

## Putting Pullbacks in Perspective

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### Pullbacks & Bouncebacks

We can gain important perspective on market pullbacks by considering post-World War II declines in the S&P 500® Index. The majority of declines fall within the 5–10 percent range with an average recovery time of approximately one month, while declines between 10–20 percent have an average recovery period of approximately four months. Pullbacks within these ranges are not uncommon, occurring frequently during the normal market cycle. While pullbacks can be emotionally unnerving, they will not generally undermine a well-diversified portfolio and are not necessarily signals for panic. Even more severe pullbacks of 20–40 percent registered an average recovery period of only 14 months.

### The Deeper the Stock Market Decline, the Longer the Recovery

Declines in the S&P 500® (Since 12.31.1945)

Decline %	Number of Declines	Average Decline %	Average Length of Decline in Months	Average Time to Recover in Months
40%	3	-51.4	22.8	58.0
20%	10	-27.7	10.5	14.0
10%	29	-13.9	4.0	4.0
5%	90	-6.8	1.0	1.5

Source: Guggenheim Investments, Bloomberg, Ned Davis Research. Data as of 2.7.2025. Past performance does not guarantee future results.

In contrast, pullbacks of 40 percent or more, while occurring much less frequently, post an average recovery time of 58 months and can potentially compromise an investor’s financial plan. Pullbacks above 20 percent (including all pullbacks above 40 percent), which have registered the longest recovery periods, have been associated with economic recessions. When evaluating a market pullback, the probability of a recession is a key insight to consider when determining whether or not to reduce equity exposure.

While recessions are readily identifiable in hindsight, prospectively they can be difficult to spot. This makes access to reliable market analysis all the more important when determining the probability of a recession.

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Given underlying sources of resilience in the economy, the Fed may be successful in moderating any growth slowdown with appropriate policy easing.

## Where Are We Now?

The U.S. economy has good momentum heading into 2025, but the policy outlook from Washington elevates uncertainty. Recent economic data have been solid, with fourth quarter real gross domestic product (GDP) coming in at an annualized rate of 2.3 percent. The outlook for consumer spending remains positive, supported by healthy growth in inflation-adjusted labor income and a wealth effect driven by rising asset prices. Financial conditions have also turned more supportive as credit growth is reaccelerating, and optimism about artificial intelligence induces a positive outlook for capex. Disinflationary progress has stalled a bit in recent months, but fundamentals point to a further slowdown in inflation as wage pressures and housing inflation ease further.

With the new administration taking office, we expect a boost to both consumer and business sentiment, aided by expectations of deregulation and further tax cuts. Post-election surveys have already shown increased optimism about the outlook, which could support consumption, investment, and hiring in coming months. Some of the administration's proposed policies—such as tariffs and immigration—could weigh on growth if fully implemented, but all together, we see moderate growth in the U.S. economy in 2025 as these policy shifts play out

## Recession Risk Has Moderated, but Remains Higher than Normal

The business cycle is one of the most important drivers of investment performance. It is therefore critical for investors to have a well-informed view on the business cycle so portfolio allocations can be adjusted accordingly. When the Fed began to tighten monetary policy in 2022, many expected a recession to ensue. While the economy has proven surprisingly resilient, we remain on watch for recession warning signs.

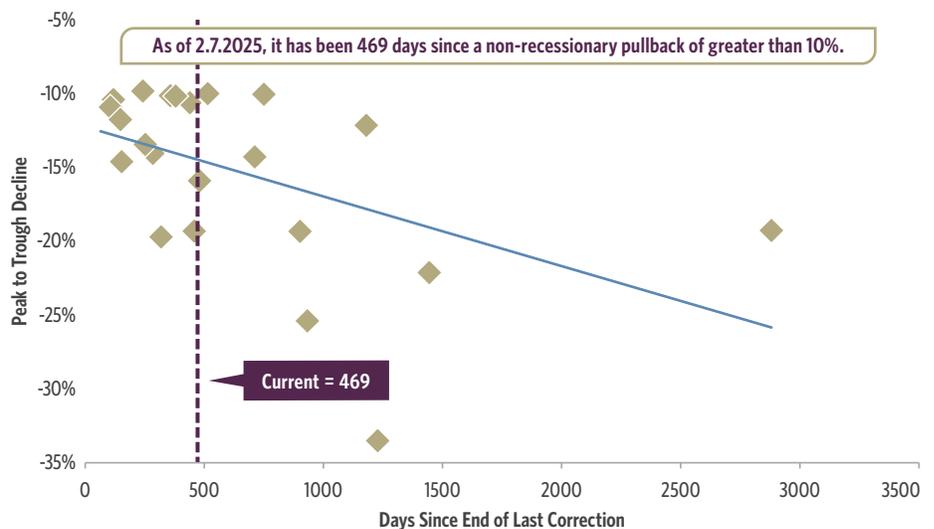
## Interval Since Last Pullback

While there is a relationship between the days since the end of the last correction and the magnitude of pullback, as shown on the following page, the majority of pullbacks during non-recessionary periods registered declines under 20 percent. As we discussed earlier, pullbacks falling within the 5-20 percent range historically experience recovery periods of one to four months. These are not periods typically associated with severe economic deterioration, and do not necessarily represent a signal to reduce equity exposure. As of the date of this analysis (Feb. 7, 2025), it has been 469 days since the last decline of greater than 10 percent.

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### Ex Recession S&P 500 Corrections (>10% Decline)

Since 1962



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## Putting Pullbacks in Perspective

Pullbacks are often not a time to panic and should rather be used as a reason to analyze and assess. Under certain circumstances, it may even be the case that a pullback represents an attractive buying opportunity for certain portfolios. The benefit of gaining reliable market and economic perspective is essential in preparing for market pullbacks. Rather than act on emotion, it's important to put these events in context to determine what they mean.

Working with your financial advisor, you may then better assess any potential impact on your portfolio and implement a proper course of action, if any is necessary, that is in line with your investment objectives.

*To learn more, speak to your financial advisor about Guggenheim Investments' timely insights and thought leadership.*

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