russell 2000 are now firmly in correction territory (defined as down 10% or more), off 13.4% and 15.0% from its highs, and several other domestic equity indices (the S&P 500 and Dow) are flirting with the same dubious milestone.

Reasons abound for the sudden weakness: increasing fears of recession, uncertainty in U.S. trade policy, waning optimism surrounding artificial intelligence, and lack of clarity on U.S. Federal Reserve policy in 2025. Take your pick, but here's the thing--there is always a reason to dislike or be fearful of equities. And yet stocks over intermediate- and longer-term holding periods have rewarded investors handsomely.

In other words, this is normal. One could argue that what preceded the recent sell-off was the abnormal period, characterized by low volatility, high valuations and a string of all-time highs on major indices. According to data compiled by Bloomberg, the average annual return from 1980 through 2024 for the S&P 500 was 10.6%, and annual returns were positive in 34 of 45 years—or about 75% of the time.

Over that same time frame, the average intra-year drop was 14.2%. Calendar-year 2023 was a good case study, featuring a 24% gain for the S&P 500 for the full year, but many people forget that it suffered a 10.3% drawdown during late summer. Last year (2024) also featured strong gains, with the S&P 500 up over 25% for the full year despite suffering an 8.5% drawdown during the summer.

Illustrated by the following chart, on average, markets experience a 10% correction annually and a bear market (a decline of 20% or more) about once every 3.5 years. This volatility is the price of admission to realize the gains of investing in equities.



***Source Morningstar Direct Data as of March 10, 2025**

Not all parts of the financial markets have participated in this downdraft. For example, real estate investment trusts, utilities, consumer staples and health care sectors all have positive returns year-to-date despite the recent S&P/Nasdaq sell-off. Furthermore, bond yields have declined (boosting prices) from 4.50% to roughly 4.20% from the start of the year.

Despite Fed inaction, financial conditions have loosened since the start of the year through the decline in interest rates. Core fixed income and municipal bonds have historically offered principal protection during periods of market turbulence, and these assets have again provided that safe haven during this market sell-off.

For globally diversified investors, the risk-off scenario is also paying dividends. European and emerging markets have seen strong gains year-to-date as low valuations and renewed growth optimism in international markets has sparked investor attention. In fact, the MSCI EAFE is up roughly 10% year-to-date and the MSCI Emerging Market Index has risen by about 5%. After the rally, European equities trade at a forward price/earnings of 14.2x, according to Goldman Sachs. This is a slight premium to the historical average but still trades at a large discount to U.S. equities, which trade at 21.4x forward earnings.

Patient investors are being rewarded this year versus 2024. Last year, European stocks were flat, while the S&P 500 gained more than 20%. Reiterating the longstanding expression that *asset classes don't die, they just go to sleep for a period of time.*

Zooming out, the S&P 500 is up roughly 57% from the October 2022 lows, making the most recent correction look like a minor speed bump in your financial plan. None of us know what will happen the remainder of the year or how markets will react to changes in fiscal policy. Stocks could rally again or fall even further. Despite the volatility and economic concerns, it's essential to not let macro factors impact your long-term investment plan. U.S. GDP forecasts have declined on tariff news, but earnings growth at the company level is still expected to be positive. Additionally, fiscal policy in the pipeline, such as an easing regulatory environment and prospects for corporate tax cuts, should be supportive of equities in the long-term.

It is a common emotion in times of market stress to feel the need to do something. Most of us are planning for long-term goals and use time-proven, long-term strategies with a goal of building wealth. History has shown repeatedly that staying in the markets, managing risk through diversification and periodic rebalancing, and not getting overweight any single stock or sector are proven strategies that build wealth over time, helping us achieve those long-term goals. Market timing is very difficult to be continuously successful at, involving multiple correct decisions and potentially incurring many tax consequences.

I would prefer to be an investor than a trader, fully realizing there are times the markets will make me uncomfortable, but also always being mindful that making good, unemotional decisions in those times are critical to building wealth. Jack Bogle, the founder of the investment firm Vanguard, succinctly summed it up by saying, "Time is your friend, impulse is your enemy."

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