Gallagher

Financial Market ViewPoints

Navigating a Bear Market

Gallagher Financial Planning's Investment Strategy Team

The start of 2025 has certainly been a volatile one for investors. Despite reaching an all-time high for the S&P 500 towards the end of February, the market took an about-face in March and following "Liberation Day" declined at an even faster rate. Although it looks like the threshold of a Bear Market was not ultimately reached, at least as of this publication, it is important to prepare oneself for the eventual reality of navigating one's portfolio through a period of sustained declines as they tend to happen every handful of years.

Bear markets have the potential to rattle even the most seasoned investors

Looking back just a couple years, the last time we experienced a sustained downturn in the financial markets occurred in 2022. This began in the first quarter of the year with most markets, including stocks *and* bonds, posted losses. Although the bottom of this bear market was found roughly nine months later, it took a little more than a year for the market to recover from its losses. During this time, investors were questioning if the bottom was reached. Even as the recovery took hold, they contemplated if it was real or just another phase before the next, potentially larger decline. This is important because bear markets often elicit strong feelings that can rattle even the most seasoned investors. However, it is important to remember that while the associated declines in the market negatively impact investor's portfolios in the short-term, they also represent an opportunity to invest in stocks at discounted prices for the benefit of their portfolios over the long-term.

Bear Markets Since 1950

Bear Market	Decline
2022-2023	-23.0%
2020-2020	-33.8%
2007-2012	-55.2%
2000-2006	-47.4%
1987-1989	-32.8%
1980-1982	-20.2%
1973-1976	-44.8%
1968-1971	-32.6%
1966-1967	-20.2%
1961-1963	-26.9%
1956-1958*	-17.8%

Source: Bloomberg.
Return calculations are total return (price + dividends)
**1956-1958 declined 21.6% on a price return and -17.8% on a total return*

It is important to remain invested as bear markets tend to have strong recovery rallies

Thankfully, bear markets are not fairly common. We define a bear market as one in which the stock market declines by at least 20% from their peak. Additionally, we consider a bear market not over until the stock market recovers all losses from the bear market. Using these criteria, there have been only eleven bear markets since 1950.

Based on this definition, there are essentially two parts of a bear market: the initial slide, followed by the recovery from the market's bottom. While it can be tough at times to remain invested as the stock market falls further than anticipated, it is important for investors to remain defensive in their portfolio's posture instead of shifting to all cash. This is due to how quickly market tends to recover once that bottom has been reached. Within the first month of a bottom, the stock market on average recovers a little more than 14%. Looking further out, the average recovery grows to nearly 22% over the first three months and nearly 50% one year after the market has found its bottom. In our opinion, going to cash during a bear market has the potential for investors to miss out on a significant amount of gains. This is because it is nearly impossible to identify when the stock market is at its bottom.

Recovery rallies tend to have impressive gains in a short period of time

Average Market Gains from Bear Market Lows

Bear Market	30 Days	90 Days	1 Year
2022-2023	5.5%	8.1%	22.3%
2020-2020	25.3%	39.2%	77.8%
2007-2012	22.2%	39.8%	72.3%
2000-2006	15.3%	19.3%	36.1%
1987-1989	10.7%	20.8%	26.0%
1980-1982	18.7%	39.8%	66.1%
1973-1976	19.1%	11.6%	44.4%
1968-1971	7.2%	18.1%	48.9%
1966-1967	10.4%	12.6%	37.3%
1961-1963	9.5%	9.2%	37.5%
1956-1958*	3.8%	7.3%	36.2%

Source: Bloomberg.
Return calculations are total return (price + dividends).

As a result, when the stock market reaches a period of uncertainty following a correction[1] we look to position portfolios more defensively. Although this means different things depending on the U.S. and global economies at that time, some basic principles hold true:

- First, we look to stay invested in well run companies that tend to be market leaders in their industry. Not only do these companies generally have the balance sheet to be able to navigate a market in which access to debt and equity capital is limited, but investors often move to high quality companies during a bear market. This “flight to quality” as well as good financial management may lead to outperformance.

- Secondly, we look for areas of the markets that are not under stress. While the broad U.S. stock market may be in a bear market, other markets either in the U.S. or abroad could be performing well. As a result, adding to these other markets could help to offset the impact of a bear market.

Positioning a portfolio defensively during a bear market’s decline may reduce portfolio losses

- Third, minimize exposure to the most troubled areas of the stock market. Generally, most bear markets start with the strong decline of a single sector or handful of sectors. One prime example of this was the bear market of 2000–2006, which started with a collapse of the technology sector. Minimizing exposure to this sector during the initial decline of the bear market was another means to reduce the impact of that bear market.

[1] We define a stock market correction as a decline of more than 10% from peak market levels.

Two potential indicators of a market bottom in 2025 are the rollback of recent tariffs and continued growth in the economy and corporate earnings

This defensive repositioning is ultimately designed to reduce the overall impact a bear market has on one's portfolio while also maintaining sufficient exposure to benefit from the market's recovery. Additionally, since market conditions tend to change quickly, these periods usually see more portfolio changes as many compelling investment opportunities present themselves in the depths of a bear market.

Putting past bear markets into historical context can help investors put the current period into perspective. The average bear market decline is just over 33%, but there are occasions where bear markets reach their bottoms well below this level. For today's market, we view two primary catalysts as the potential end to the market declines. The first consists of the recently implemented tariffs being rolled back as negotiations between the United States and trading partner's progress. The other is that both economic and corporate earnings growth remain resilient and surprise to the upside. Since either of these catalysts have the potential to materialize in the short-term, we continue to position portfolios with an optimistic outlook and survey the investment universe for segments of the market that are exceptionally attractive.

Jason Orlosky
Head of Investment Strategy & Platform
Area Vice President
Gallagher Financial Planning Team
Jason_Orlosky@ajg.com
(609) 532-3909

Jim McCarriston*

Client Investment Analyst
Gallagher Financial Planning Team
Jim_McCarriston@ajg.com
(781) 246-1433

Ryan Gallagher*

Client Investment Analyst
Gallagher Financial Planning Team
Ryan_Gallagher1@ajg.com
(781) 404-5202

*Jim McCarriston and Ryan Gallagher are not acting in the capacity of an investment advisor representative

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Asset class risks

Bonds: are subject to market, interest rate and credit risk; and are subject to availability and market conditions. Generally, the higher the interest rate the greater the risk. Bond values will decline as interest rates rise. Government bonds are subject to federal taxes. Municipal bond interest may be subject to the alternative minimum tax; other state and local taxes may apply. High yield bonds, also known as "junk bonds," are subject to additional risks such as the increased risk of default. Debt securities may be subject to call features or other redemption features, such as sinking funds, and may be redeemed in whole or in part before maturity. These occurrences may affect yield. Like all bonds, corporate bonds tend to rise in value when interest rates fall, and they fall in value when interest rates rise. The longer the maturity of the bond, the greater the degree of price volatility. If you hold a bond until maturity, you may be less concerned about these price fluctuations (which are known as interest rate risk or market risk), because you will receive the par or face value of your bond at maturity.

Stocks of Large Growth and Value Companies: Portfolios that emphasize large and established U.S. companies may involve price fluctuations as stock market conditions change.

Stocks of Small- and Mid-Capitalization Companies: Tend to involve more risk than stocks of larger companies. Investments in small- and mid-sized corporations are more vulnerable to financial risks and other risks than larger corporations and may involve a higher degree of price volatility than investments in the general equity markets.

International/Global/Emerging Markets Investments: International investing may not be suitable for every investor and is subject to additional risks, including currency fluctuations, political factors, withholding, lack of liquidity, the absence of adequate financial information, and exchange control restrictions impacting foreign issuers. These risks may be magnified in emerging markets.

Commodities: Commodities are assets that have tangible properties, such as oil, metals, and agricultural products. An investment in commodities may not be suitable for all investors. Commodities may be affected by overall market movements and other factors that affect the value of a particular industry or commodity, such as weather, disease, embargoes, or political and regulatory developments. Commodities are volatile investments and should only form a small part of a diversified portfolio. Diversification does not ensure against loss. Consult your investment representative to help you determine whether a commodity investment is right for you. Market distortion and disruptions have an impact on commodity performance and may impact the performance and values of products linked to commodities or related commodity indices. The levels, values or prices of commodities can fluctuate widely due to supply and demand disruptions in major producing or consuming regions.

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Index definitions

S&P 500 Index: is a capitalization weighted index that is generally considered representative of the U.S. Large Cap market. It consists of 500 of the leading large cap U.S. companies.

Dow Jones Industrial Average Index: is a price weighted index that is generally considered representative of the U.S. Large Cap market. It consists of 30 blue-chip stocks that are generally regarded as the leaders in their industry.

NASDAQ Composite Index: is a capitalization weighted index that is generally considered representative of the U.S. Technology market. It consists of all three tiers of the NASDAQ: Global Select, Global Market, and Capital Market.

Russell 2000 Index: is a capitalization weighted index that is generally considered representative of the U.S. Small Cap market. It consists of 2,000 of the leading small cap U.S. companies.

MSCI EAFE Index: is a free float-adjusted market capitalization index that is designed to measure equity market performance of developed international markets. The EAFE region includes developed market countries in Europe, Australasia, the Far East, and Israel.

MSCI Europe Index: is a free float-adjusted market capitalization index that is designed to measure equity market performance of European developed markets.

MSCI Japan Index: is a free float-adjusted market capitalization index that is designed to measure equity market performance of the Japanese market.

MSCI Emerging Markets Index: is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets.

MSCI China Index: is a free float-adjusted market capitalization index that is designed to measure equity market performance of the Chinese market.

Bloomberg U.S. Aggregate Bond Index: is a broad-based flagship benchmark that measures the investment grade U.S. dollar denominated, fixed-rate, taxable bond market. The index includes Treasuries, government-related and corporate securities, Mortgage-Backed Securities or "MBS" (agency fixed-rate pass-throughs), Asset-Backed Securities or "ABS", and Commercial Mortgage-Backed Securities or "CMBS" (agency and non-agency).

Bloomberg U.S. Government Bond Index: consists of the U.S. Treasury and U.S. Agency Indices. This index includes U.S. dollar denominated, fixed-rate, nominal U.S. Treasuries and U.S. agency debentures (securities issued the U.S. government owned or government sponsored entities, and debt explicitly guaranteed by the U.S. government).

Bloomberg U.S. Municipal Bond Index: covers the U.S. dollar denominated long-term tax-exempt bond market. The index includes four main sectors: state and local general obligation bonds, revenue bonds, insured bonds and prerefunded bonds.

Bloomberg U.S. Corporate Bond Index: measures the investment grade, fixed-rate, taxable corporate bond market. The index includes U.S. dollar denominated securities that are publicly issued by U.S. and non-U.S. industrial, utility, and financial issuers.

Bloomberg U.S. Corporate High Yield Bond Index: measures the U.S. dollar denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating from the ratings agencies (Moody's, Fitch, and S&P) are Ba1/BB+/BB+ or below. Bonds issued from an emerging market country are excluded from the index.

Crude Oil: is represented by the generic front month futures contract for West Texas Intermediate (WTI) crude oil.

Gold Spot Price: is represented by the current spot price of one Troy Ounce of gold in U.S. dollars.

Inflation: is measured by the year-over-year change for the Consumer Price Index or "CPI". This index represents the changes in the prices of all goods and services purchased for consumption by urban households. User fees (such as water and sewer) and sales and excise taxes paid by consumers are also included.

Fed Funds Rate: is the target interest rate set by the U.S. Federal Reserve (Fed) or "Central Bank". This index reflects the Fed's efforts to influence short-term interest rates as part of its monetary policy strategy. The index value is calculated by using the midpoint of the Fed's rate policy when they target a rate range (i.e., 0.25% - 0.50%).

Indexes are shown for illustrative purposes only, may not be available for direct investment, are unmanaged, assume reinvestment of income, and have limitations when used for comparison or other purposes because they may have volatility, credit, or other material characteristics (such as number and types of securities) that are different.