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Do stocks always come back?

The S&P 500 officially hit bear market (20% correction) territory this month. It is a scary time when even blue chips like Amazon (AMZN) and Facebook (FB) are down about 33% and 40% respectively through mid-May 2022.

Anyone who looks at the historical returns of the stock market can appreciate the compelling case for investing in stocks. Over prolonged periods stock returns always look good. The problem is that most investors do not just look at their portfolios once every 10 to 20 years. They tend to look every month or even many times a day. As we know, stocks will sometimes have sharp downturns.

The market doesn't go down for no reason. When stocks go down a lot there is usually a good reason for it, and that reason can often be disconcerting. In March 2020, the reason was a global pandemic that brought the world economy to a screeching halt. In that case, the economy was able to recover quickly because of unprecedented stimulus by the government, Federal Reserve, and other banks.

Currently we are facing extremely high inflation as well as rapidly anticipated interest rate hikes. Whenever interest rates rise investors are usually willing to pay less for stocks, especially growth stocks. This makes stock prices fall. There is concern we still have not been able to get inflation under control and prolonged inflation and rising interest rates could continue to wreak havoc on stocks. Unlike the last crisis, the Federal Reserve is unlikely to lower interest rates to lift the stock market when they are in the process of raising rates to fight inflation.

Investors can take comfort in knowing that throughout history, the S&P 500 Index has always come back from bear markets to make new highs. However, the Nasdaq did take more than 15 years to recover from its 2000 highs and 33 years later, the Nikkei index is still more than 30% below its 1989 highs.

Source: Yahoo Finance

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