

PERSPECTIVES

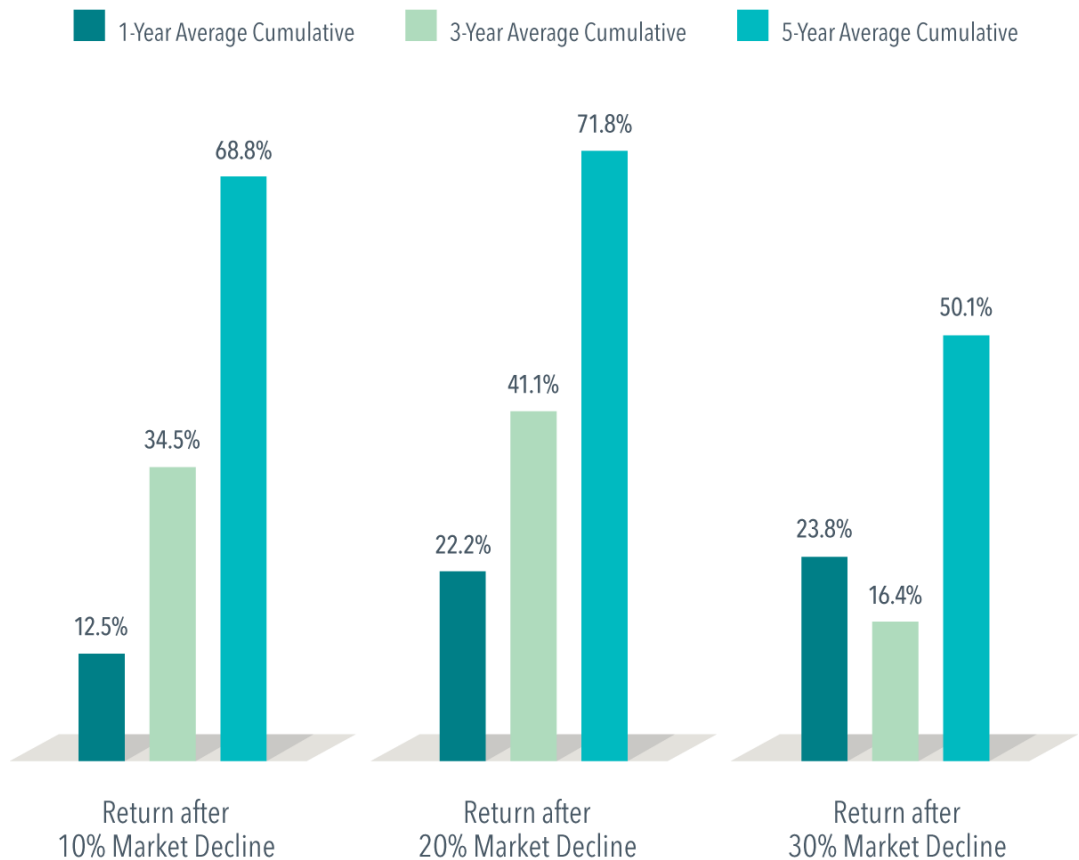
History Shows That Stock Gains Can Add Up after Big Declines

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Sudden market downturns can be unsettling. But historically, US equity returns following sharp declines have, on average, been positive. A broad market index tracking data since 1926 in the US shows that stocks have tended to deliver positive returns over one-year, three-year, and five-year periods following steep declines. Cumulative returns show this trend to striking effect, as seen in **Exhibit 1**.

Exhibit 1 Bouncing Back

Fama/French Total US
Market Research Index
Returns, July 1926-
December 2021



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On average, just one year after a market decline of 10%, stocks rebounded 12.5%, and a year after 20% and 30% declines, the cumulative returns topped 20%. Over three years, stocks bounced back more than 30% from declines of 10% and 20%, although—while still positive—returns were not as impressive after 30% declines. But five years after market declines of 10%, 20%, and 30%, the average cumulative returns all top 50%.

A look at the data makes a case for sticking with a plan. Handsome rebounds after steep declines can help put investors in position to capture the long-term benefits the markets offer.

In USD. Market declines or downturns are defined as periods in which the cumulative return from a peak is -10%, -20%, or -30% or lower. Returns are calculated for the 1-, 3-, and 5-year look-ahead periods beginning the day after the respective downturn thresholds of -10%, -20%, or -30% are exceeded. The bar chart shows the average returns for the 1-, 3-, and 5-year periods following the 10%, 20%, and 30%

thresholds. For the 10% threshold, there are 29 observations for 1-year look-ahead, 28 observations for 3-year look-ahead, and 27 observations for 5-year look-ahead. For the 20% threshold, there are 15 observations for 1-year look-ahead, 14 observations for 3-year look-ahead, and 13 observations for 5-year look-ahead. For the 30% threshold, there are 7 observations for 1-year look-ahead, 6 observations for 3-year look-ahead, and 6 observations for 5-year look-ahead. Peak is a new all-time high prior to a downturn. Data provided by Fama/French and available at mba.tuck.dartmouth.edu/pages/faculty/ken.french/data_library.html.

Eugene Fama and Ken French are members of the Board of Directors of the general partner of, and provide consulting services to, Dimensional Fund Advisors LP.

FAMA/FRENCH TOTAL US MARKET RESEARCH INDEX: 1926-present: Fama/French Total US Market Research Factor + One-Month US Treasury Bills. Source: Ken French website.

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