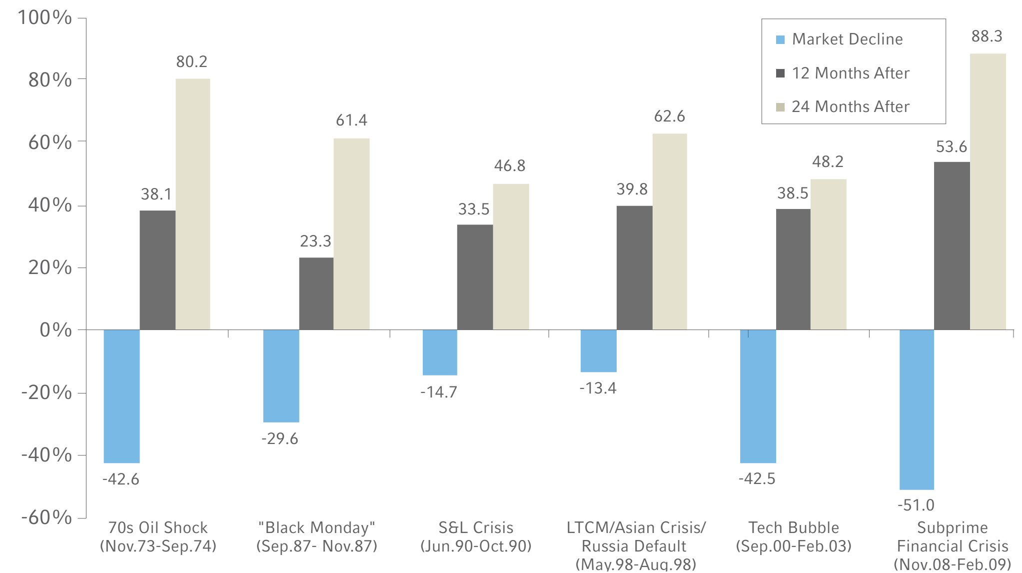
Russell Investments

Markets bounceback after shocks

History suggests that periods of sharp declines have often been followed by periods of some of the most favourable returns. Figure 1 shows the strong returns of U.S. markets during the 12 – 24 month periods following some of the sharpest declines of the past 40+ years. Even after the severe market falls (including the Oil Shock in the 1970s, stock market crash in 1987, 'Tech Bubble' in the early 2000s and the global financial crisis) where stocks lost up to half of their value over a short period of time, markets have bounced back to new highs after each shock. Similarly, Figure 2 shows the results for the Australian share market.

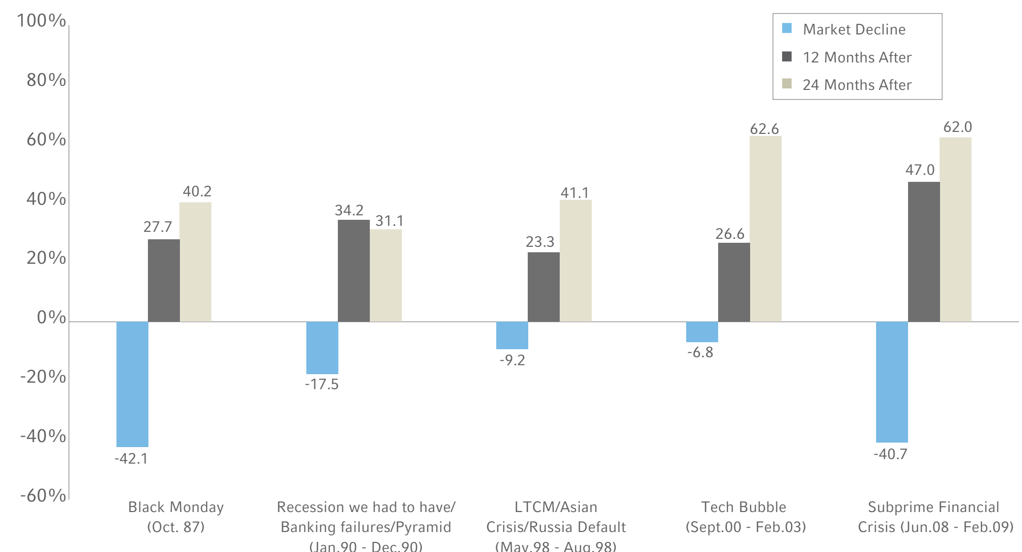
This strong historical tendency of markets to rebound suggests that dramatic alterations to asset allocation that are driven out of fear may not help investors achieve their longer term objectives.

Figure 1: US equity returns after steep market declines



Source: BNY Mellon, Russell Investments. S&P 500 Total returns in USD

Figure 2: Australian equity returns after steep market declines



Source: Russell Investments, Datastream. ASX All Ords Index total returns in AUD

Indexes are unmanaged and cannot be invested in directly. Past performance is not indicative of future results.

Diversification and strategic asset allocation do not assure profit or protect against loss in declining markets.

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