# The Bear Case: Before And After

**Prepared by:** *Doug Ramsey, CFA, CMT*

While our gut instincts and quantitative disciplines aren't always in agreement, that conflict doesn't exist today. The evidence comes down decisively in the "bear market" camp—although, as noted, the S&P 500 decline of 12.4% (to-date) barely meets our definition of a severe correction.

While possibly too simplistic, our bear market argument boils down to this:

**<u>BEFORE</u>: The action leading up** to the S&P 500 bull market high of May 21st traced out a **"textbook" top** in many ways. Granted, divergently strong action in certain areas (NASDAQ, Small Caps, Financials) following that top added a bit of confusion to an otherwise straightforward picture. (Then again, every market top presents a few such anomalies. It's part of the bear's job.) While market action was the primary trigger to the timing of our bearish call, factors like valuations, investor sentiment, and possibly even monetary conditions ("tapering" as tightening) conformed more or less to the patterns leading up to past market peaks.

**<u>AFTER</u>: The action subsequent to** the S&P 500 high of May 21st **has bear paws all over it.** In late August, multiple measures of downside momentum sunk to levels rarely seen outside of bear markets. Damage has been broad; the average industry within one of the strongest indexes globally—the S&P 500—has already suffered an average peak-to-trough loss of 19.4% (Table). And foreign stocks, despite their substantially lower valuations, have lived up to the bear market "betas" they've exhibited in the past. Yet, sentiment remains broadly in the "buy the dip" mindset, despite the serious nature of these breakdowns.

**S&P 500 Industries (GICS Level III)**
**Pct Declines From 2014-15 Highs To Correction Lows**
**(through September 8th)**

| | | |
|---|---|---|
| Gas Utilities | -1.9 % | |
| Tobacco | -8.2 | |
| Specialty Retail | -9.0 | |
| Beverages | -9.4 | |
| Food Products | -10.2 | |
| Health Care Equipment & Supplies | -10.7 | |
| Hotels Restaurants & Leisure | -10.8 | |
| Textiles Apparel & Luxury Goods | -10.8 | |
| Containers & Packaging | -11.4 | |
| IT Services | -11.7 | |
| Household Durables | -11.7 | |
| Commercial Services & Supplies | -12.0 | |
| Building Products | -12.0 | |
| Professional Services | -12.1 | |
| Pharmaceuticals | -12.1 | |
| Insurance | -12.1 | |
| Diversified Financial Services | -12.2 | |
| Construction Materials | -12.7 | |
| Health Care Providers & Services | -12.7 | |
| Internet Software & Services | -13.3 | |
| Food & Staples Retailing | -13.6 | |
| Aerospace & Defense | -13.8 | |
| Life Sciences Tools & Services | -14.0 | |
| Multiline Retail | -14.1 | |
| Internet & Catalog Retail | -14.9 | |
| Banks | -15.5 | |
| Biotechnology | -15.9 | |
| Industrial Conglomerates | -16.0 | |
| Multi-Utilities | -16.1 | |
| Thrifts & Mortgage Finance | -16.3 | |
| Software | -16.4 | |
| Diversified Telecommunication Services | -16.4 | ← Median = -16.4% |
| Air Freight & Logistics | -16.6 | |
| Personal Products | -16.8 | |
| Real Estate Investment Trusts (REITs) | -17.5 | |
| Capital Markets | -17.6 | |
| Diversified Consumer Services | -17.7 | |
| Media | -18.4 | |
| Electric Utilities | -19.4 | |
| Communications Equipment | -19.6 | ← Average = -19.6% |
| Real Estate Management & Development | -20.0 | |
| Health Care Technology | -20.2 | |
| Machinery | -20.4 | |
| Chemicals | -20.8 | |
| Consumer Finance | -20.9 | |
| Household Products | -22.1 | |
| Auto Components | -22.6 | |
| Technology Hardware Storage & Peripherals | -23.5 | |
| Semiconductors & Semiconductor Equipment | -25.3 | |
| Electronic Equipment Instruments & Components | -25.7 | |
| Distributors | -26.6 | |
| Automobiles | -26.6 | |
| Airlines | -27.7 | |
| Electrical Equipment | -27.8 | |
| Paper & Forest Products | -29.4 | |
| Trading Companies & Distributors | -31.7 | |
| Road & Rail | -34.2 | |
| Leisure Products | -34.4 | |
| Oil Gas & Consumable Fuels | -40.4 | |
| Ind Power and Renewable Electricity Producers | -41.5 | |
| Construction & Engineering | -43.6 | |
| Energy Equipment & Services | -47.1 | |
| Metals & Mining | -55.9 | |