osaic Research

MARKET ANALYSIS

Market Corrections: Uncomfortable Not Unusual

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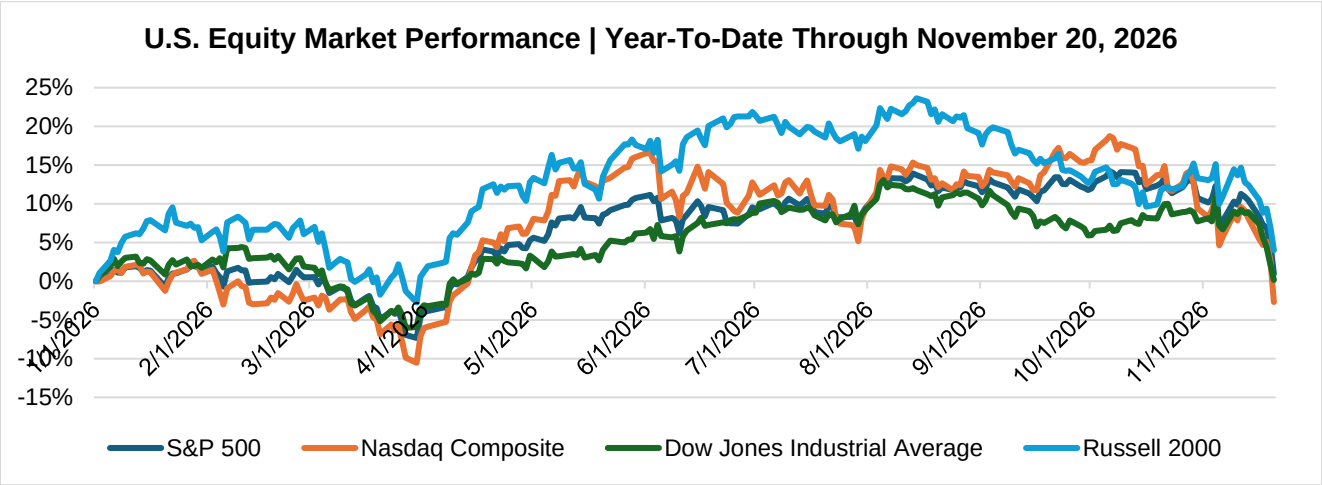
The recent pullback in equity markets has renewed investor uncertainty and raised concerns about what to expect in the months ahead. Market corrections are never comfortable, particularly when declines are as sharp as they have been in recent weeks, but history can provide valuable perspective during periods like this. With that in mind, we believe it is worth taking a closer look at the current market environment, what has changed, and why the underlying fundamentals continue to offer reasons for optimism.



Y-Charts[1]

Market Corrections are a Normal Part of Investing

A market correction occurs when stocks decline at least 10% from a recent high, while a deeper decline of 20% or more is considered a bear market. While these pullbacks are unsettling, they are a regular feature of financial markets, often reflecting investors adjusting their expectations for economic growth, corporate earnings, or valuations, rather than something more nefarious. Since 1980, the S&P 500 has experienced an average intra-year decline of about 14% yet generated an average annual total return of about 13.3% over that same period, showing that market pullbacks are a normal part of investing, even during periods of positive annual returns.[2]

Corrections rarely have the same underlying reasons. Rising interest rates and trade tensions weighed on markets in 2018. The pandemic to put it mildly, disrupted the global economy in 2020, while persistent inflation paired with aggressive Federal Reserve tightening contributed to the 2022 bear market. More recently, uncertainty surrounding tariffs triggered a correction in the spring of 2025. Each presented different challenges, but all demonstrate how markets adjust to changing economic conditions.

What's Driving the Current Correction?

Artificial intelligence (AI) has been one of the biggest drivers of market performance in recent years, with companies committing enormous amounts of capital to data centers, advanced semiconductors and supporting infrastructure. These investments have helped fuel both economic and earnings growth, though investors have increasingly started to question whether the financial returns will justify the extraordinary spending. As such, valuations could be pressured by a slowdown in the pace of investment particularly among the large technology companies responsible for much of the market's recent appreciation.

Another concern is the increasingly interconnected nature of the AI industry. Developers, semiconductor manufacturers and data center operators are often linked through investments, financing agreements, and customer relationships. These arrangements, sometimes referred to as circular financing, have helped accelerate growth but also raise questions about how much demand originates outside the AI ecosystem. A financial setback at one major participant could affect suppliers, lenders, and investors across the industry. The scale of recent technology IPOs, including SpaceX and Anthropic, has brought additional attention to substantial capital requirements supporting this expansion.

Interest rates have added to the uncertainty. While the labor market has remained relatively resilient, inflation continues to run above the Federal Reserve's 2% target, leaving its price stability objective unmet. This has given policymakers less flexibility to ease monetary policy as they balance their dual mandate of maintaining maximum employment and stable prices. Investors are increasingly anticipating another rate increase in December. As of November 20th, futures markets were all but pricing in a 25-point increase, according to CME FedWatch[3]. Higher borrowing costs could weigh on corporate investment and stock valuations, particularly among technology companies whose prices reflect expectations for substantial future growth. Regulatory uncertainty, including semiconductor export restrictions, has added further pressure.

Together, these concerns have prompted investors to reassess growth expectations and valuations, contributing to a sell-off that began with technology stocks before spreading across the broader market.

Where Do Markets Stand Today[4]

The sell-off accelerated during the week ending November 20, pushing the S&P 500, NASDAQ Composite, Dow Jones Industrial Average and the Russell 2000 into correction territory. The S&P fell 3.7% on Friday, closing at 6910.39, 10% below its October 6 high, while the NASDAQ declined 5.3% and erased its gains for the year. For the week, the Dow fell 8.0%, the S&P 500 lost approximately 8.6%, and the NASDAQ tumbled roughly 10%. The Russell 2000 also fell nearly 7.5%, reflecting broad-based weakness across U.S. equity markets.

All 11 sectors of the S&P declined during the week, while the CBOE Volatility Index (VIX), commonly known as Wall Street's “fear gauge,” climbed to nearly 36 on November 20th, with readings above 30 signaling heightened investor anxiety. While elevated volatility often accompanies market declines, it does not necessarily signal further losses.

Despite the decline in stock prices, broader economic measures continue to show signs of resilience. A recent FactSet report[5], shows the S&P 500 reported estimated third-quarter year-over-year earnings growth of 32.9%, with 84% exceeding earnings expectations and 74% returning stronger-than-expected revenue. Consumer spending has also remained supportive of economic growth, suggesting the market's weakness has not yet been accompanied by a comparable deterioration in economic fundamentals.

The pullback has also brought valuations closer to their historical range. As of November 20th, the S&P 500 traded at approximately 17.1x its 12-month forward looking earnings expectations, compared with its 10-year average of 19.1x. While lower valuations don't guarantee an immediate recovery, they can provide a more attractive starting point for long-term investors. Meanwhile, high-quality bonds have offered some stability as demand for U.S. Treasuries increased and longer-term yields declined.

Looking Ahead

While the recent economic correction has been uncomfortable, we believe there are reasons to remain cautiously optimistic. Corporate earnings continue to grow, consumer spending has remained resilient, and the pullback has brought stock valuations closer to historical averages. Investors will continue to monitor AI spending in financing arrangements, inflation, and Fed policy, but much of the uncertainty surrounding the next rate decision may already be reflected in market prices. We believe the recent weakness could create opportunities as market leadership broadens beyond the largest technology companies, particularly among businesses with strong balance sheets, consistent earnings and reasonable valuations. With the holiday season approaching, the possibility of a year-end rebound, including the traditionally favorable Santa Claus Rally, may provide another source of support, although seasonal trends offer no guarantee of a recovery. Volatility is a constant within markets, and the best way to face volatility is to maintain a diversified portfolio with and remain invested.

Economic Definitions

Federal Reserve (Fed): The Federal Reserve System is the central banking system of the United States of America

CPI (headline and core): Consumer prices (CPI) are a measure of prices paid by consumers for a market basket of consumer goods and services. The yearly (or monthly) growth rates represent the inflation rate.

Retail Sales: Retail sales (also referred to as retail trade) tracks the resale of new and used goods to the general public, for personal or household consumption. This concept is based on the value of goods sold.

Index Definitions

S&P 500: The S&P 500® is widely regarded as the best single gauge of large-cap U.S. equities and serves as the foundation for a wide range of investment products. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.

NASDAQ: The NASDAQ Composite Index is a broad-based capitalization-weighted index of stocks in all three NASDAQ tiers: Global Select, Global Market and Capital Market. The index was developed with a base level of 100 as of February 5, 1971.

Dow Jones Industrial Average: The Dow Jones Industrial Average is a price-weighted average of 30 blue-chip stocks that are generally the leaders in their industry. It has been a widely followed indicator of the stock market since October 1, 1928.

Russell 2000: The Russell 2000 Index is comprised of the smallest 2000 companies in the Russell 3000 Index, representing approximately 8% of the Russell 3000 total market capitalization. The real-time value is calculated with a base value of 135.00 as of December 31, 1986. The end-of-day value is calculated with a base value of 100.00 as of December 29, 1978.

CBOE Volatility Index (VIX): Commonly referred to as Wall Street's “fear gauge” measures the market's expectation of S&P 500 volatility over the next 30 days based on options prices. Higher readings indicate greater anticipated market fluctuations and heightened investor uncertainty.

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[1] Y-Charts as of 11/20/2026
[2] https://www.fidelity.com/learning-center/smart-money/stock-market-correction
[3] https://www.cmegroup.com/markets/interest-rates/cme-fedwatch-tool?redirect=/trading/interest-rates/countdown-to-fomc.html
[4] Bloomberg as of 11/20/2026
[5] https://advantage.factset.com/hubfs/Website/Resources%20Section/Research%20Desk/Earnings%20Insight/EarningsInsight_112026A.pdf