CAPITAL GROUP[SM]

Guide to market recoveries

3 Facts

2020

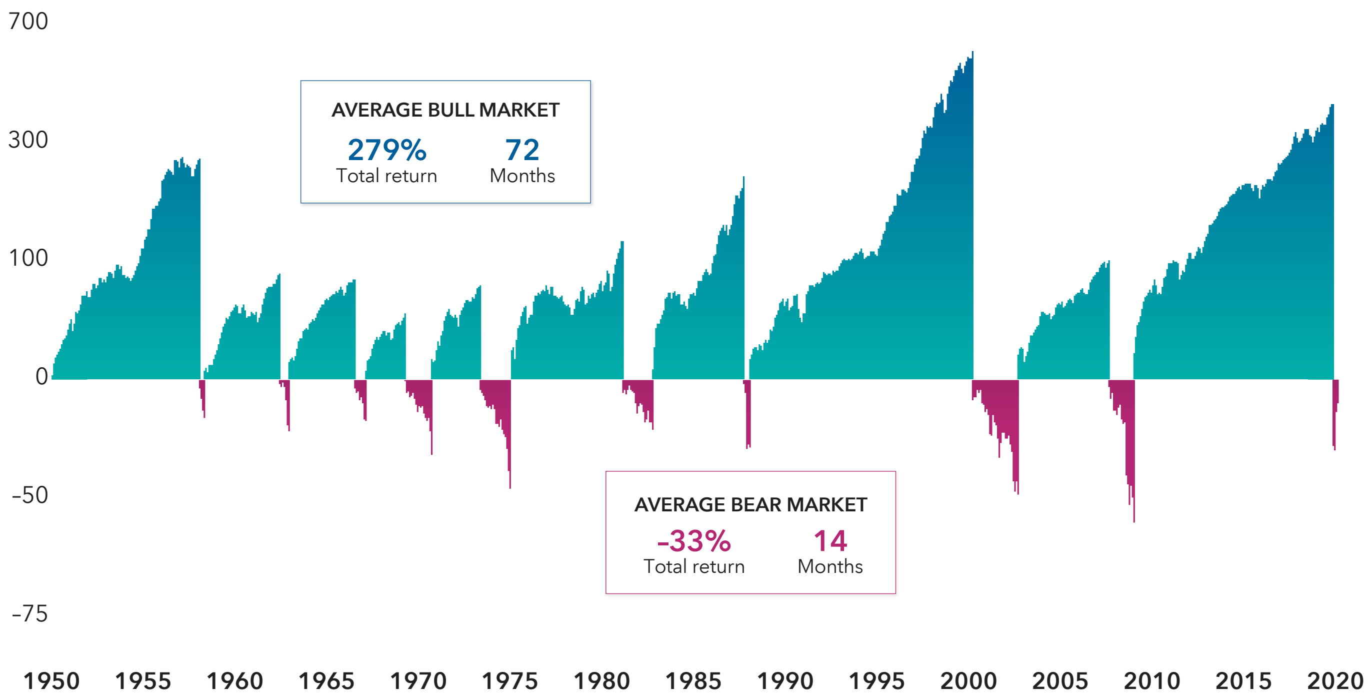
Fact #1:
Recoveries have been much longer and stronger than downturns

The good news is bear markets have been relatively short compared to recoveries. They can feel like they last forever when we're in them, but in reality they are much less impactful compared to the long-term power of bull markets.

Although every market decline is unique, in the US, the average bear market since 1950 has lasted 14 months. The average bull market has been more than five times longer.

The difference in returns has been just as dramatic. But even though the average bull market has averaged a 279% gain, recoveries are rarely a smooth ride. Investors often have to withstand scary headlines, significant market volatility and additional equity declines along the way. But investors who remain focused on the long term are often better equipped to look past the noise and stick to their plan.

S&P 500 cumulative price return for each bull and bear market (%)



Past results are not a guarantee of future results.
Sources: Capital Group, RIMES, Standard & Poor's. As at 31/5/20. The 2020 bear market is considered current as at 31/5/20 and is not included in the 'average bear market' calculations. All other bear market periods are peak-to-trough price declines of 20% or more in the S&P 500. Bull markets are all other periods. Returns shown on a logarithmic scale. Returns in USD.

Fact #2:
After large declines, markets have recovered relatively quickly

We don't know exactly what the next recovery will look like, but history shows us that stocks have often recovered sharply following steep downturns. We tracked the 18 biggest US market declines since the Great Depression, and in each case the S&P 500 was higher five years later. Returns over those five-year periods averaged more than 18% per year.

Returns have often been strongest after the steepest declines, bouncing back quickly from market bottoms. The first year following the five biggest US bear markets over the last 90 years averaged 71%, underscoring the importance of staying invested and avoiding the urge to abandon stocks during market volatility. While these have been the average returns during these recoveries, each one has differed, and it's quite possible any future recovery could be more muted.

Five biggest US market declines and subsequent five-year periods 1929–2019

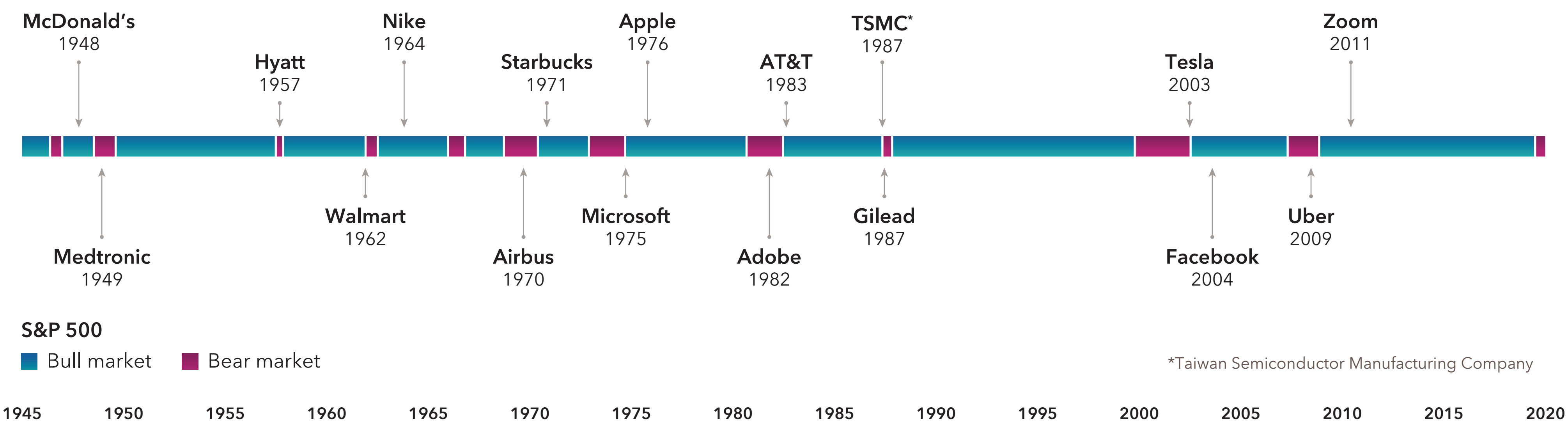
		S&P 500 12-month returns (Positive periods (23); Negative periods (2))					
Periods of decline	Decline	1st year after low	2nd year	3rd year	4th year	5th year	Average annual total return for the 5-year period
7/9/29–1/6/32	-86.2%	137.6%	0.5%	6.4%	56.7%	16.5%	35.9%
6/3/37–28/4/42	-60.0	64.3	9.0	31.1	32.2	-19.9	20.0
11/1/73–3/10/74	-48.2	44.4	26.0	-2.9	11.8	12.8	17.4
24/3/00–9/10/02	-49.1	36.2	9.9	8.5	15.1	18.1	17.2
9/10/07–9/3/09	-56.8	72.3	18.1	6.1	15.7	23.6	25.3
Average		70.9	12.7	9.8	26.3	10.2	23.1

Past results are not a guarantee of future results.

Sources: Capital Group, RIMES, Standard & Poor's. As of 30/4/20. Market downturns are based on the five largest declines in the S&P 500's value (excluding dividends and/or distributions) with 50% recovery after each decline. The return for each of the five years after a low is a 12-month return based on the date of the low. The percentage decline is based on the index value of the unmanaged S&P 500, excluding dividends and/or distributions. The average annual total returns include reinvested dividends and/or distributions but do not reflect the effect of sales charges, commissions, account fees, expenses or taxes. Investors cannot invest directly in an index. Past results are not predictive of results in future periods.

Fact #3:
Tough times have created some of the world's leading companies

Notable companies, by year they were founded



Many companies got their start during periods of uncertainty and have gone on to become household names.

To highlight just a few: McDonald's emerged in 1948 following a downturn caused by the US government's demobilisation from a wartime economy. Walmart came along 14 years later, around the time of the "Flash Crash of 1962" – a period when the S&P 500 composite index declined 27%. Airbus, Microsoft and Starbucks were founded during the stagflation era of the 1970s, a decade marked by two recessions and one of the worst bear markets in US history. Not long after that, Steve Jobs walked into his garage and started a small computer company called Apple.

History has shown that strong businesses find a way to survive, and even thrive, in volatile markets and difficult economic conditions. Companies that are able to adapt and grow in tough times often present attractive long-term investment opportunities. Bottom-up, fundamental research is the key to separating these resilient companies from those likely to be left behind.

Past results are not a guarantee of future results. This information has been provided solely for informational purposes and is not an offer, or solicitation of an offer, or a recommendation to buy or sell any security or instrument listed herein.

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