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KayneInsights

April 2025

Bear markets can be painful, but they don't last forever.

Bear Market vs. Recession: What's the Difference?

While the possibility of recession has been looming on and off[1] in the recent years following the COVID-19 pandemic, it's important to understand that falling stock prices don't necessarily indicate a recession is on its way. Often, when prices drop for an extended period, it indicates a bear market. So, what's the difference between a bear market and a recession?

What is a Bear Market?

A bear market is a prolonged period of declining stock prices, generally defined by an overall market drop of 20% from a recent high. Many factors can trigger a bear market, including economic downturns, geopolitical events, or investor sentiment. The most recent bear market in the U.S. ran from January through October 2022, with the S&P dropping as much as 25%. Since the S&P 500 index launched in 1957, the country has experienced 12 bear markets.[2]

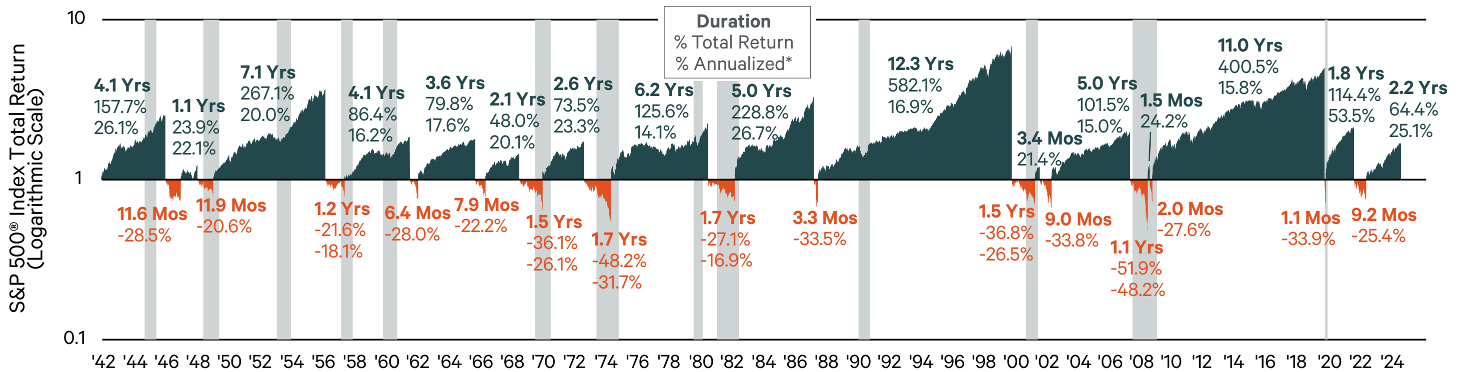
1 https://www.forbes.com/sites/simonmoore/2024/08/30/is-a-recession-coming-for-the-us-economy/
2 https://www.forbes.com/advisor/investing/bear-market-history/

The average **Bull Market** period lasted 4.3 years with an average cumulative total return of 150.0%.

The average **Bear Market** period lasted 11.1 months with an average cumulative loss of -31.7%.

FIGURE 1: HISTORY OF U.S. BEAR & BULL MARKETS
Daily Returns Since 1942

Recession ■ Bull Market ■ Bear Market



*Data presented is from April 29, 1942 through December 31, 2024. Data is obtained from First Trust and Bloomberg and is assumed to be reliable. *No annualized return shown if duration is less than one year. These results are based on daily returns–returns using different periods would produce different results.* ***Past performance is no guarantee of future results.*** *Returns could be reduced, or losses incurred, due to currency fluctuations.*

Characteristics of a Bear Market

Key characteristics of a bear market include:

- A sharp market decline of 20% or more from a recent peak
- Sustained duration of several months or even years
- Negative investor sentiment, leading to sell offs and further market decline
- Rising unemployment and declining GDP
- Market volatility

What is the Average Bear Market Length?

The average bear market length since 1928 has been 9.6 months. The worst bear market on record took place during the Great Depression from September 1929 through June 1932, with the S&P

falling more than 86%.[3] However, as shown in Figure 1 on the prior page, following each downturn, the market has recovered to deliver significant gains for a duration surpassing the length of the preceding bear market.

Bear Market vs. Recession

So how do you tell the difference between a bear market vs. a recession? While the two can often be intertwined, as with the Great Recession in 2008, each are distinct economic phenomena. A bear market is a prolonged decline in stock prices, primarily affecting the equity markets. In contrast, a recession is a broader economic downturn characterized by a decline in GDP, rising unemployment, and reduced consumer spending.

Considerations for Weathering a Bear Market

While investors may often react to a bear market by wanting to hold onto their cash or liquidate their investments, we believe there are other ways to get through a bear market that may include potential opportunities. Here are some tips we think are helpful to consider when weathering a prolonged market downturn:

- **Be careful not to react hastily.** It's rarely a good idea to pull money out of the market when stocks are down, as you might suffer a permanent loss and miss opportunities when the market recovers. Over the long-term, most stock values grow, so exercise patience, and give the market time to normalize.
- **Make sure you have a diversified portfolio.** In addition to stocks, make sure your investment portfolio includes Treasury, corporate, and municipal bonds as well as foreign investments. A balanced portfolio can help you better weather downturns, especially if stock prices are volatile.

3 https://www.kiplinger.com/slideshow/investing/t052-s001-8-facts-you-need-to-know-about-bear-markets/index.html

- **Rebalance your portfolio regularly.** Routinely reviewing the asset allocation in your portfolio may help preserve your long-term strategic goals and better protect your investments during a downturn. For example, if you've seen your stock holdings grow dramatically in value in a bull market, it may be time to look at investing in more bonds.
- **Stay focused on the long-term.** Markets go up and down, and a bear market, though it might feel stressful, isn't going to last forever. Avoid making costly mistakes by selling off, stay in touch with your wealth advisor, and maintain your focus on your goals.

While bear markets can be unsettling for investors, we believe maintaining a long-term outlook is key to a sound investment strategy. An important role of an effective wealth advisor is to help clients maintain a long-term perspective so they do not make emotional decisions that may prove detrimental over longer periods. Your advisor can help you rebalance and diversify your portfolio by analyzing fundamentals and even identifying undervalued assets, so your investments are working for your long-term goals.

Everyone's situation is unique but as we see it, being aware of how markets perform over various market cycles can be an important determinant to portfolio results over the long term. To learn more about protecting your assets during a bear market, contact the KAR team.

Kayne Anderson Rudnick is an investment firm specializing in high-quality investment and wealth management strategies. The firm has an over 40-year history serving a diverse client base that includes high-net-worth individuals, corporations, endowments, foundations, public entities, taft-hartley clients, and mutual funds. Kayne Anderson Rudnick is known for its commitment to high-quality investment strategies and business practices. For more information, please visit www.kayne.com.

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Indexes: *The S&P 500® Index is a free-float market capitalization-weighted index of 500 of the largest U.S. companies. The index is calculated on a total return basis with dividends reinvested. The index is unmanaged, its returns do not reflect any fees, expenses, or sales charges, and it is not available for direct investment.*