BIRLING CAPITAL ADVISORS, LLC

Think Strategically

Navigating Market Downturns: A Historical Perspective and the 2024 Outlook

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Francisco Rodríguez-Castro, President & CEO

Staying Invested is the critical success for anyone with a 401K, IRA, Keough, or any Investment Plan

As the stock markets experience some downturns due to the direction of interest rates and inflation, billions of dollars may evaporate in value. However, it's important to remember that staying invested and sticking to your financial goals can offer significant long-term benefits. Historical data consistently shows that markets tend to recover and grow over time, rewarding patient investors who maintain their positions even during periods of volatility. This resilience underscores the importance of maintaining a disciplined approach to investing.

We want to help you understand that remaining committed to your investment strategy is crucial for achieving your financial objectives. Individuals with financial instruments such as 401(k)s, individual retirement accounts, Keough plans, college savings funds, investment accounts, or any other assets linked to global markets should recognize the value of staying the course. By doing so, you can capitalize on the market's eventual recovery and growth, avoid the pitfalls of trying to time the market and benefit from the power of compounding returns.

Market downturns can be unsettling but are also an inherent part of the investment landscape. Reacting impulsively to market fluctuations can often lead to poor decision-making, such as selling low and buying high, eroding long-term wealth. Instead, staying invested allows you to benefit from the market's long-term upward trajectory. This approach helps mitigate short-term losses and will enable you to accumulate wealth through reinvested dividends and interest and capital appreciation.

Furthermore, staying invested helps you avoid the significant opportunity costs of being out of the market during recovery. Some of the most substantial market gains tend to occur in the early stages of a recovery, and missing out on these can drastically impact overall portfolio performance. By maintaining your investments during downturns, you ensure that you can benefit fully when the market rebounds.
In essence, staying invested during downturns is a prudent approach that can help safeguard and grow your wealth over the long term, ensuring that you meet your financial goals despite short-term market fluctuations. It fosters a disciplined investment mindset, minimizes emotional decision-making, and leverages the historical upward trend of the markets. By understanding and embracing this strategy, you can navigate the complexities of the investment landscape with greater confidence and resilience.

Understanding Stock Market Downturns

A stock market downturn or crash is typically the result of various economic factors and events that trigger an emotional response from investors, primarily driven by the fear of financial loss. Occasionally, a series of adverse market news can act as a catalyst, sparking a chain of events leading to a market crash. While there's no official chronology of crashes, let's explore some of the most impactful ones from 1987 to the present, focusing on the losses incurred and the subsequent recovery.

- **Black Monday, October 19, 1987:** This day marked the first global financial crisis, with the Dow Jones Industrial Average losing 511 points and plummeting 22.6 percent—the most significant single-day stock market decline in history. The market took until January 25, 1989, to recover and close up 0.85 percent; by December 31, 1989, it had risen 22.54 percent.
- **July 1990 Recession:** Also known as the Desert Storm recession, this period followed Iraq's invasion of Kuwait, which sent global oil prices soaring. The recession began in July 1990 and ended in March 1991. Despite its relatively mild and brief nature, it was enough to cost George H.W. Bush his re-election. By July 31, 1990, the Dow Jones was down -2.54 percent; however, by December 31, 1991, the Dow had recovered, yielding a 6.33 percent return.
- **The Dot-com Bubble Burst of 2000:** The late '90s saw an overconfidence in anything related to the then-emerging internet. This era was characterized by the formation of hundreds of companies that, despite their inflated stock valuations, failed to generate profits. Before the bubble burst on March 10, 2000, the Nasdaq Composite had tripled in value in 18 months, closing at 5,048.82. However, by December 31, 2000, the Nasdaq had fallen to 2,470.51, a 51.07 percent drop. On March 20, 2015, the Nasdaq closed again at 5,026.42.
- **The Great Financial Crisis of 2007-2009:** Triggered by the bursting of the real estate and housing bubble, this crisis wiped out hundreds of billions of dollars in value, leading to the fire sale of Bear Stearns, Merrill Lynch, and Countrywide, among others. The bankruptcy of Lehman Brothers and thousands of banks brought the global financial system to the brink of collapse. As the Great Recession unfolded, the Fed increased interest rates from 1.25 percent to 5.25 percent over two years. This led to the worst housing default in history as subprime borrowers struggled to meet rising payments on interest-only loans or adjustable-rate mortgages. The Dow Jones closed at 13,264.82 on December 31, 2007; by June 30, 2009, it had fallen to 8,447.00, down 36.32 percent. However, just 12 months later, on June 30, 2010, the Dow had returned 15.71 percent.
- **The 2020 COVID-19 Global Pandemic Crash:** This is the most recent example of a market crash triggered by panic selling due to the exogenous shock of the pandemic. On March 17, 2020, when the global pandemic took hold, the Dow closed at 21,237.38. A week later, on March 24, 2020, the Dow closed at 18,591.93, a drop of 2,645.45 points. However, by March 17, 2021, the Dow had risen 55.46 percent to close at 33,015.37.

Focus on The 2024 Global Markets and The Road Ahead

Let's focus on the current scenario in the 2024 Global Markets. As the new year began, the markets continued their 2023 rise upwards. On December 31, 2023, the markets had the following returns:

- Dow Jones Industrial Average: 13.70%.
- S&P 500: 24.23%.
- Nasdaq Composite: 43.42%.
- Birling Puerto Rico Stock Index: 32.63%.
- Birling US Bank Index: 18.23%.

However, by May 24, 2024, all the five indexes we follow have continued their rise upwards with double digits returns and two with single digits:

- Dow Jones has a 3.66% YTD Return.
- S&P 500 has an 11.21% YTD Return.
- Nasdaq Composite has a 12.72% YTD Return.

- Birling P.R. Stock Index has a 1.34% YTD Return.
- Birling U.S. Bank Index has a 19.60% YTD Return.

After examining the VIX that closed last week at 12.77, down from 20.03 one year ago (a -36.25% decrease from one year ago), we can safely say the volatility, while present, is not a critical factor at play. The markets recover quickly from downturns. If any investor has well-defined long-term financial goals, diversification, patience, and a trusted adviser, it can be beneficial to add opportunistic positions to your portfolio during challenging times.

The Final Word: Can the Bull Market Press On? Four Factors to Consider

After four weeks of solid gains, the markets paused last week despite impressive corporate earnings from more than 80% of the S&P 500 Companies. The S&P 500 remains at 11.21% year-to-date, indicating a healthy consolidation after a significant rally over the past month.

Weekly Market Close Comparison	5/24/24	5/17/24	Return	YTD Retun
Dow Jones Industrial Average	39,872.99	40,003.59	-0.33%	3.66%
Standard & Poor's 500	5,321.41	5,303.27	0.34%	11.21%
Nasdaq Composite	16,801.54	16,685.97	0.69%	12.72%
Birling Puerto Rico Stock Index	3,388.19	3,485.40	-2.79%	1.34%
Birling U.S. Bank Stock Index	5,212.22	5,264.15	-0.99%	19.60%
U.S. Treasury 10-Year Note	4.46%	4.42%	0.90%	12.91%
U.S. Treasury 2-Year Note	4.93%	4.83%	2.07%	13.85%

Four Factors to Consider as we head into the second semester of 2024

1. **The Fed and Inflation Trajectory:** The markets have been susceptible to inflation data and the Federal Reserve's stance on rate cuts. Inflation surprised on the upside in the first three months of 2024, leading the Fed to adopt a cautious approach towards rate cuts unless there is definitive downward trend-supportive data. The Fed will wait to achieve at least three consecutive downward inflation readings to get enough confidence to lower rates.
2. **Economic Growth:** we must monitor the trajectory of the U.S. economy and earnings growth. The GDPNow for the second quarter of 2024 was updated on May 24. It decreased to 3.50% GDP, down from 3.60%, a 2.78% decrease; however, there was still healthy growth of 3.50% GDP.

Date	GDPNow 2Q24	Change
4/26/24	3.90%	Initial Forecast
5/1/24	3.30%	-15.4%
5/2/24	3.30%	0.0%
5/8/24	4.20%	21.4%
5/16/24	3.60%	-16.7%
5/24/24	3.50%	-2.78%

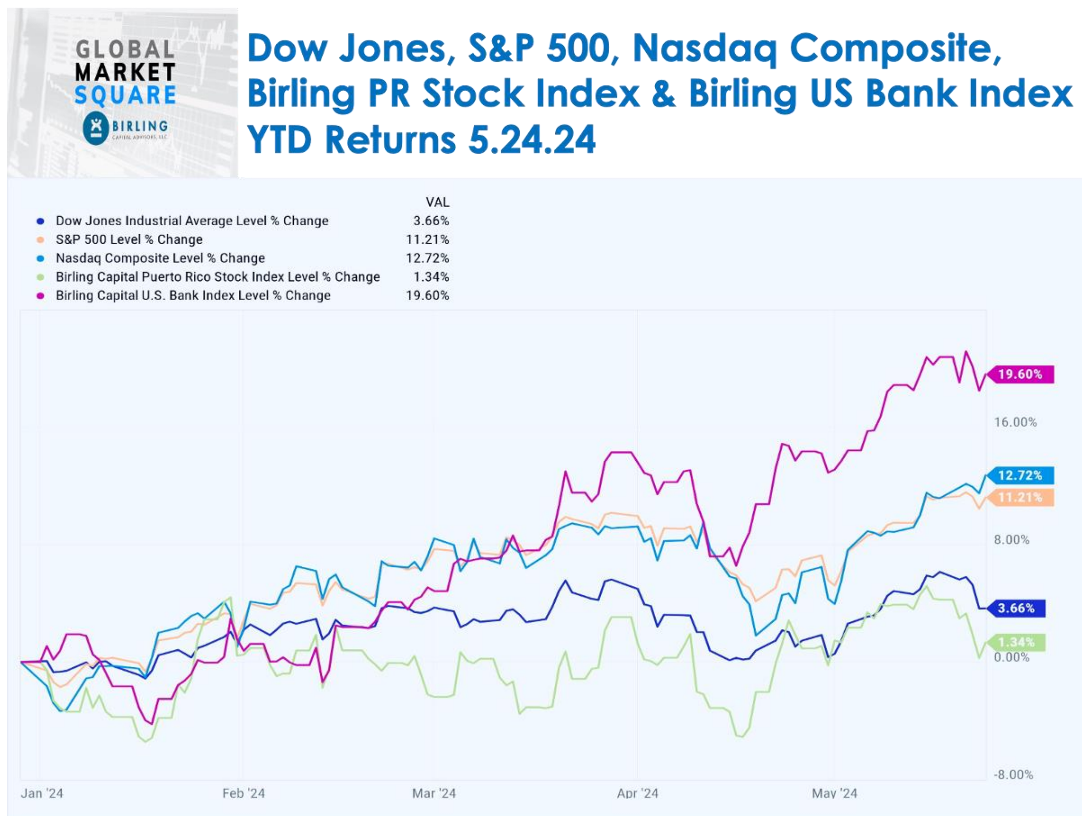
3. **Corporate Earnings growth:** is a fundamental driver of stock prices, and this year, S&P 500 earnings are expected to grow by a solid 10%-11%, significantly higher than last year's 1% growth rate. So far, first-quarter earnings nearly 80% of these exceeding earnings expectations with about 95% of S&P 500 companies having reported. However, recent U.S. economic growth indicators, such as retail sales, nonfarm job growth, and consumer confidence readings, have shown signs of softening. While economic growth may moderate to trend levels, we do not currently anticipate a deep downturn or recession.

4. Technology and the Impact of AI

The bull market's sustainability heavily relies on the performance of mega-cap technology and growth sectors, particularly in the U.S. market. The S&P 500 is significantly weighted towards technology and growth sectors. Notably, three sectors—communication services, consumer discretionary, and technology—collectively called the "Magnificent 7" comprise about 50% of the index weight.

No one said it better than **The Oracle of Omaha, Warren Buffet, who says, "Be fearful when others are greedy and greedy when others are fearful."** Buffett once shared wisdom that has since become a guiding principle for many investors. The quote states that when others are driven by greed, let caution be your guide, and when fear grips the masses, seize the opportunity with both hands.

This sentiment was first expressed in his 2003 letter to Berkshire Hathaway shareholders. Buffett's words offer a contrarian perspective on the dynamics of the stock market, tying directly to the fluctuation of asset prices.



Francisco Rodriguez-Castro, President & CEO • frc@birlingcapital.com
PO Box 10817 San Juan, PR 00922 • 787.247.2500 • 787.645.8430

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