Market Extra

Wall Street is officially in a bear market: What strategists say investors should do

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By Isabel Wang Follow

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SPX -3.25%

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The U.S. stock market met popular criteria for a bear market this week as the latest declines by the S&P 500 took the U.S. large-cap benchmark down by more than 20% from its record close in January. Investors, no doubt, are wondering how far stocks might fall from here, and what to do next.

The S&P 500 **SPX, -3.25%** met the bear-market threshold on Monday and has largely remained under pressure this week aside from a Wednesday bounce following the Federal Reserve's 75-basis-point rate hike, its largest in nearly 28 years.

Fears that drastic rate hikes may trigger a recession in the next year are hanging over markets, analysts say.

What should investors do?

Strategists said the current market decline is likely far from over.

According to George Ball, chairman of the investment firm Sanders Morris Harris, bear markets bring an average 38% decline in stocks from peak to trough, which suggests that there may be further downside ahead. Through Thursday's close, the S&P 500 was down 23.6% from its Jan. 3 peak close.

"Any upward moves we may see in the near term are merely relief rallies," Ball wrote in an email to MarketWatch on Tuesday. "Chasing rallies in this bear-market environment should be avoided."

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In addition, Ball emphasized the importance of having a cash cushion and emergency reserve for the turbulence. “Smart investors will have 10% to 20% in cash for the time being,” Ball wrote.

Contrary to the day trader whose hot money has mostly evaporated, long-term and retirement-oriented investors may have the chance to minimize risks and see their portfolios perform well.

Investors should be careful not to go all-in on a particular investment strategy, said Don Calcagni, chief investment officer at Mercer Advisors. “Stay diversified, and tilt the portfolio towards value stocks,” he said in a phone interview on Wednesday.

Following Wednesday’s decision, Fed Chair Jerome Powell said the door was open for another 75- or 50-basis-point increase in July, but that 75-basis-point moves weren’t likely to become the norm. Analysts are becoming worried that the Fed is going to overshoot.

“My concern is that the Fed has already unleashed a lot of firepower to try to tame inflation, but we really haven’t seen that manifest itself yet,” said Calcagni. “We haven’t given it enough time to really play out.”

Isabel Wang

Isabel Wang is a Markets Reporter for MarketWatch.