GLOBAL X INSIGHTS

Portfolio Insights: Recency Bias

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Tariff rhetoric and geopolitical tension drove a selloff in U.S. equity markets. While every selloff is unique, there are similarities and lessons learned from prior market dips. Historically, markets overreact and reassess probabilities as more data becomes available.

Key Takeaways

- It's too early to infer that U.S. economic growth has stalled.
- Small market pullbacks are part of a normal market.
- Markets tend to overreact to new information.

Recency bias, also known as availability bias, is the tendency to put greater emphasis on recent data. With the speed of the news cycle currently, it's sometimes difficult to keep track of the broad trends that have driven markets over the last few years. The greater focus on recent information can make the current turmoil feel exceptional. However, the S&P 500 has historically had a 5% pullback on average every ~4 Months, and a 10% correction every ~12 Months.[1] Recency bias also tends to assign higher probabilities to new information relative to historic data. Based on historic averages, typically the S&P 500 returns +11.3% in the 12 months following a 5% or greater decline.[2] As reflected in the table below, there's historically been a wide range of market outcomes, ranging from a minor pullback followed by a rally, all the way to a major correction that took an extended period to recover.

S&P 500 MARKET DRAWDOWN FROM PEAK

Source: Bloomberg data since 2/2/1993 as of 3/5/2025

START (T_0)	DEPTH	RECOVERY	MAX DD%[1]	T_0 - MAXDD[2]	MAXDD - RECOVERY[3]	12M FWD RETURNS
2/20/2025	-	-	-6.11	13	-	-
7/17/2024	8/5/2024	9/18/2024	-8.41	19	44	-
1/4/2022	10/12/2022	12/12/2023	-24.50	281	426	-10.2%
9/3/2020	9/23/2020	11/10/2020	-9.44	20	48	27.6%
2/20/2020	3/23/2020	8/7/2020	-33.72	32	137	32.3%
7/29/2019	8/5/2019	10/24/2019	-6.02	7	80	25.5%
5/6/2019	6/3/2019	6/19/2019	-6.62	28	16	17.5%
9/21/2018	12/24/2018	4/11/2019	-19.35	94	108	18.5%
1/29/2018	2/8/2018	8/3/2018	-10.10	10	176	6.1%
7/21/2015	2/11/2016	4/15/2016	-13.02	205	64	10.5%
9/19/2014	10/16/2014	10/30/2014	-7.27	27	14	-4.6%
1/2/2014	2/3/2014	2/21/2014	-5.70	32	18	18.9%
5/22/2013	6/24/2013	7/10/2013	-5.55	33	16	15.7%
9/17/2012	11/15/2012	12/31/2012	-7.35	59	46	26.7%
10/10/2007	3/9/2009	8/15/2012	-55.19	516	1255	-52.7%
7/20/2007	8/15/2007	10/4/2007	-9.05	26	50	-40.5%
2/21/2007	3/5/2007	4/13/2007	-5.95	12	39	-12.7%
3/27/2000	10/9/2002	10/25/2006	-47.52	926	1477	-21.4%
1/20/2000	2/25/2000	3/16/2000	-9.30	36	20	-14.6%
1/3/2000	1/6/2000	1/13/2000	-6.21	3	7	-10.7%
7/19/1999	10/15/1999	11/16/1999	-11.70	88	32	-0.3%
5/14/1999	5/27/1999	6/29/1999	-6.39	13	33	7.1%

S&P 500 MARKET DRAWDOWN FROM PEAK CONTINUED

Source: Bloomberg data since 2/2/1993 as of 3/5/2025

START (T_0)	DEPTH	RECOVERY	MAX DD%[1]	T_0 - MAXDD[2]	MAXDD - RECOVERY[3]	12M FWD RETURNS
7/21/1998	8/31/1998	11/20/1998	-19.03	41	81	22.6%
12/8/1997	1/9/1998	1/30/1998	-6.32	32	21	40.2%
10/8/1997	10/27/1997	12/4/1997	-11.20	19	38	28.8%
8/7/1997	8/15/1997	10/1/1997	-6.51	8	47	32.1%
2/19/1997	4/11/1997	5/2/1997	-10.04	51	21	47.7%
5/23/1996	7/15/1996	9/12/1996	-7.62	53	59	44.1%
10/31/1994	12/8/1994	2/1/1995	-5.84	38	55	41.8%
2/3/1994	4/4/1994	8/29/1994	-8.54	60	147	17.6%

[1] Max drawdown % from market peak to trough
[2] Number of days from the start of the drawdown to max drawdown
[3] Number of days from max drawdown to recovery

Is the current turmoil a change in trend that warrants moving into areas of safety to weather an extended storm, or is this just a passing breeze? This is the key assessment from a portfolio positioning perspective.

Recession probabilities have increased slightly, with the Atlanta Fed's GDPNow reading flashing red at the end of February. Although recent U.S. economic readings have surprised to the downside, a large amount of data still needs to feed into the Q1 GDP print. The model for GDPNow factors in labor market, PMI, inflation, consumer, along with many other data points. The GDPNow reading could therefore go in either direction as more data becomes available. February's ADP job growth rose 77K, well below expectations of 140K jobs added. While the recent uncertainty has slowed hiring decisions, more data will confirm if this is a temporary slowdown or something more serious. It's encouraging to note that February's ISM Services PMI reading came in stronger than expected. Thinking back to 2024, the year started with recession as the consensus expectation. Expectations went on a rollercoaster ride, with market expectations for the Federal Reserve's (Fed) first interest rate cut being pushed back from Q1 2024 all the way to September.

The current market turmoil may feel different due to the confluence of market rotation away from growth stocks while tariffs and geopolitical tensions raise concerns about inflation pressures, economic growth, and U.S. exceptionalism. There is a lot of noisy data that market participants are assessing while trying to determine the broader trend.

On days like this, it's tempting to run for the exits. But critically analyzing the data, the market's reaction, and choosing to wait is an active decision in managing portfolios. We've seen this pattern before, brief periods of heightened volatility followed by a resolution that restores market confidence.

Looking at the market currently, we're not yet convinced there's sufficient data to conclusively say that we're moving into a recessionary period. While economic data has come in below expectations, 2 weeks of poor data is not enough to confirm a trend. This is an area that we're continuing to monitor, and we will assess how weak sentiment is feeding through into actual consumption, employment, and other economic data as it becomes available.

Remember, market rallies don't die of old age. There needs to be an exogenous event that triggers a major reassessment of value.

Footnotes

1. Median time between drawdowns 5% or greater and 10% or greater within a 15-day window since 2/2/1993. Bloomberg data as of 3/5/2025.
2. Bloomberg data since 2/2/1993.