F·E·G investment advisors

Bear in Mind, We've Been Here Before

Bear Market History

First Quarter 2025

BEAR IN MIND, WE'VE BEEN HERE BEFORE

We published the predecessor to this presentation with the same title, only three years ago. In some senses, it feels like déjà vu with an expensive market that started the year rapidly declining. But this time, instead of inflation, the catalyst is the potential for tariffs to rapidly adjust global trading. The tariffs were expected, but the magnitude was not.

The S&P 500 Index peaked in February before concerns surrounding tariffs, trade, inflation, and earnings potential took hold. The mega-cap technology-related stocks suffered the most substantial declines at the onset, having been some of the most highly valued companies in the U.S. market.

Following the announced tariffs, the risk to the economy has increased, and the potential for a recession is greater than it was at the start of the year. Bear markets are historically worse with recessions, so investors are understandably nervous as the level of market and economic uncertainty has dramatically increased.

The tariff situation is indeed fluid and could end abruptly, escalate, or find some median that adjusts trading relationships to various degrees. These adjustments could be for better or worse, only time will tell.

An evaluation of bear markets focuses on weakness and declines, but markets have consistently recovered in the long run. Rather than take an overly pessimistic view of conditions, we encourage investors to consider bear markets as a potential opportunity.

Contents

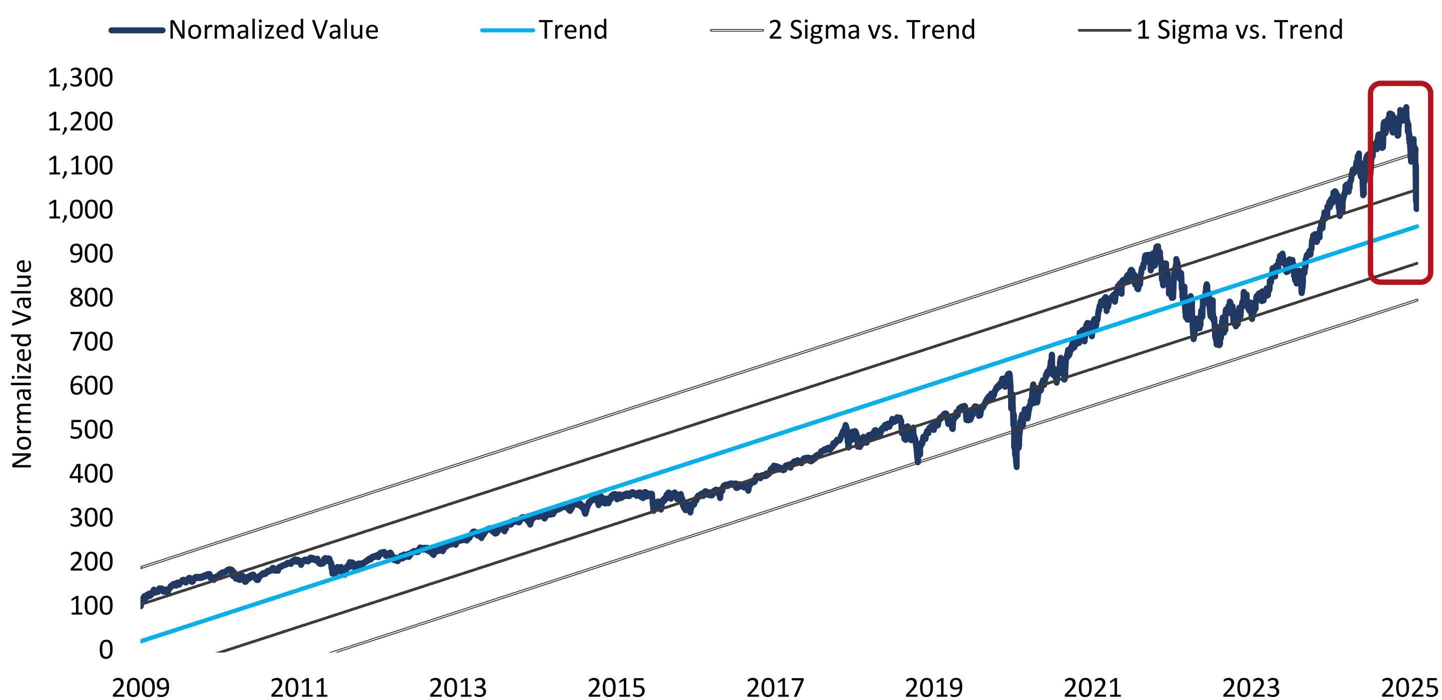
- Bear Market History
- Bear Markets and Recessions
- Bear Market Valuations, Earnings, and Rates

U.S. EQUITIES WERE PRICED FOR PERFECTION, AGAIN

- At its peak in early 2025, the S&P 500 Index appeared significantly extended versus the current trend—almost three standard deviations above the trend.
- The dramatic shift in sentiment from optimism to pessimism triggered by the tariff announcements has led to a substantial repricing of asset values.
- The market decline has the S&P 500 Index near the trend level, but additional reductions are possible as the market assesses the impacts on earnings. Further, the market tends to overshoot long-term trends.

FROM SIGNIFICANTLY EXTENDED TO BACK TO THE TRENDLINE

S&P 500 Index Cyclical Trend March 2009 – April 2025



Data source: Bloomberg, L.P. as of April 10, 2025; 3/9/2009 = 100

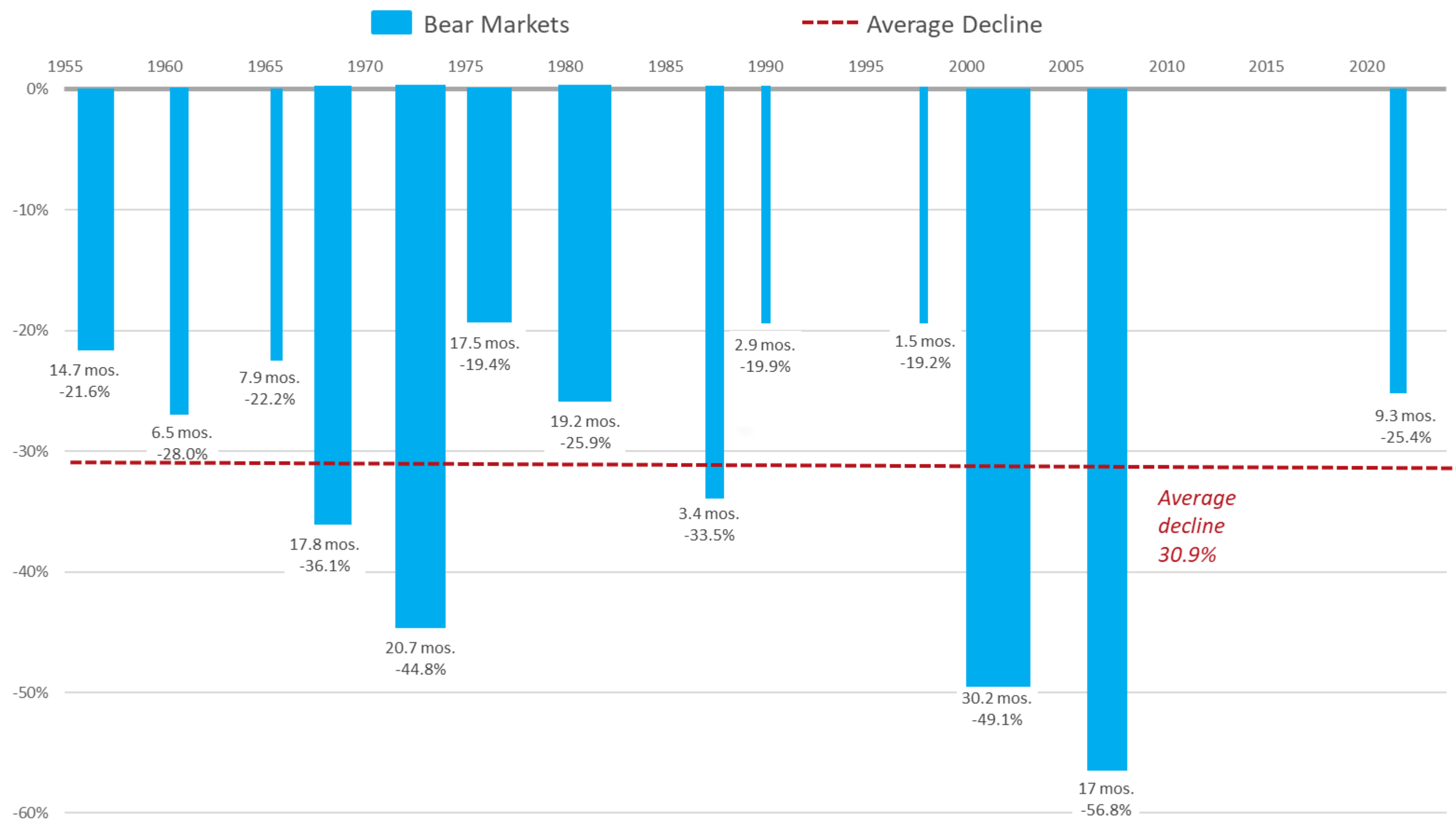
BEAR MARKET HISTORY

THE TYPICAL BEAR MARKET

- The standard measure of a bear market in stocks is a 20% decline. Since 1950, there have been 13 bear markets, or close calls, occurring approximately every 5.5 years, with an average duration of almost 13 months (mos).

HISTORICALLY, MARKETS HIT THE BOTTOM FOUR MONTHS BEFORE A RECESSION ENDS

U.S. Bear Markets



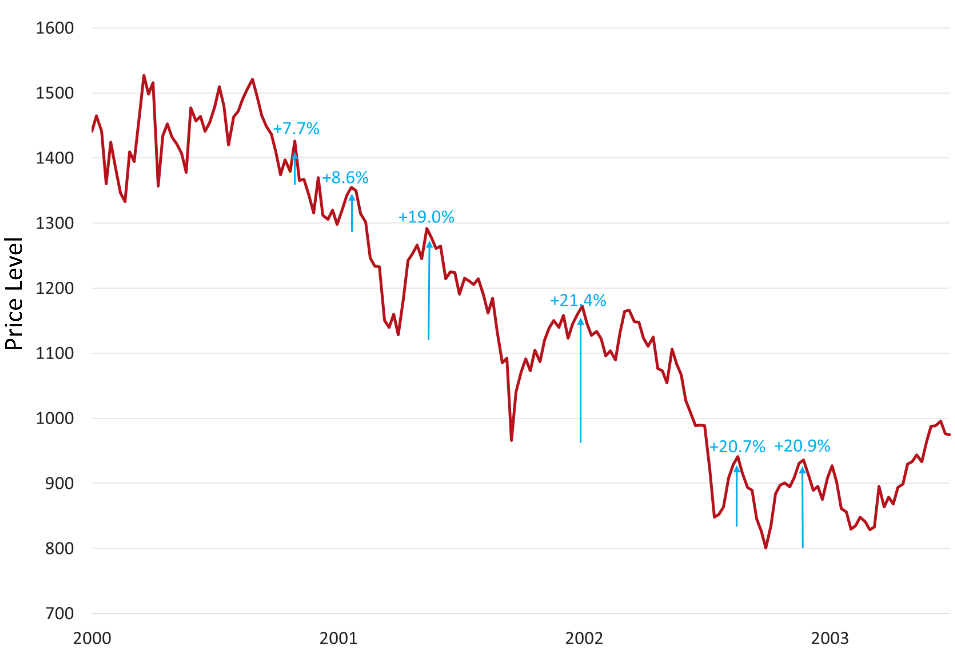
Data sources: NBER, Strategas, S&P 500; Data as of April 9, 2025

RALLIES AMID BEAR MARKETS ARE NOT UNCOMMON

- Bear markets are volatile periods, which means large swings to both the downside and the upside.
- The almost 50% decline of the S&P 500 in the bursting of the Technology Bubble contained six bear market rallies over three years.
- There were five bear market rallies during the market's response to the Great Financial Crisis, which saw a peak-to-trough decline of over 56%.

FOUR OF THE BURSTING TECH BUBBLE RALLIES NEARED 20%

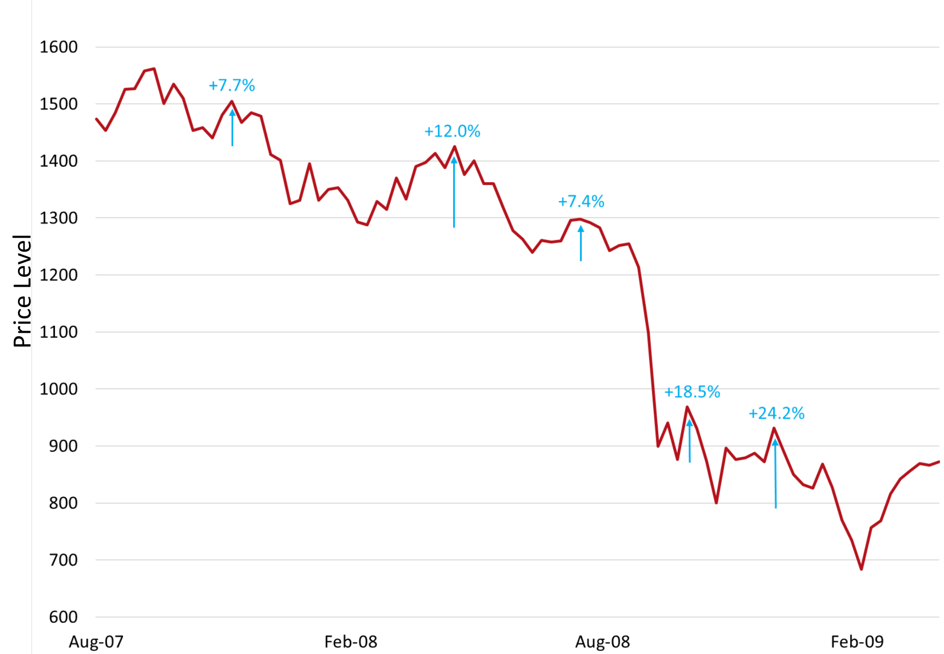
S&P 500 Index 2000 – 2002 Bear Market



Data sources: Standard & Poor's and Piper Sandler

BEAR MARKET RALLIES CREATE A CHOPPY DESCENT

S&P 500 Index 2007 – 2009 Bear Market



Data sources: Standard & Poor's and Piper Sandler

HISTORY RHYMES

Investors often look to history as a guide for indications of bear market severity and recovery. Similarities can be identified from many past periods, but every situation is unique, and we have not had a global trade war in modern market history.

THE STAGFLATION OF THE ’70s

- The market declines of the early and mid-1970s started with inflationary pressure as tax increases were enacted in 1968 and coincided with a decrease in economic growth, rising commodity prices, and Nixon’s price and wage controls. This period also included the fall of the Bretton Woods system and the end of the gold standard. The tax surcharge was extended twice until 1973 when Nixon’s controls were lifted.
- The Arab-Israeli War in 1973 also prompted OPEC to impose an embargo against the U.S., which led to higher energy prices and supported escalating inflation. The U.S. fell into recession, but subsequent growth was weak, and inflation persisted, with unemployment and inflation over 5%, making stagflation synonymous with the late 1970s.

FIGHTING INFLATION IN THE EARLY 80s

- The 2022 bear market was similar to 1982’s trend, a year of significant inflation, Cold War tensions, and midterm elections. By this time, however, Fed Chairman Paul Volcker was already leading the Fed’s fight against inflation, with inflation declining from double-digit to mid-single-digit levels.
- In 2022, the Fed was not simply fighting climbing inflation but instead needed to halt a spike in inflation that became persistent, with many arguing that the Fed was behind the curve.

THE TECHNOLOGY BUBBLE

- Inflation was moderate in the late 1990s, but equity valuations were not. Like the post-pandemic period of record-high valuations and optimism, the late 1990s saw equally optimistic conditions. The Technology Bubble became known as a period of “irrational exuberance,” coined by Fed Chairman Alan Greenspan.

OPEC is the Organization of the Petroleum Exporting Countries

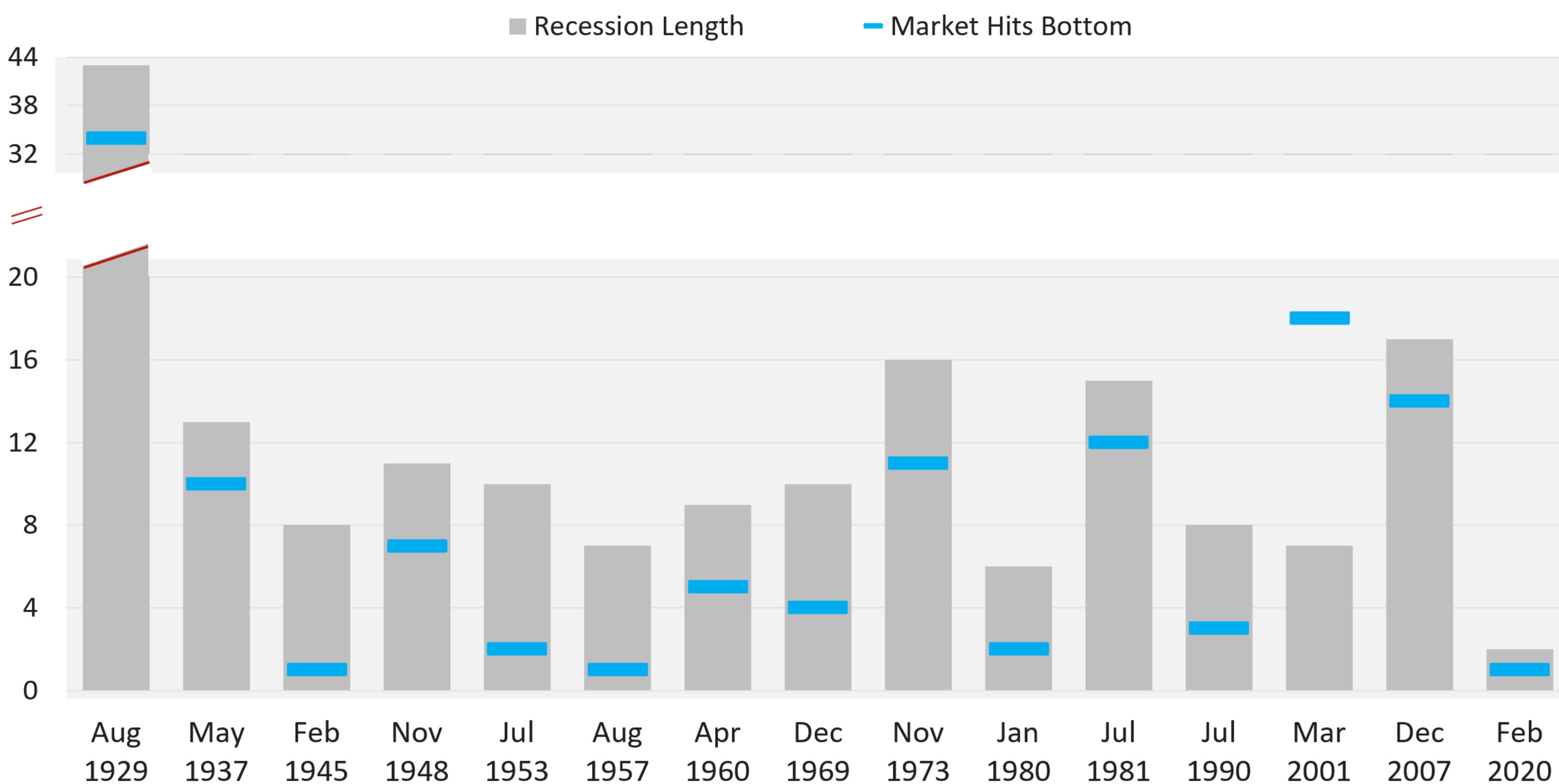
BEAR MARKETS AND RECESSIONS

IN A RECESSION – WHEN DOES THE MARKET BOTTOM?

- Not only do markets tend to fall before a recession begins, but markets also tend to recover well before a recession ends.
- Markets bottom when the news that triggers a recession becomes "less bad," as opposed to good.

HISTORICALLY, MARKETS HIT THE BOTTOM FOUR MONTHS BEFORE A RECESSION ENDS

U.S. Recessions and Equity Market Bottoms



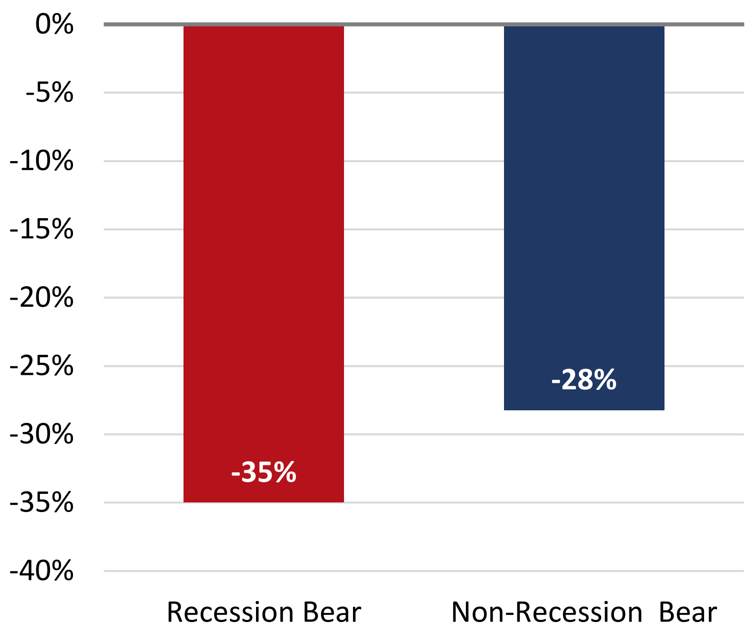
Data source: JPMAM, Note: Bottom hit is shown as months after the recession start

A BEAR MARKET WITH, OR WITHOUT, A RECESSION

- On average, bear markets with recessions suffer more substantial market weakness and fail to rebound as well as bear markets without recessions.
- The S&P 500 has suffered declines more significant than 10% a total of 17 times since 1959 without the U.S. experiencing a recession.

A RECESSION BEAR IS MORE SEVERE…

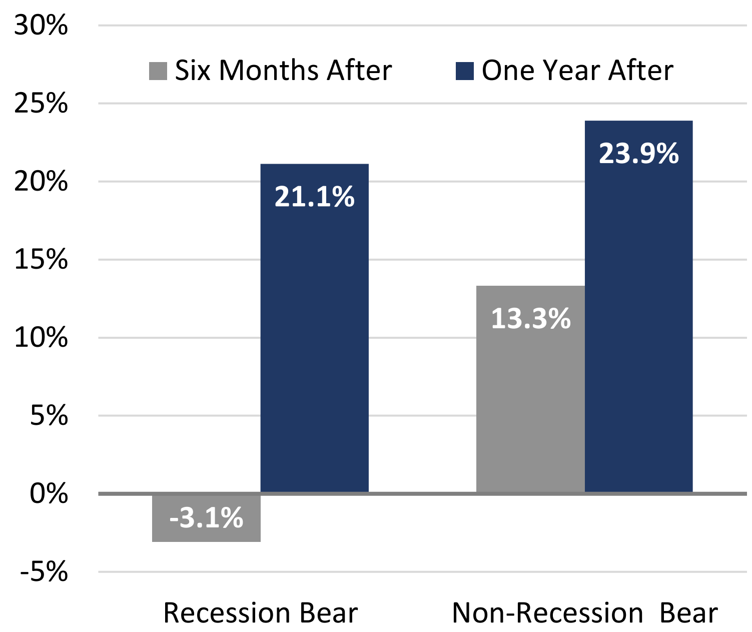
Median S&P 500 Returns in Post-WWII Bear Markets



Data source: Bespoke Investment Group

AND RECOVERS MORE SLOWLY

Median Performance after 20% Bear Market Decline



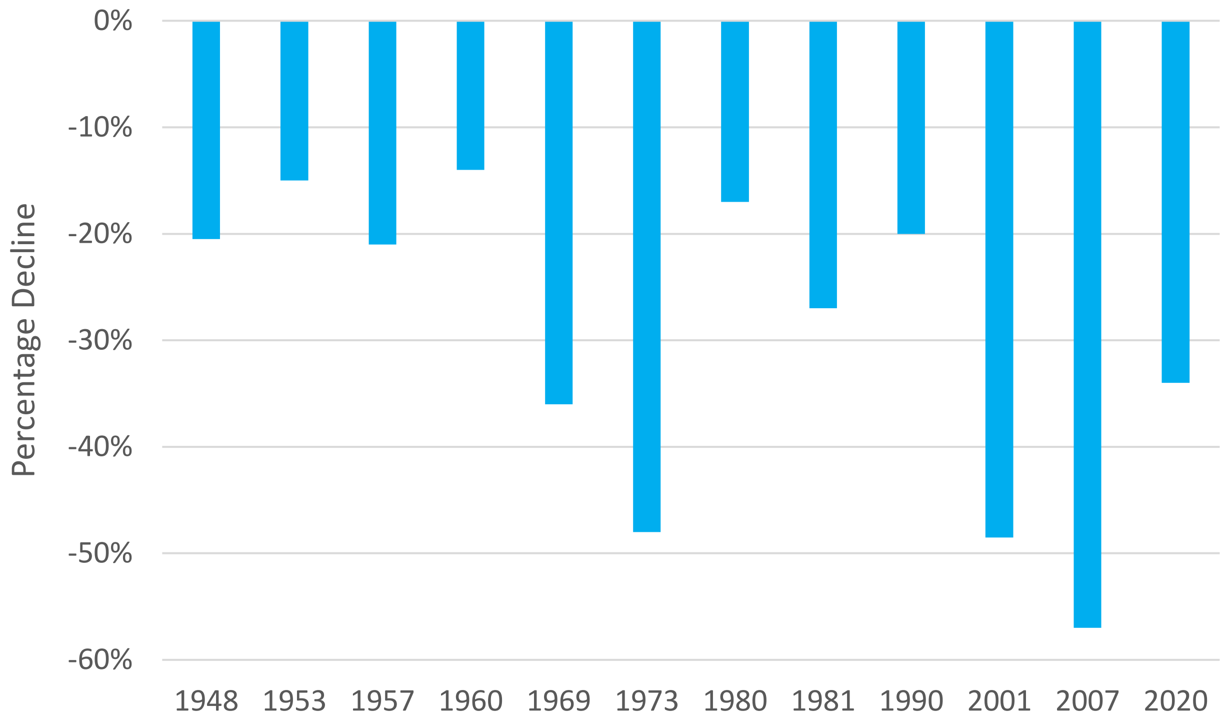
Data source: Bespoke Investment Group

NOT ALL RECESSIONARY DRAWDOWNS ARE EQUAL

- Although bear markets during a recession have historically included market declines over 20%, not all recessions have included such dramatic market declines.

RECESSIONARY DECLINES HAVE VARIED IN SEVERITY

S&P 500 Index Peak to Trough Drawdowns, Blue Bars are Recession by First Year



Data sources: Bloomberg, J.P. Morgan Asset Management, Factset

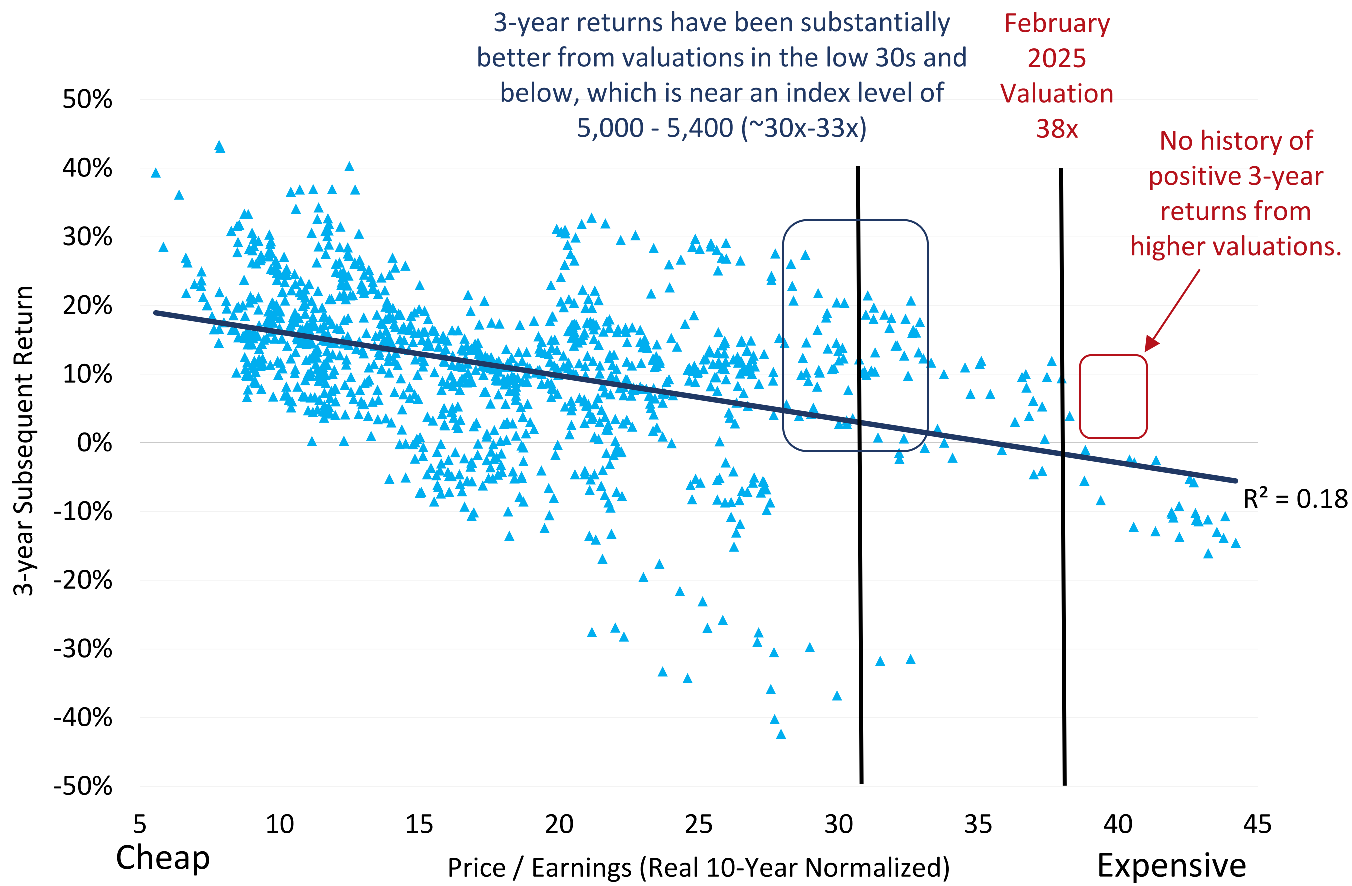
BEAR MARKET VALUATIONS AND EARNINGS

THE MARKET DECLINE HAS BEEN VALUATION DRIVEN

- The February peak of the U.S. equity market placed valuations near Technology Bubble levels.
- Valuation contraction has been the source of the negative year-to-date performance, with much of the contraction coming from the largest stocks, similar to the Technology Bubble.
- Valuations are now at levels indicative of more favorable future equity returns than those to start the year.

VALUATIONS CONTRACTED FROM HISTORICALLY EXCEPTIONAL LEVELS

U.S. Price/10-Year Normalized Earnings & 3-year Returns, S&P 500 Index, 1926 - Present



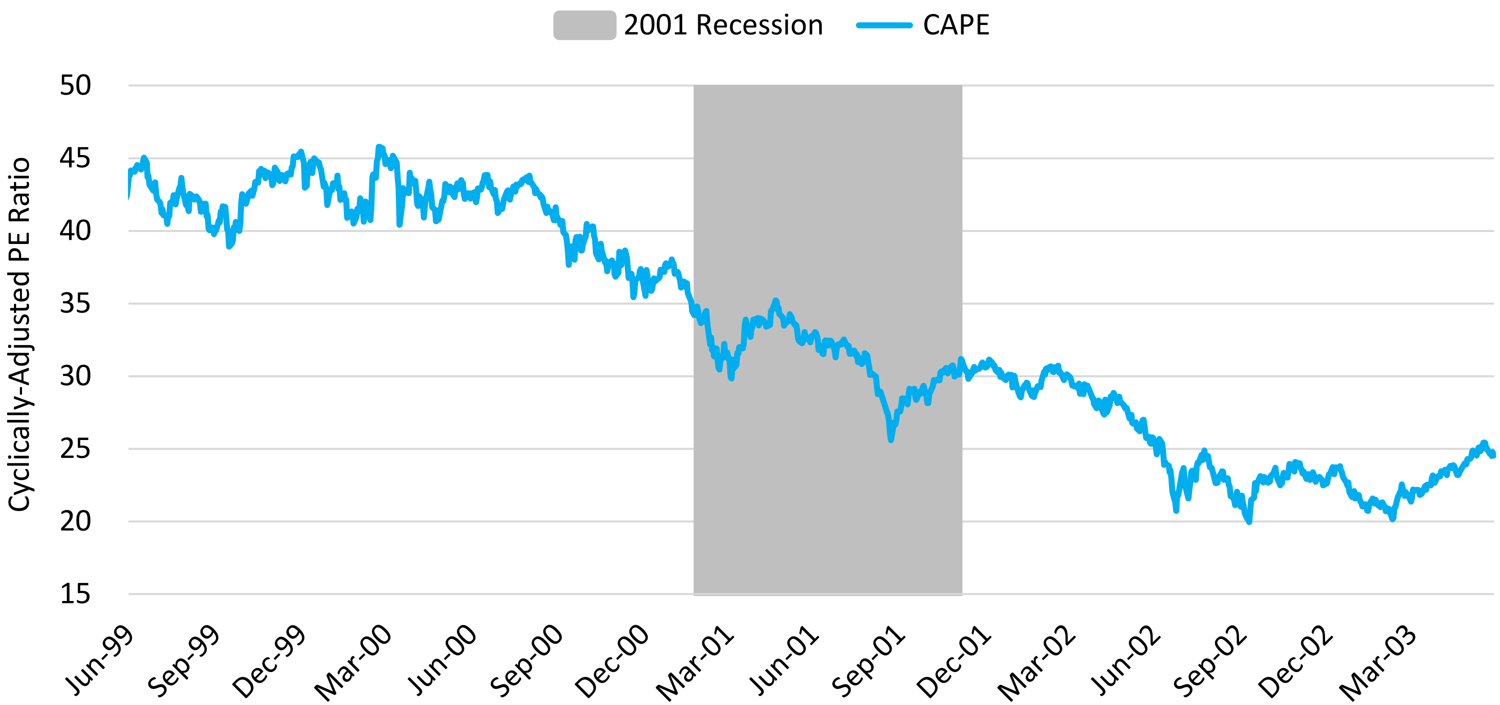
Data sources: Robert Shiller and Standard & Poor's

VALUATIONS TAKE TIME TO NORMALIZE

- When the Technology Bubble burst in 2000, the most substantial decline in valuation occurred over approximately six months from late 2000 to early 2001, when the 2001 recession began.
- Valuations continued to fluctuate and ultimately declined further as investors digested earnings weakness that continued well into 2002, illustrating the potential for further declines.

THE DECLINE OF VALUATIONS IN THE BURSTING OF THE TECHNOLOGY BUBBLE TOOK TWO YEARS

S&P 500 Index Cyclically-Adjusted PE Ratio (Price-to-Normalized Real 10-year Earnings)



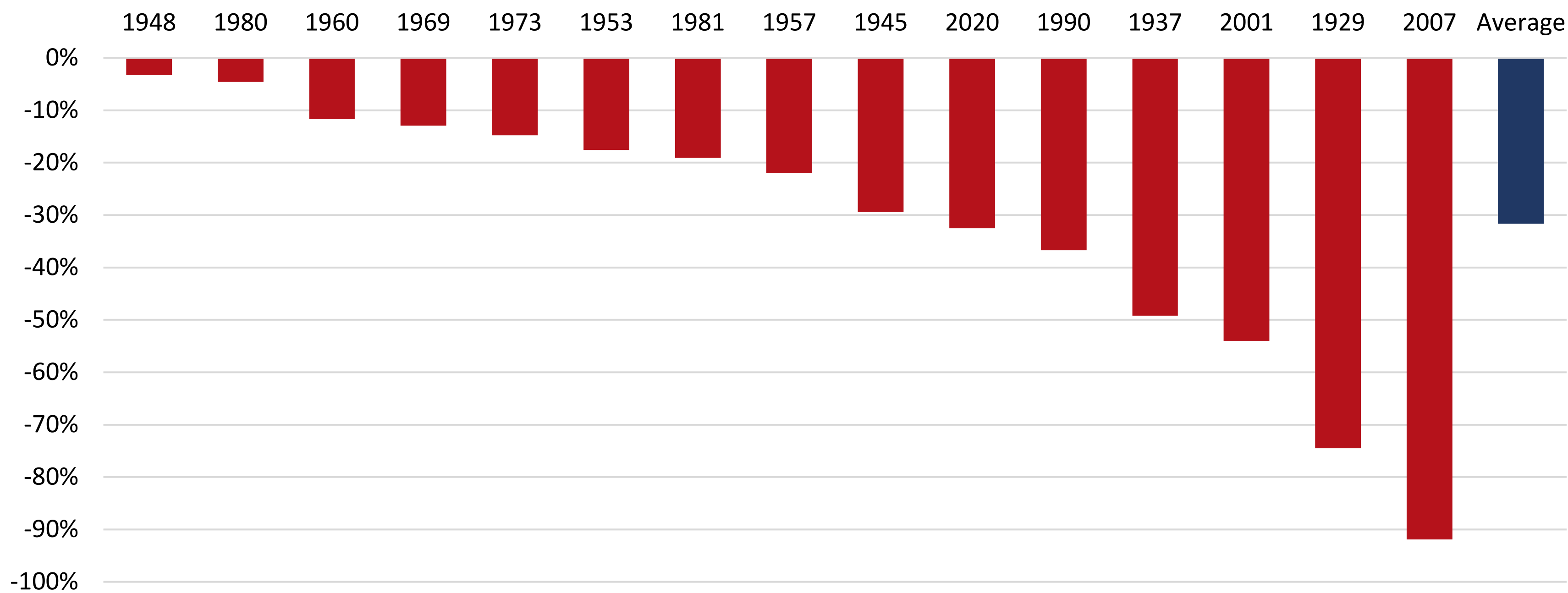
Data sources: Robert Shiller and Standard & Poor’s

EARNINGS ARE LIKELY TO DECLINE IF A RECESSION DEVELOPS

- If a recession develops, earnings are likely to decline, and the tariff announcement has the market anticipating such declines.
- The median earnings decline during a recession is 22%, and the average is over 30%.
- Post-WWII recessions witnessed more subdued earnings declines, the four recessions since and including the 1990 recession have all witnessed earnings declines in excess of the -30% average.

EARNINGS TYPICALLY FALL AT LEAST 10% TO 20% DURING RECESSIONS

S&P 500 Index Reported Earnings Declines During Recessions



Data source: Strategas

CONCLUSION

IN CONCLUSION

Bear markets are central to the volatile path that markets follow, and we should recall that over the long term, that path is up.

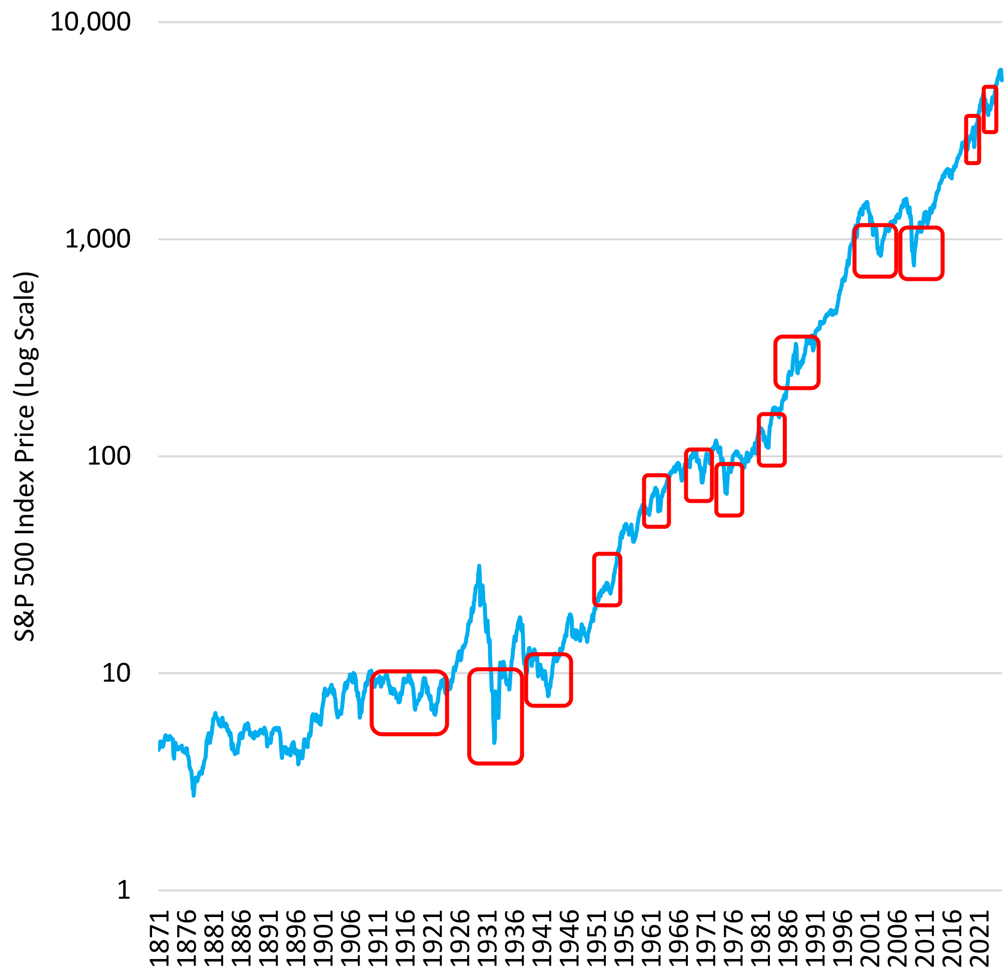
The primary lesson from past bear markets is that conditions eventually improve, and markets have historically identified that improvement well before economic data attest to it.

If the announced tariffs trigger a trade war and recession, which may already be occurring, conditions could deteriorate further.

History, however, has made clear that bear markets are opportunities for long-term investors.

BEAR MARKETS HAVE HISTORICALLY CREATED LONG-TERM OPPORTUNITIES

S&P 500 Index Price Level



Data source: Robert Shiller

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The S&P 500 Index is a capitalization-weighted index of 500 stocks. The S&P 500 Index is designed to measure the performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

Standard deviation is a measure of the dispersion of a set of data from its mean.

All data as of March 31, 2025, unless otherwise specified.

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