S&P 500 Falls Into Bear Market

Stocks dropped around the world, investors dumped government bonds, and cryptocurrencies crashed as the U.S. stock market fell more than 20 percent from its January high.

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<thead>
<tr>
<th>S&amp;P 500</th>
<th>Dow</th>
<th>Nasdaq</th>
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<tr>
<td>3,735.48</td>
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<tr>
<td>-0.38%</td>
<td>-0.5%</td>
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As of 5:15 p.m. Eastern time • Data delayed at least 15 minutes • Source: FactSet

Mohammed Hadi and Jeanna Smialek

Bear Market Sends Grim Signal of Economic Fears

Three weeks ago, Wall Street narrowly escaped a bear market, with stocks rebounding at the last minute from a brutal drop that had brought the S&P 500 down 20 percent from a record high in January. The next few weeks offered a glimmer of hope that the worst of the losses might be over.

That glimmer is now gone.

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What happens when stock markets become bears? My colleagues William P. Davis, Karl Russell and Stephen Gandel went all the way back to the Great Depression to find out. They crunch the numbers here.

The most recent bear market, before the current one, came just as the coronavirus began spreading globally and was the shortest on record. Stocks lost a third of their value in 33 days in early 2020 and recovered six months later.
This downturn might be longer lasting, in keeping with other bear markets, like the one after the 2008 financial crisis, when it took four years for stocks to regain the ground they lost.

Karine Jean-Pierre, the White House press secretary, said the Biden administration was “watching closely” the turmoil in stocks, which have now given up all the gains they had made since President Biden took office. She blamed the declines in part on energy inflation caused by the war in Ukraine.

CME Group, a company that runs financial exchanges, was the biggest gainer in the S&P 500, up 1.6 percent. Its business thrives during times of market volatility, when investors are doing a lot of trading.

Coca-Cola, which ended the day flat, is another S&P 500 company whose shares escaped today’s sell-off. Analysts at Bank of America have attributed the stock’s resilience to Coke’s “relative insulation” from inflation in commodity prices because of its size and scale.

The S&P 500 ended Monday 3.9 percent lower, a drop that put it firmly into a bear market. The index is now down 21.8 percent from its Jan. 3 peak.

The Fed may discuss the biggest interest rate increase since 1994.
The Federal Reserve is likely to discuss making its biggest interest rate increase since 1994 at its meeting this week, as a range of new data suggest that inflation is coming in hotter and proving more stubborn than policymakers had hoped.

Central bankers have been promising to be nimble as they fight inflation — a stance that will probably prompt them to at least discuss whether to raise interest rates by three-quarters of a percentage point on Wednesday, when officials are set to release both their decision and a fresh set of economic projections.

How to invest during a bear market.

To hear more audio stories from publications like The New York Times, download Audm for iPhone or Android.
It's no surprise that inflation is a big concern among investors, but here's proof: Inflation ranked top among their concerns in a poll at a conference held by William Blair for investors in growth stocks. What's more, investors expect "only a slight deceleration from current readings" of inflation by the end of the year.

Is the U.S. economy headed into a recession? The honest answer is that no one knows — economists and investors alike have a terrible record of forecasting downturns. But we can be reasonably confident that the United States is not currently in a recession, even though a large share of Americans (and maybe also the rapper Cardi B) think we are.

Gross domestic product fell in the first quarter, but only because of an unusual mix of technical reasons. Consumer spending, job growth and other key measures of economic activity are still rising.

Oil companies, which had been on a tear in recent weeks, are sliding with the rest of the equity markets. New lockdowns in China due to Covid have weighed on the oil market since China is the biggest importer of crude and petroleum products. It is another sign that there is a push-pull to prices, with Chinese pandemic policies threatening energy demand even as the Russian invasion of Ukraine continues to limit global supplies.

Investors are nervously eyeing the Fed.

American stock indexes dropped sharply Monday, and a key bond market signal pointed to recession risks, indicating that investors are bracing for economic fallout as central banks — including the Federal Reserve — try to rein in rapid inflation.

The Fed, which will release its latest monetary policy decision and a fresh set of economic projections this Wednesday, had signaled that it will probably raise interest rates by half a percentage point this week and by another half a point in July. But following a surprisingly hot Consumer Price Index report on Friday, which showed inflation reaccelerating to 8.6 percent and touching a new four-decade high, investors began to pencil in an even larger move by its September meeting.

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A bear market can be a good time to buy stocks. But it might take a while – months, even years – for investments to pay off. Money market funds are a reasonably safe place to park short-term cash to use as a cushion. Rates are starting to rise, although they still lag well behind inflation. I wrote about money markets in my latest Strategies column.

Look at government I Bonds for money you know you won't need to touch for at least 12 months. Their yields are tied to inflation and guaranteed to never fall below zero. They are currently paying 9.62 percent. My colleague Ann Carrns, who writes the Your Money column, explained it all last month.

A staggering number that puts the scale of a bear market in perspective: $7.4 trillion. That’s roughly how much market value has been erased by the fall in the S&P 500 from its January high, according to S&P Dow Jones Indices. The tech sector alone accounts for about 40 percent of the damage.

Celsius Network leads crypto markets into another free fall.

The value of major cryptocurrencies dropped as much as 20 percent over the last 24 hours. Alfonso Duran for The New York Times

The offer seemed too good to pass up: Deposit your cryptocurrency, and receive a yield as high as 18 percent.

That was the promise of Celsius Network, an experimental cryptocurrency bank with more than one million customers that emerged as a leader in the murky world of decentralized finance, or DeFi. Last year, DeFi exploded into a $100 billion industry, attracting both venture capital firms and regular investors with the prospect of lightning-fast gains. Celsius was managing more than $20 billion in assets.

European markets have closed for the day. The Stoxx 600 index closed 2.4 percent lower, the fifth consecutive day of losses. The index fell to its lowest level since March 2021.
Despite the market downturn, valuations — the measure of stock prices relative to corporate earnings — “remain far from depressed,” analysts at Goldman Sachs wrote in a recent report. They expect valuations to remain “roughly flat” for the year, and for earnings growth to drive the market back up: Their forecast is for the S&P 500 to close about 15 percent up from current levels.

Analysts at Morgan Stanley are also looking at valuations as a guide to where the market is going: “Over time, the lion’s share of stock returns is determined by earnings growth if one assumes that valuations are relatively stable. However, they are far from stable and often hard to predict.”

On days like this, it’s important to remember that the stock market is not the economy. Nearly half of U.S. families owned no stock at all in 2019, and even fewer have investments outside of their retirement accounts. For most Americans, what happens with jobs, wages and prices has a much larger impact on their day-to-day lives than the ups and downs of the markets.

Of course, the stock market can sometimes provide a hint of what will happen in the real world. Just look back to the beginning of the pandemic, when markets collapsed and then rapidly rebounded — effectively previewing a similar (but more drawn-out) roller-coaster ride for the economy writ large. Stocks are falling now, in part, because of fears that the Fed will cause a recession, which would be bad news for both investors and everyday workers.

Among the worst individual performers in the S&P 500 are companies like Norwegian Cruise Line, Caesars Entertainment and Live Nation — stocks that in the past have reflected changing sentiment about the pandemic rather than interest rates or the economy.

Half an hour into trading in the United States, the weakness is broad based. Every sector of the S&P 500 is off by more than 1 percent, with energy the worst of the bunch, down nearly 5 percent.

The Euro Stoxx 50, an index of the largest companies by market value in the eurozone, slipped back into bear market territory on Monday. It had already fallen 20 percent from its November peak in early March, when the region outlined a plan to become independent from Russian oil and gas.

In many government bond markets, prices are falling and yields (a measure of borrowing costs for countries) are soaring higher as investors bet on how high central banks will have to raise interest rates to contain inflation.

The European Central Bank said last week that it would raise rates by a quarter-point next month and probably a half-point in September. The yield on Germany’s 2-year bonds climbed above 1 percent on Monday for the first time since 2011.
The prospect of higher interest rates is putting pressure on the bonds of countries with high debt levels. The gap between Italian and German 10-year yields climbed to the widest since early 2020. Traders are questioning how much the central bank can tighten monetary policy without risking a debt crisis. The bank, for its part, insists it has the tools to keep markets functioning smoothly.

The S&P 500 opened 2.5 percent down, falling below the 3837.25 threshold for a bear market. For most market watchers, it has to close the day below that level for this to be official. Recall that on May 20 stocks spend hours in bear market territory before climbing out by the end of trading.

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Data delayed at least 15 minutes • Source: FactSet • By: Ella Koeze

Our colleagues in Seoul are reporting on a new problem for the global supply chain — a trucker strike in South Korea. On Monday, the government said the seven-day strike had resulted in production and shipment disruptions worth about $1.25 billion, Daisuke Wakabayashi and Jin Yu Young report.

Economists are predicting an aggressive message from the Federal Reserve at its meeting on Wednesday, following a higher-than-expected inflation reading last week, which showed prices climbing at the fastest pace since 1981. Read more about the inflation burst here.

In Europe, the day started with some unexpectedly negative economic news. Britain's economy shrunk 0.3 percent in April from the previous month, while economists had been expecting a small expansion.

Gross domestic product was primarily hit by the winding down of Britain's Covid test-and-trace program but manufacturing also declined as companies struggled to cope with rising prices, especially for energy. It's the latest sign that Britain's economic outlook is weakening in face of the highest inflation in four decades.
Cryptocurrencies are being hit hard, along with everything else. Bitcoin, the largest crypto, fell to an 18-month low of around $24,000. It has lost around half of its value so far this year. The value of all cryptocurrencies fell below $1 trillion for the first time since early 2021, according to Coinmarketcap, down about $2 trillion from their peak.

What you should know about bear markets.

Bear markets, or when stocks drop at least 20 percent from their most recent peaks, are relatively rare and signal that investors are viewing the economy with serious pessimism.

There have been several instances of near-bear markets in recent decades, and as recently as May 20, the S&P 500 dipped into bear market territory in the afternoon, but rallied before the close.