

Market Perspective – Risk-reward improved following pullback

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What happened

After a five-month winning streak, April has been less kind to stocks. The S&P 500 has declined three-straight weeks and suffered the first correction of at least 5% for the year. The tech sector is down more than 9% from its recent peak, while more interest rate-sensitive areas, such as mid and small caps, are down over 6%, and the real estate sector is down more than 11%.

Our take

Pullbacks are always uncomfortable and always come with bad news. However, with stocks, it's often two steps forward, one step back. As we often say, pullbacks are the admission price to the market.

Investors may recall that after 10%-plus first quarters, such as what occurred this year, the maximum pullback the rest of the year has averaged 11% (median 7%), with the shallowest pullback in any of these years being just 4%. Moreover, there has **only been three years since 1980 in which the market did not see at least one 5% pullback** during the year.

Notably, since March 9, 2009, where stocks bottomed following the Global Financial Crisis, we count **28 previous pullbacks of at least 5%** for the S&P 500. Impressively, despite these setbacks, **stocks are up 634% on a price basis and 886% including dividends over that entire period.**

The pullbacks since 2009 have been in a wide range with **a median decline of 7.5%** (10.4% average) over **30 calendar days** (average 40 days). This compares to the **current decline of 5.5% over 22 days.**

Based on the median and average pullbacks, that suggests downside from current levels would be limited to somewhere between 2% to 5% (S&P 500 level of roughly 4700-4850). This also corresponds with a level where there is strong technical price support for the market.

What's also important to recognize is once the market finds its low, the **subsequent market gain was almost 20%**, on average, before the next correction ensued.

Other factors supporting that the primary trend is still positive:

- Market is now the **most oversold** in our work since October 2023
- **U.S. GDP** growth forecasts continue to get **revised higher**
- S&P 500 forward **earnings estimates** just made another **record high**
- Investors **already braced** for a more **hawkish Federal Reserve** (Fed) – market now pricing in just 1.7 cuts versus 6.3 cuts coming into 2024
- **Investor sentiment is less ebullient** after the recent correction and suggests the bar for positive surprises has been lowered
- The **leaders are often the last to fall** during a corrective phase – and we saw a **sharp decline in technology stocks** late last week

Bottom line

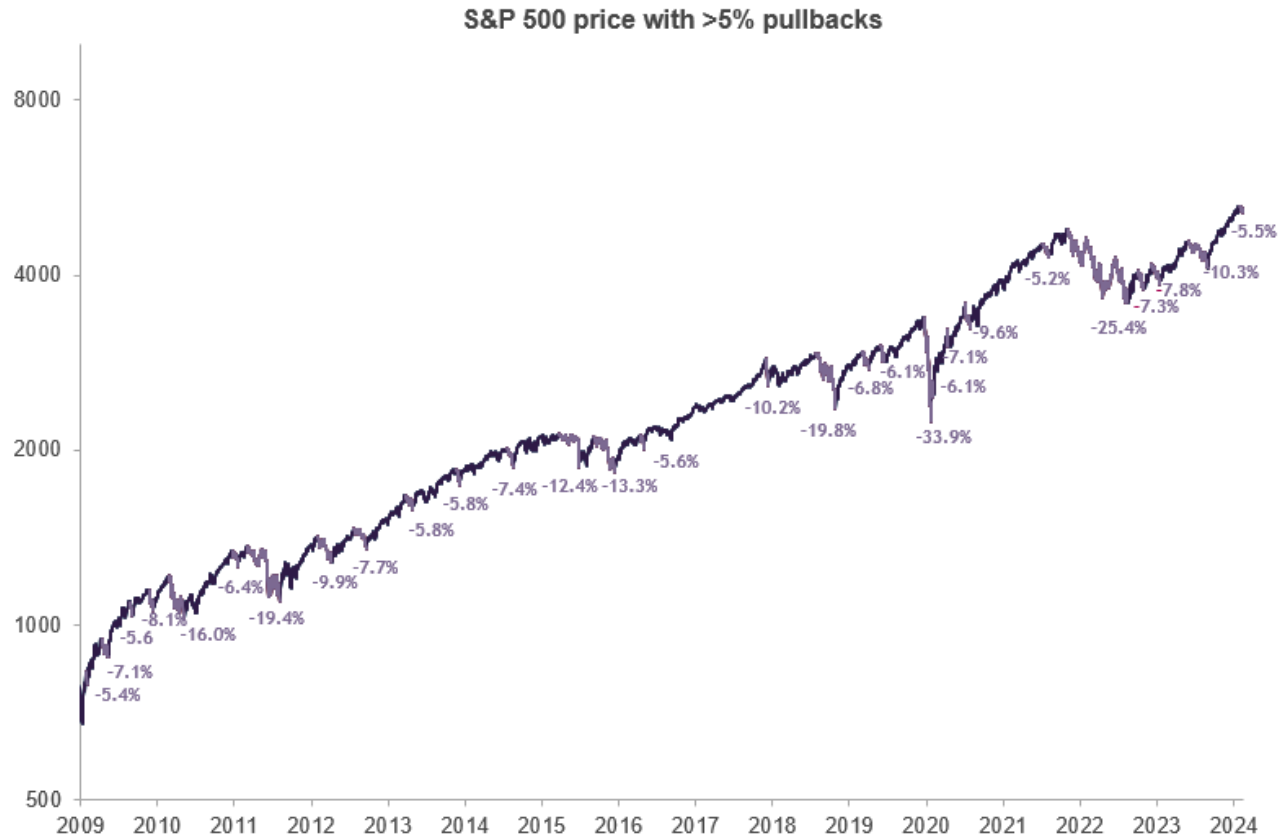
The weight of the evidence in our work suggests the market's risk/reward has improved following the recent setback. Therefore, we view the recent pullback as an opportunity for those investors who have excess cash or are underweight equities relative to their target allocations.



Wealth

Pullbacks are the admission price to the stock market

- Since March 9, 2009, where stocks bottomed following the Global Financial Crisis, we count **28 previous pullbacks** of at least 5% for the S&P 500.
- Impressively, despite these setbacks, **stocks are up 634% on a price basis and 886% including dividends** over that entire period.



Data source: Truist IAG, FactSet.

Past performance does not guarantee future results.



Wealth

Stats around historical declines and subsequent rallies

- The pullbacks since 2009 have been in a wide range with a median decline of 7.5% (10.4% average) over 30 calendar days (average 50 days). This compares to the current decline of 5.5% over 22 days.
- **Based on the median and average pullbacks, that suggests downside from current levels would be limited to somewhere between 2% to 5%** (S&P 500 level of roughly 4700-4850). This also corresponds with a level where there is strong technical price support for the market.
- What's also important to recognize is **once the market finds its low, the subsequent gain was almost 20%, on average**, before the next correction ensued.

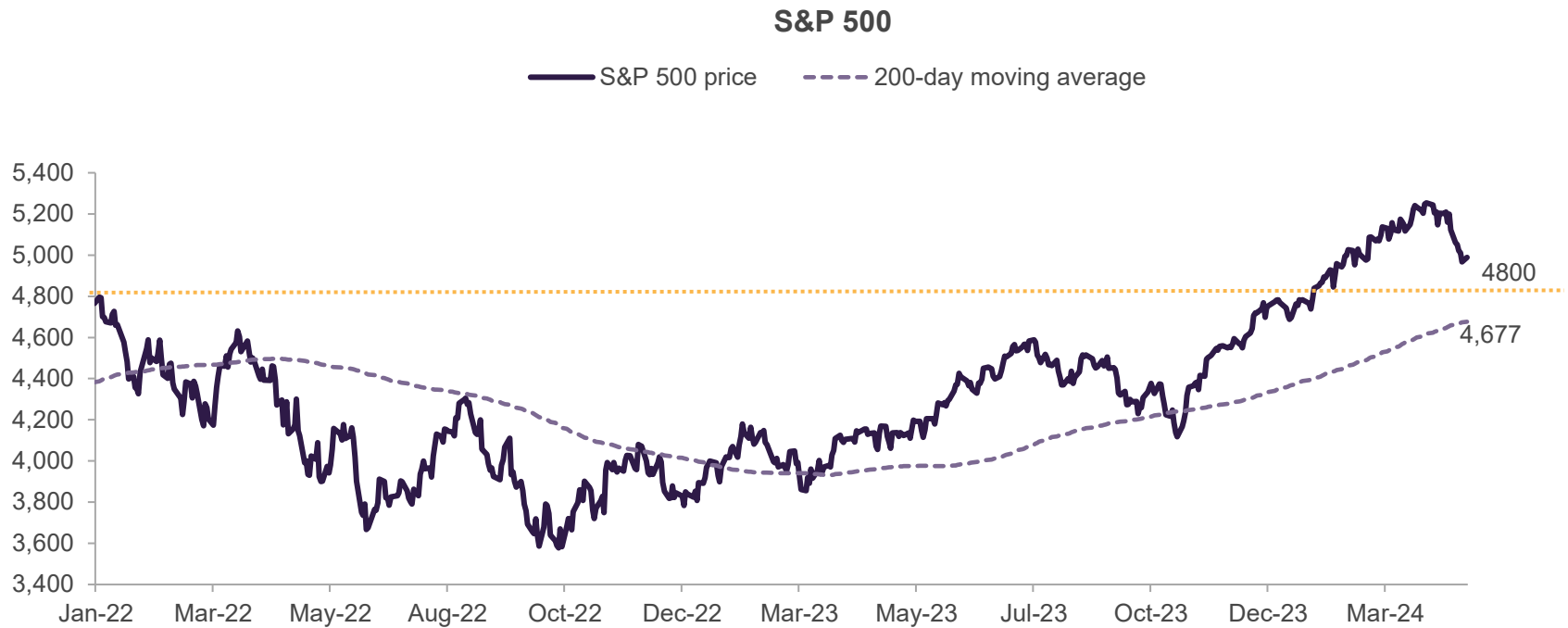
S&P 500 Pullbacks of >5% Since March 2009					
Peak	Trough	Duration of decline (Calendar days)	% Decline	Calendar days to next pullback	Trough to next peak gain
3/26/09	3/30/09	4	-5.4%	74	20.1%
6/12/09	7/10/09	28	-7.1%	101	24.9%
10/19/09	10/30/09	11	-5.6%	81	11.0%
1/19/10	2/8/10	20	-8.1%	74	15.2%
4/23/10	7/2/10	70	-16.0%	231	31.3%
2/18/11	3/16/11	26	-6.4%	44	8.5%
4/29/11	10/3/11	157	-19.4%	182	29.1%
4/2/12	6/1/12	60	-9.9%	105	14.7%
9/14/12	11/15/12	62	-7.7%	187	23.3%
5/21/13	6/24/13	34	-5.8%	205	17.5%
1/15/14	2/3/14	19	-5.8%	227	15.5%
9/18/14	10/15/14	27	-7.4%	218	15.8%
5/21/15	8/25/15	96	-12.4%	70	13.0%
11/3/15	2/11/16	100	-13.3%	118	15.9%
6/8/16	6/27/16	19	-5.6%	580	43.6%
1/28/18	2/8/18	11	-10.2%	224	13.6%
9/20/18	12/24/18	95	-19.8%	127	25.3%
4/30/19	6/2/19	33	-6.8%	54	10.3%
7/26/19	8/14/19	19	-6.1%	189	17.2%
2/19/20	3/23/20	33	-33.9%	3	17.6%
3/26/20	4/1/20	6	-6.1%	68	30.8%
6/8/20	6/10/20	2	-7.1%	84	19.3%
9/2/20	9/23/20	21	-9.6%	344	29.3%
9/2/21	10/4/21	32	-5.2%	91	11.5%
1/3/22	10/12/22	282	-25.4%	49	14.1%
11/30/22	12/28/22	28	-7.3%	36	10.5%
2/2/23	3/13/23	39	-7.8%	140	19.0%
7/31/23	10/27/23	88	-10.3%	153	27.6%
3/28/24			5.5%*		
Average		51	-10.4%	145	19.5%
Median		30	-7.5%	112	17.4%



Data source: Truist IAG, FactSet.
Past performance does not guarantee future results.

S&P 500 with support levels

We see a strong band of price support near the 4800 level on the S&P 500 followed by the rising 200-day moving average at 4677.



Data source: Truist IAG, FactSet.

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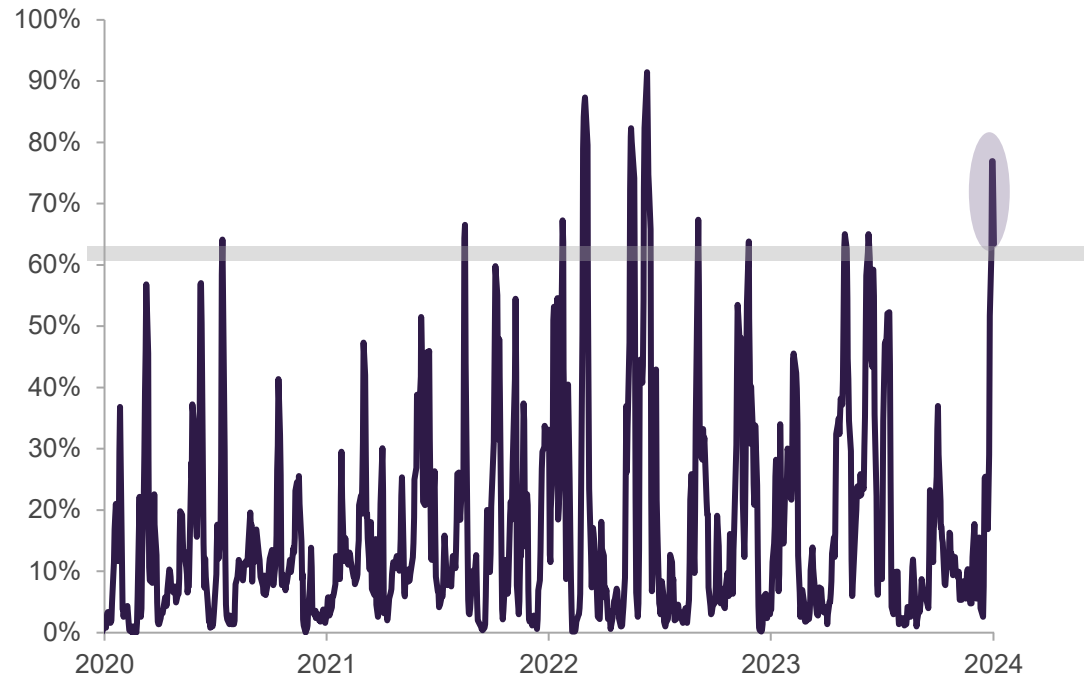


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Markets have moved to an oversold condition

The percentage of stocks that reached an oversold reading, or are stretched to the downside based on price momentum, has moved to a short-term extreme.

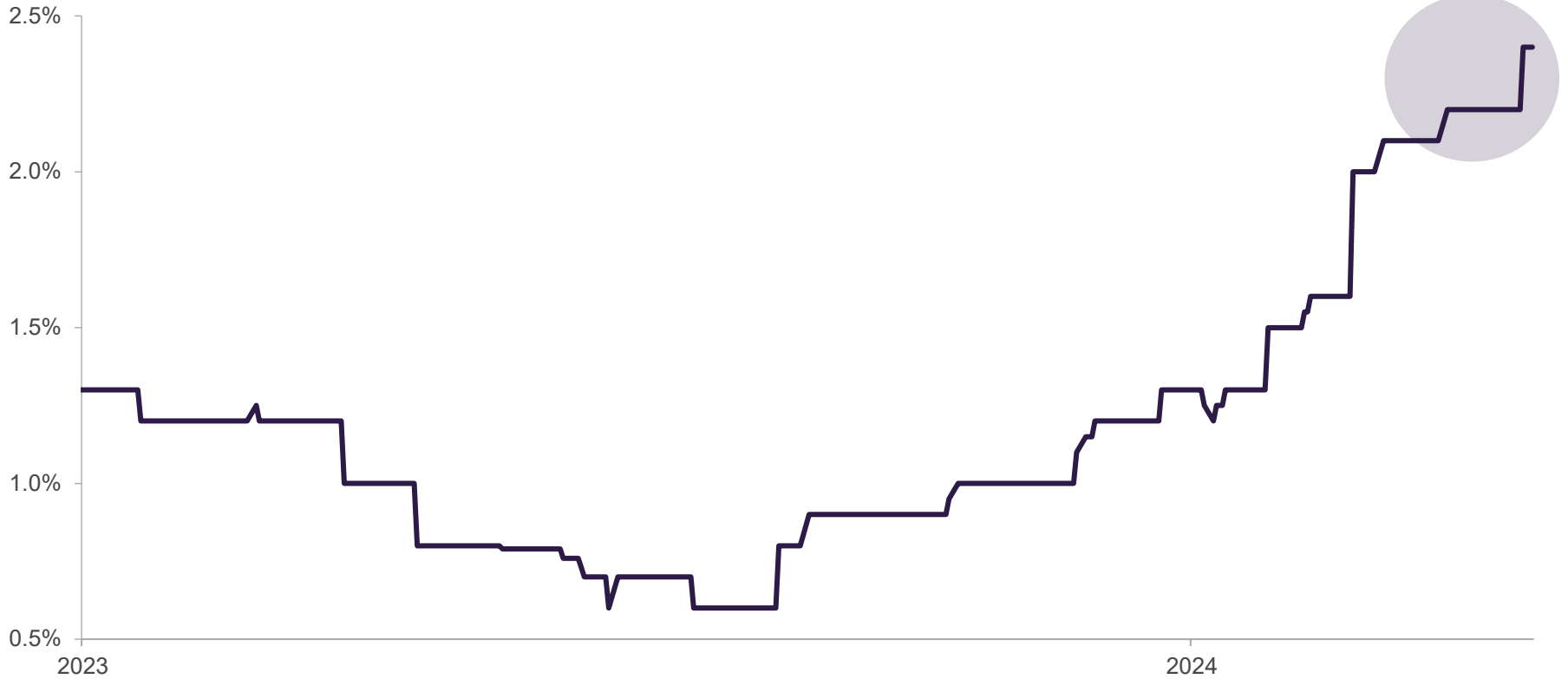
S&P 500 - % of stocks oversold



Data source: Truist IAG, FactSet. Based on proprietary indicator that measures short-term price momentum
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U.S. economic estimates continue to get revised higher

U.S. 2024 GDP estimates

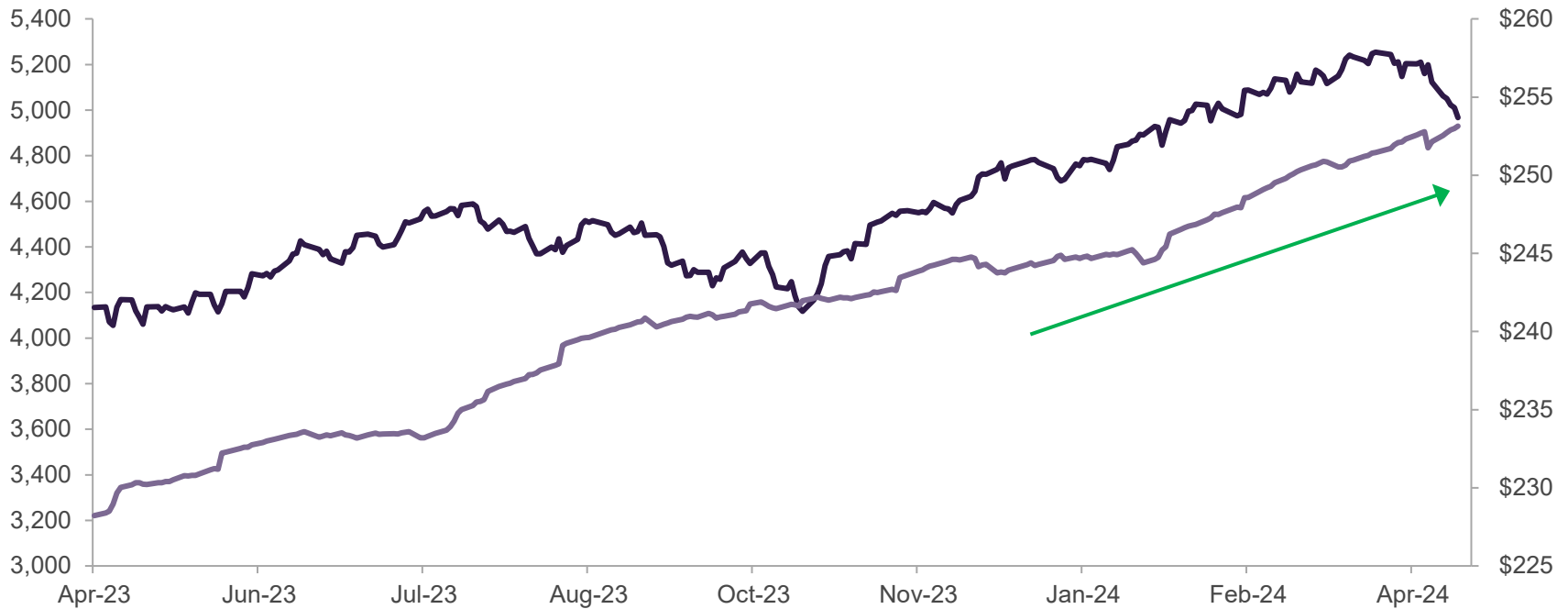


Data source: Truist IAG, Bloomberg. Change in real (inflation-adjusted) gross domestic product (GDP) year over year; consensus estimate through April 22, 2024.

Stronger economy translating into stronger earnings trends

S&P 500 vs. forward 12-month earnings estimates

— S&P 500 (l-axis) — Earnings estimates (r-axis)



Data source: Truist IAG, FactSet. Past performance does not guarantee future results.

Disclosures

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