Blog Article

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Navigating Market Corrections: Insights and Reassurance

by Steven Hill, Vice President, Director of Investment Management

In light of the global equity sell-off earlier this week and the consequent uncertainty for our clients, we want to address the nature of this event to alleviate concerns.

The market correction experienced on Monday, August 5, 2024, is a normal cyclical drawdown. In 2023 and the first half of 2024, the markets experienced strong, above-trend growth. Since 2020, the S&P 500 Index has grown 14% annually, higher than the long-run annual return of 10.6%. With solid growth, the eventuality of a market correction or rebalance is natural. Here are some facts.

- Markets drop 3%, on average, seven times per year.
- 5% market corrections happen, on average, three times per year.
- 10% drawdowns typically happen once per year.

In addition to the market correction, it is crucial to understand the context of the market drawdown trigger. The U.S. Bureau of Labor Statistics released the Employment Summary on August 2, 2024, revealing that the unemployment rate had increased to 4.3% in July, up from 4.1% in June –almost a full percentage point higher than at the start of 2024. More people are filing for unemployment benefits, and fewer jobs are available than one year ago. One thing is clear: the job market is still strong but softening.

Why is the unemployment rate increasing? Economists attribute this to the high federal funds rate, making it difficult for small businesses to obtain cheap funding. The higher interest rates on variable lines of credit are eating into business owners' profits. As profit margins shrink, owners hesitate to expand or hire more employees to grow their businesses. Considering the latest Consumer Price Index (CPI) release, one could argue that Federal Reserve Chair Powell and the Federal Reserve Open Market Committee (FOMC) had enough data to support a rate cut in July. Fortunately, it's becoming increasingly clear – the Fed's fight against inflation is nearing its end as core inflation is falling towards its 2% target. While rates remained unchanged, the Federal Reserve still has the opportunity to lower rates in the future, which should help support the job market and stimulate the economy.

Despite the recent market correction and the rise in the unemployment rate, these events present opportunities for future stabilization and growth. Corporate America remains robust and profitable, weathering the market swings. While the AI/Tech sectors may have reached their peak due to high research and development costs, the broader stock market has seen earnings growth with normalized multiples. As the Federal Reserve adjusts its policies, the equity markets are expected to stabilize and potentially continue their upward trajectory. Additionally, we see promising opportunities in fixed-income securities, with attractive rates and strong credit fundamentals that should result in solid returns as the yield curve normalizes and shifts lower to reflect predicted lower future inflation.

As always, your financial future is our top priority. If you have concerns about this market correction, please reach out to your Relationship Manager to navigate through these times.

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