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Investment Research

The correction is here, now what?

Blog

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As of yesterday's close, 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.

As Table 1 below shows, 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.

Table 1: Stocks perform well after a correction

S&P 500 forward returns following 10% correction (and bull market continues)

				Peak to -10%	Peak to trough		S&P 500 returns from -10% threshold			
	Peak	-10% threshold	Trough	Duration (days)	Max drawdown	Duration (days)	Next 3 months	Next 6 months	Next 1 year	Next 2 years
1	07/14/43	11/08/43	11/29/43	117	-13.1%	138	2.7%	7.4%	15.1%	52.2%
2	02/05/46	02/26/46	02/26/46	21	-10.1%	21	14.2%	0.7%	-9.0%	-16.8%
3	06/12/50	06/29/50	07/17/50	17	-14.0%	35	11.4%	16.9%	20.2%	42.4%
4	01/05/53	06/09/53	09/14/53	155	-14.8%	252	0.0%	5.4%	19.3%	65.3%
5	09/23/55	10/11/55	10/11/55	18	-10.6%	18	8.2%	17.5%	14.8%	0.4%
6	08/03/59	03/04/60	10/25/60	214	-13.9%	449	3.0%	4.5%	17.2%	28.6%
7	08/22/62	10/23/62	10/23/62	62	-10.5%	62	22.3%	30.0%	36.5%	58.8%
8	09/25/67	03/05/68	03/05/68	162	-10.1%	162	14.4%	13.2%	13.7%	2.6%
9	04/28/71	08/04/71	11/23/71	98	-13.9%	209	1.1%	11.5%	17.3%	13.4%
10	11/07/74	12/03/74	12/06/74	26	-13.6%	29	24.4%	38.3%	30.4%	52.0%
11	07/15/75	08/08/75	09/16/75	24	-14.1%	63	3.8%	15.6%	20.7%	14.8%
12	09/21/76	05/25/77	03/06/78	246	-19.4%	531	0.5%	-0.3%	0.0%	3.6%
13	09/12/78	10/26/78	11/14/78	44	-13.6%	63	5.4%	6.2%	4.7%	35.2%
14	10/05/79	10/25/79	11/07/79	20	-10.2%	33	13.7%	4.4%	29.9%	18.6%
15	02/13/80	03/10/80	03/27/80	26	-17.1%	43	6.8%	15.8%	22.5%	2.7%
16	10/10/83	02/13/84	07/24/84	126	-14.4%	288	1.6%	6.8%	16.5%	39.4%
17	07/16/90	08/17/90	10/11/90	32	-19.9%	87	-3.3%	12.6%	17.6%	28.1%
18	10/07/97	10/27/97	10/27/97	20	-10.8%	20	9.1%	23.9%	21.5%	47.9%
19	07/17/98	08/14/98	08/31/98	28	-19.3%	45	5.9%	15.7%	24.9%	38.5%
20	07/16/99	09/24/99	10/15/99	70	-12.1%	91	14.2%	19.6%	13.4%	-24.4%
21	11/27/02	01/30/03	03/11/03	64	-14.7%	104	8.5%	17.3%	33.9%	38.7%
22	04/23/10	05/20/10	07/02/10	27	-16.0%	70	0.4%	11.7%	24.4%	20.9%
23	04/29/11	08/04/11	10/03/11	97	-19.4%	157	5.1%	10.5%	15.9%	42.5%
24	05/21/15	08/24/15	02/11/16	95	-14.2%	266	10.2%	2.8%	15.5%	29.1%
25	01/26/18	02/08/18	02/08/18	13	-10.2%	13	5.5%	10.6%	4.9%	28.9%
26	09/20/18	11/23/18	12/24/18	64	-19.8%	95	6.1%	7.4%	18.1%	35.1%
27	07/31/23	10/27/23	10/27/23	88	-10.3%	88	18.8%	23.9%	41.1%	
28	02/19/25	03/13/25		22						
	Average			**71**	**-14.1%**	**127**	**7.9%**	**12.9%**	**18.6%**	**26.9%**
					Number of losses observed		**1**	**1**	**1**	**2**

Source: Bloomberg, UBS, as of March 2025

For full context, in Table 2 we also show the returns if a 10% correction does metastasize into a full blown bear market (a 20% decline from the peak). Not surprisingly, in this scenario, returns are not great, with the S&P 500 posting average returns over the next 3, 6, and 12 months of -4%, -4%, and -7%.

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

S&P 500 forward returns following 10% correction (and bull market ends)

				Peak to -10%	Peak to trough		S&P 500 returns from -10% threshold			
	Peak	-10% threshold	Trough	Duration (days)	Max drawdown	Duration (days)	Next 3 months	Next 6 months	Next 1 year	Next 2 years
1	05/29/46	08/27/46	06/13/49	90	-29.6%	1,111	-14.6%	-8.6%	-9.9%	-5.2%
2	08/02/56	10/01/56	10/22/57	60	-21.6%	446	4.4%	-1.3%	-4.3%	11.8%
3	12/12/61	04/30/62	06/26/62	139	-28.0%	196	-11.4%	-14.6%	7.0%	22.2%
4	02/09/66	05/16/66	10/07/66	96	-22.2%	240	-2.0%	-3.6%	10.3%	16.2%
5	11/29/68	06/19/69	05/26/70	202	-36.1%	543	-2.4%	-6.8%	-20.8%	1.8%
6	01/11/73	04/27/73	10/03/74	106	-48.2%	630	2.2%	3.9%	-15.9%	-19.2%
7	11/28/80	08/24/81	08/12/82	269	-27.1%	622	-3.1%	-11.1%	-8.1%	28.5%
8	08/25/87	10/15/87	12/04/87	51	-33.5%	101	-17.5%	-12.9%	-7.6%	11.9%
9	03/24/00	04/14/00	10/09/02	21	-49.1%	929	11.3%	1.3%	-12.8%	-18.1%
10	10/09/07	11/26/07	03/09/09	48	-56.8%	517	-2.5%	-2.2%	-39.1%	-21.1%
11	02/19/20	02/27/20	03/23/20	8	-33.9%	33	1.7%	17.0%	27.9%	47.2%
12	1/3/2022	2/22/2022	10/12/2022	50	-25.4%	282	-8.4%	-4.1%	-7.3%	18.2%
	Average			**95**	**-34.3%**	**471**	**-3.5%**	**-3.6%**	**-6.7%**	**7.8%**
					Number of losses observed		**8**	**9**	**9**	**4**

Source: Bloomberg, UBS, as of March 2025

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, as we show in the tables above, 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.

Appendix

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