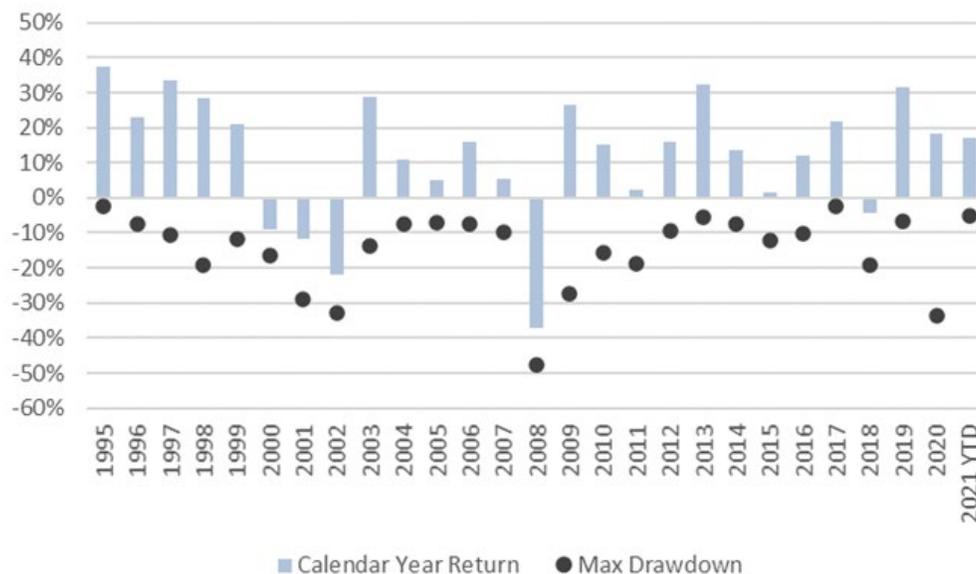


MARKET COMMENTARY

Fig. 1: Calendar year performance and maximum drawdowns for the S&P 500



Sources: Morningstar, Bloomberg, Mill Creek

Certain equity strategists have been in the news recently for forecasting a 10% equity market correction. In response, they've received a lot of blowback from high-profile social media accounts that essentially say "Nothing to see here, a 10% correction happens every year." Who's right? Would a 10% correction be worth talking about, or business as usual?

Part of the disagreement comes from how we define and count a 10% correction. If the market corrects 10%, recovers most of those losses, and then corrects again to the previous level, does it count as one or two corrections? Should the 50% decline experienced during the financial crisis count as five 10% corrections, one large bear market, or something in between? The framing of the question itself leaves a lot to be desired.

Here's what we know:

1. It overstates the case to say that (new) 10% declines occur every year, but it is fair to say that pullbacks of 5-15% occur nearly every year (Fig. 1),
2. At any given time, the historical probability of the market declining by 10% over the next year is about 25-30%,
3. 10% corrections are less likely during periods of strong market momentum like we are in today. The historical frequency of a 10% correction over the next year when the market is trading above its 200-day moving average is only one in ten.

However, we shouldn't be complacent about equity market volatility. Warren Buffett's partner Charlie Munger gets it right when he says that 40-50% pullbacks are the "price of admission" to the equity market. If we're emotionally prepared for those events, *normal* corrections of 5-15% won't seem all that momentous.

QUICK LINKS

- [House View Summary](#)
- [Q3'21 Macroeconomic Outlook](#)
- [Q3'21 Equity Outlook](#)
- [Q3'21 Fixed Income Outlook](#)
- [Q3'21 Private Equity Outlook](#)

This week's contributor: Michael Crook, CAIA

This publication has been prepared by Mill Creek Capital Advisors, LLC ("MCCA"). The publication is provided for information purposes only. The information contained in this publication has been obtained from sources that MCCA believes to be reliable, but MCCA does not represent or warrant that it is accurate or complete. The views in this publication are those of MCCA and are subject to change, and MCCA has no obligation to update its opinions or the information in this publication. While MCCA has obtained information believed to be reliable, MCCA, nor any of their respective officers, partners, or employees accepts any liability whatsoever for any direct or consequential loss arising from any use of this publication or its contents.

© 2021 All rights reserved. Trademarks "Mill Creek," "Mill Creek Capital" and "Mill Creek Capital Advisors" are the exclusive property of Mill Creek Capital Advisors, LLC, are registered in the U.S. Patent and Trademark Office, and may not be used without written permission.