



Momentum stocks have experienced one of their worst performance periods in the last 20+ years, and investor sentiment surveys are very bearish. (UBS)

Once we receive policy clarity, stocks are likely to recover

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On Friday, 14 March, the S&P 500 officially entered “correction” territory (a 10% decline). The S&P 500 last traded at an all-time high on 19 February. So this correction took 22 days to unfold, which is faster than the average time to correction of 75 days.

Corrections that occur within a bull market (i.e., the market doesn’t ultimately decline more than 20%), tend to be good buying opportunities. For an investor who buys after stocks have fallen -10%, the average S&P 500 return over the next 3, 6, and 12 months is +8%, +13%, and +19%. It’s very rare for an investor to experience a loss over this period.

Not surprisingly, returns are more challenging if a correction turns into a bear market.

In our view, we think the sell-off in US equity markets has been driven by policy uncertainty largely stemming from tariffs and tariff threats (and DOGE to a lesser extent). Ultimately, we believe it would be politically counter-productive for the Trump administration to pursue policies that risk pushing the economy into recession. We therefore believe that policy will start to clarify in the coming weeks, perhaps shortly after the Trump administration announces its plans for “reciprocal” tariffs on 2 April. Once we receive policy clarity, stocks are likely to recover.

Additionally, the spike in policy uncertainty hit the market at a time when investor positioning and sentiment were quite elevated. But we think a lot of this has now been cleaned up. Over the last month, momentum stocks have experienced one of their worst performance periods in the last 20+ years, and investor sentiment surveys are very bearish. When this is the case, forward returns are usually solid.

That said, no one has perfect foresight. But even if the current correction does ultimately lead to a bear market, we still think the risk-reward skew for stocks still looks favorable over the next three months. First, bear markets are not common and only occur every seven years on average. The last one was three years ago. Corrections are more common and occur once every three years. But perhaps more importantly, average 3-month returns after a 10% drop are +7.9% in a correction versus -3.5% in a bear market, a better than 2:1 return profile.

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Original report - [The correction is here, now what?, 14 March 2025.](#)

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