April 3, 2025
Commentary

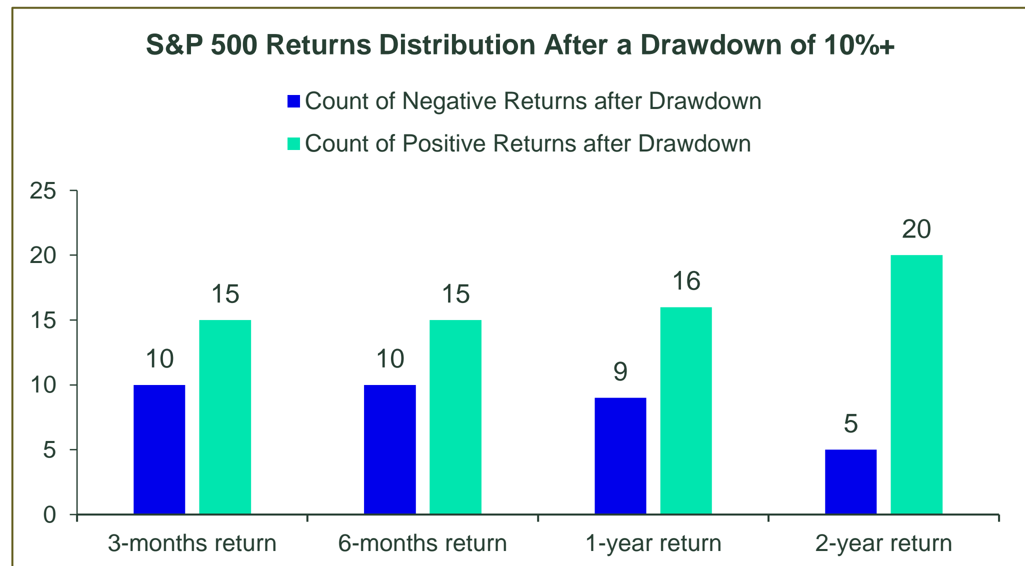
Weekly Market Update

Insight of the Week

10% Drawdowns: What Does History Say

As equity markets scramble to reprice amidst a fiscal policy news storm, we are reminded of a fundamental principle: Every bull run will reach its end. However, that does not necessarily mean opportunity meets its end as well. After two years of exceptional performance from the S&P500, investors are facing a reality they haven't experienced in quite some time. On March 13th, the market officially entered correction territory, declining 10% from all-time highs. While some see it as a bad omen for what's ahead, history tells us a different story. Amidst a flurry of "sky is falling" rhetoric from news stories, it's important to consider that corrections aren't always indicative of prolonged economic downturns.

Going back to the 1920's, there have been 25 instances where the S&P 500 had a >10% pullback from all-time highs. Here, we show the subsequent returns over the following 3 months, 6 months, 1 year, and 2 years are skewed to being positive after the pullback.



Source: FactSet, S&P, State Street Global Advisors. Data is from Jan-1928 until Mar-2025.

Further, here we show the average forward returns after these 10% pullbacks. The main take-away is that on average, the index has positive returns over all subsequent periods. For periods that had subsequent positive returns, the 10% pullback ends up being fully reversed on average, even after just 3 months.

	Fwd 3-months return (after 10% Drawdown)	Fwd 6-months return (after 10% Drawdown)	Fwd 1-year return (after 10% Drawdown)	Fwd 2-year return (after 10% Drawdown)
Avg Return (all periods)	2.8	5.4	5.2	14.0
Avg Return (when Up)	9.5	14.8	17.1	24.5
Avg Return (when Down)	(7.3)	(8.6)	(16.1)	(28.1)

Source: FactSet, S&P, State Street Global Advisors. Data is from Jan-1928 until Mar-2025.

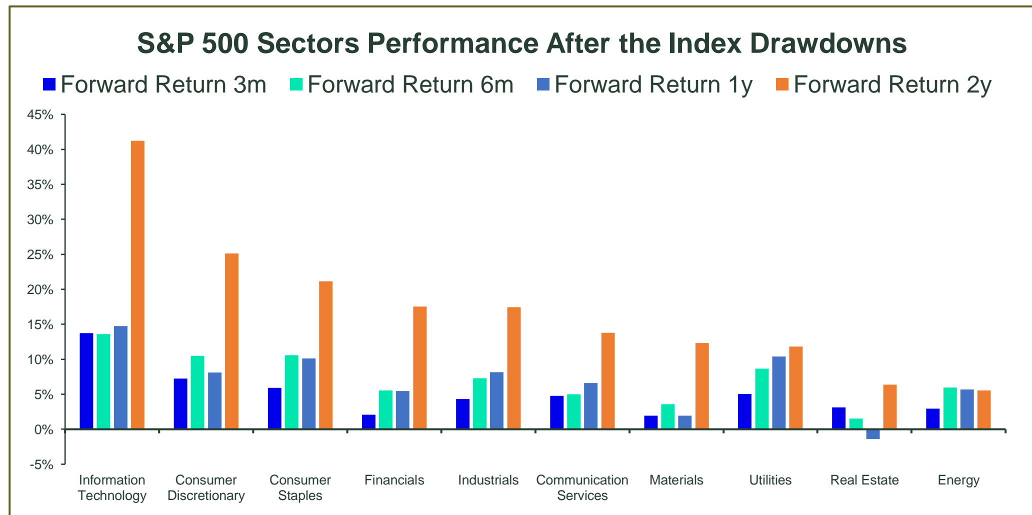
The point of this is not to dismiss the real possibility of further drawdown, particularly in the aftermath of a higher than expected tariff announcement by President Trump. Instead, we wanted to acknowledge that 10% corrections don't have to be devastating to the portfolio. In fact, the hit rate and average forward return skews to the positive.

Source: FactSet, State Street Global Advisors.

Equities

Sector Snapback: Which Areas Are Likely to Rebound?

While the S&P 500 has recently had a 10% drawdown and remains under threat from tariff implications, it is natural to ask: how long before it historically bounces back – and which parts of the market can recover the fastest? While the index itself tends to rebound steadily over time, not all sectors participate equally in the recovery. Historically, communication services, consumer discretionary, financials, and IT tend to recover more quickly and deliver stronger forward returns. Materials, real estate, utilities and energy often lag behind the broader rebound.



Source: FactSet, S&P. Data is from Jan-1990 until Mar-2025. Sector data is used for the periods of 10%+ drawdown of the S&P 500 from all-time highs. Returns are calculated as the average for the period.

The faster-recovering sectors typically have higher earnings growth, more flexible cost structures, and stronger demand elasticity. Tech and communication services often benefit from structural growth trends that remain intact even after market shocks. Consumer discretionary and financials are more cyclically sensitive, so when markets begin pricing in a recovery, these sectors tend move quickly.

In contrast, utilities and real estate are seen as defensive and interest-rate sensitive. They often don't benefit as much from early recovery optimism. Energy is heavily influences by global supply and demand dynamics, which may lag broader equity recoveries.

While the index tends to recover over time, sector-level dispersion presents opportunities. Sectors with stronger forward earnings potential with higher sensitivity to a recovery may enhance returns after major drawdowns. When the market falls hard, how – and where – your position for the rebound matters.

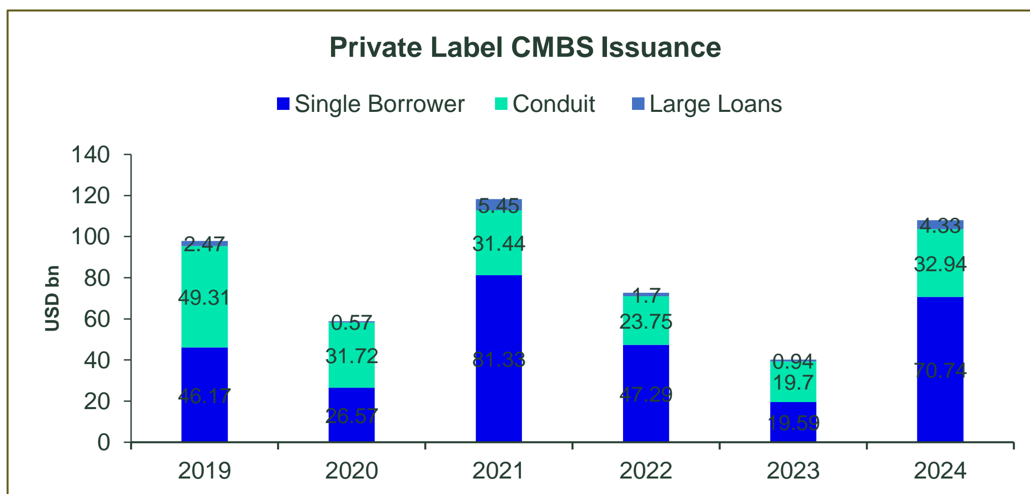
Source: FactSet. Past performance is not a reliable indicator of future performance. Index returns are unmanaged and do not reflect the deduction of any fees or expenses.

Fixed Income

CMBS Issuance to Remain Strong

For investors, CMBS provides an opportunity to diversify portfolios while providing higher yields. During the pandemic, issuance became scarce as property prices receded and distressed rates increased. Issuance picked up in 2024 and has remained robust through the first quarter of 2025 as the outlook for certain loans and property types has improved.

Issuance increased to $118.2 billion in 2021, but as interest rates spiked in 2022 and 2023, insurance decreased to $72 billion and $40 billion respectively. In 2024 issuance rebounded to $108 billion. Single Asset/ Single Borrowers (SASB) loans accounted for approximately $70 billion (or 65%) of issuance in 2024. The SASB space is where a securitization is backed by one standalone asset, or one loan secured by multiple properties owned by the same borrower.



Source: Trepp as of March-25.

The momentum has continued into 2025, with first quarter total issuance reaching $30 billion, primarily driven by SASB issuance of approximately $20 billion. Issuance is expected to continue to remain robust.

Source: Trepp as of March-25. Past performance is not a reliable indicator of future performance.

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*Pensions & Investments Research Center, as of 12/31/23.
†This figure is presented as of December 31, 2024 and includes ETF AUM of $1,577.74 billion USD of which approximately $82.19 billion USD in gold assets with respect to SPDR products for which State Street Global Advisors Funds Distributors, LLC (SSGA FD) acts solely as the marketing agent. SSGA FD and State Street Global Advisors are affiliated. Please note all AUM is unaudited.

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Bonds generally present less short-term risk and volatility than stocks, but contain interest rate risk (as interest rates raise, bond prices usually fall); issuer default risk; issuer credit risk; liquidity risk; and inflation risk. These effects are usually pronounced for longer-term securities. Any fixed income security sold or redeemed prior to maturity may be subject to a substantial gain or loss.

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