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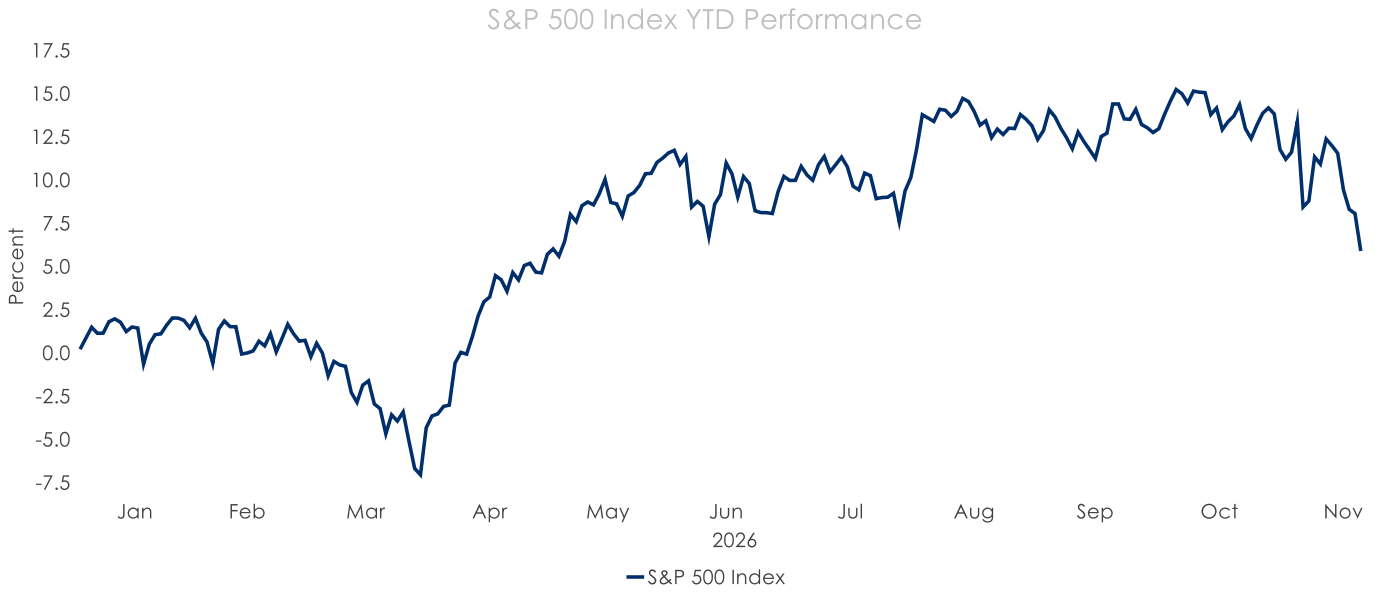
Stock Market Correction: Don't Panic, But Be Prepared

Nov 23, 2026

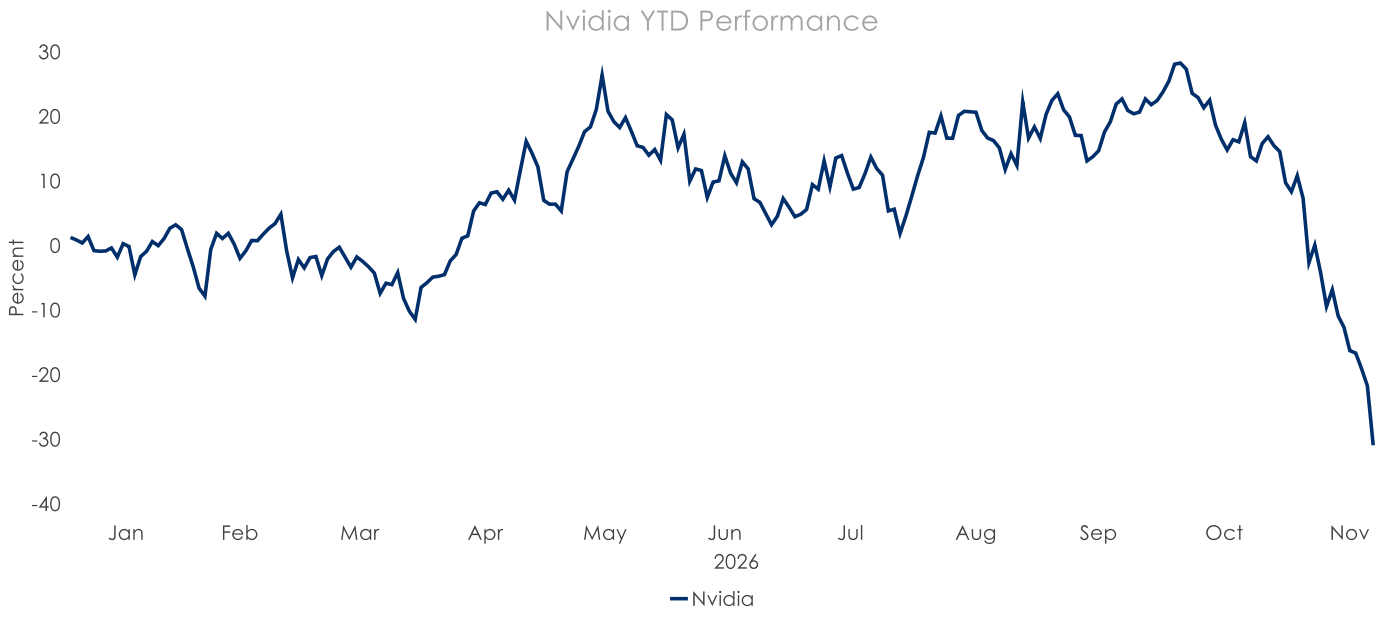
Courtesy of HKS Financial Partners

What's happening?

The S&P 500 has fallen around 10% from its all-time high, erasing much of its gain for the year. AI leader and market behemoth Nvidia is down much more.



Source: Bloomberg and WMIT Research as of 11/20/2026
Indexes are unmanaged and one cannot invest directly in an index. They do not include fees or expenses. Past performance does not guarantee future results.



Source: Bloomberg and WMIT Research as of 11/20/2026

Why?

The exact cause of market moves can never be known precisely, but coming into the fourth quarter:

- Equities were expensive
- Future earnings expectations were very high (especially for AI related companies)
- The biggest companies had switched from buying back stock to issuing it

- Hyperscalers (e.g. Amazon, Google, Meta) were making huge investments in AI infrastructure backed by extremely aggressive assumptions for AI model revenue growth
- US growth and labor markets were solid, while inflation remained well above target and trending in the wrong direction
- As a result, the Federal Reserve has been tightening monetary policy (raising interest rates), which both makes capital less available and reduces the present value of all future cashflows (including equities). We believe we are in the overheat/tightening phase of the business cycle.

You can never be sure what spark will set off the fire, but with that much tinder lying around, a decline isn't a big surprise.

Future risks remain

Other than equities cheapening a bit, every item on the prior list remains in force.

More ominously, much of the solid US growth backdrop has been driven by (1) AI capital investment financed with external capital, and (2) consumer dissaving on the back of rising asset prices.

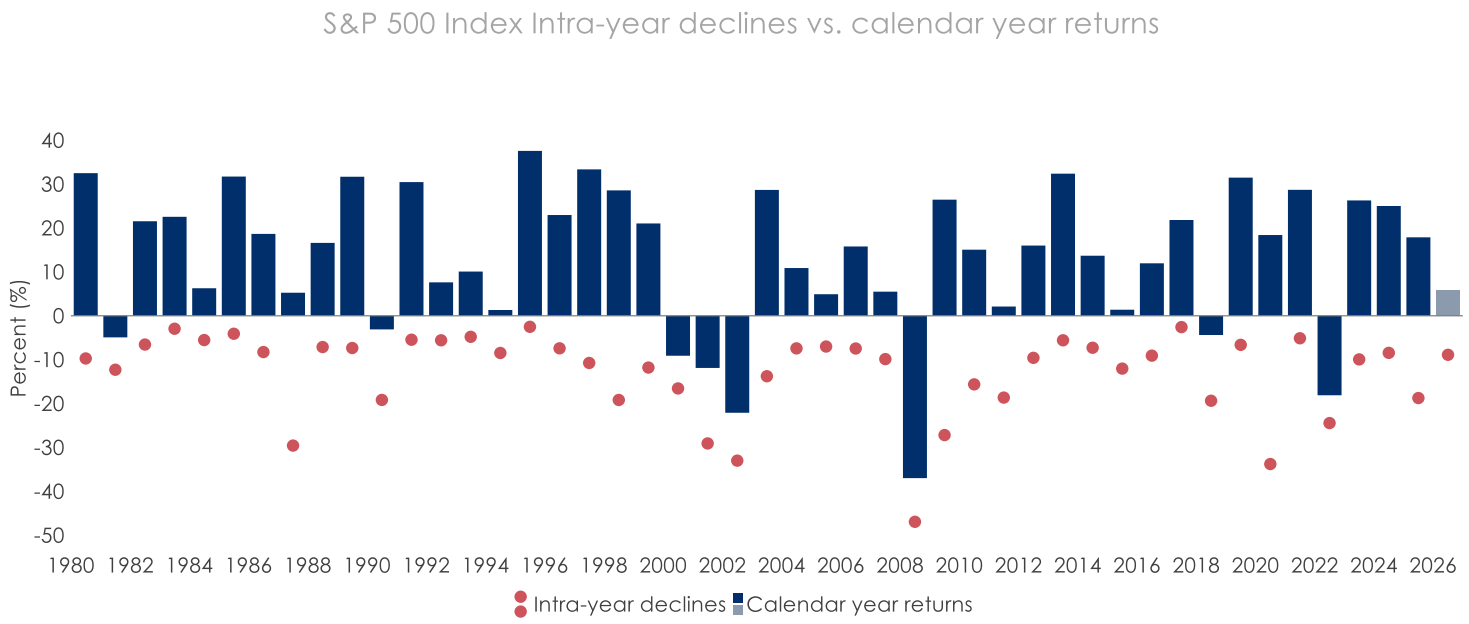
To the extent money becomes tighter and assets fall, financing the AI buildout will become more difficult and consumer spending may slow. US growth could enter a self-reinforcing slowdown.

If equities continue declining, the Federal Reserve may face a choice between declining growth and still-too high inflation. Will they prioritize growth or inflation? That remains an open question.

This is normal (even if it doesn't feel like it!)

That said, equity market declines happen all the time and this one isn't unusual. We've had over three years of unusually good equity market performance, so sell-offs can feel especially unnerving.

The chart below shows calendar year returns for the S&P 500 paired with the largest intra-year decline. It is extremely normal for the stock market to sell off 10% or 20% at some point during the year. (And sometimes much more!)



Source: Bloomberg and WMIT Research as of 11/20/2026
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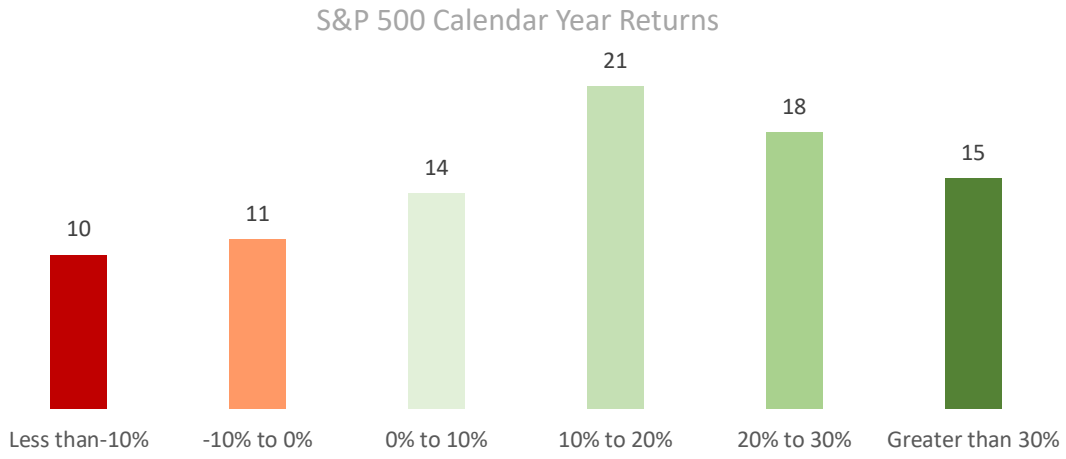
Returns can even go negative. The chart below shows the distribution of annual S&P 500 returns back to 1937. For the most part, they are positive, but occasionally they are negative. That is expected.



Source: Morningstar Direct as of 11/20/2026.
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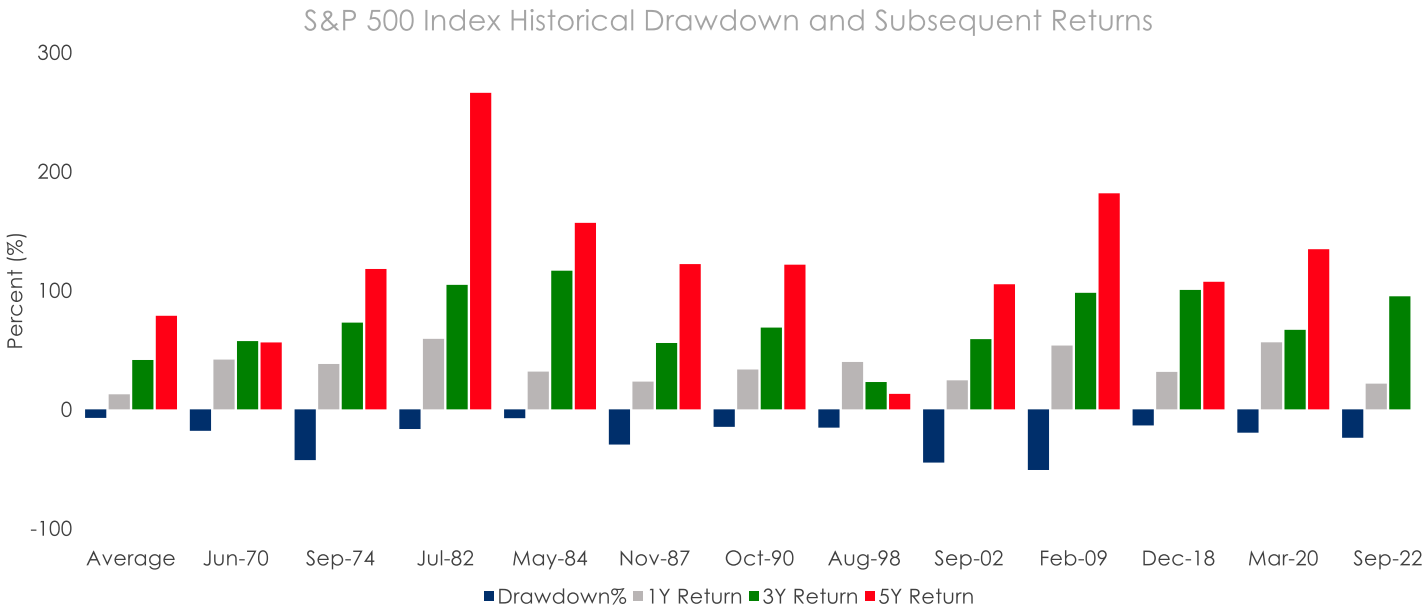
Investing in a capitalist system works very simply: in exchange for taking on risk, you get paid an expected return. That expected return isn't guaranteed and sometimes comes in a lumpy way. But bearing that uncomfortable risk is what earns the return. And so, over a longer-term horizon, markets have a positive expected return.

The chart below shows historical drawdowns for the S&P 500 back to 1970 and the subsequent 1-, 3-, and 5-year returns. Over the long run, markets have historically recovered.



Source: Macrobond and WMIT Research as of 11/20/2026
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So while declines of this nature are painful, they are also normal. And in exchange for feeling and bearing that pain, over the long run, markets offer a positive return.

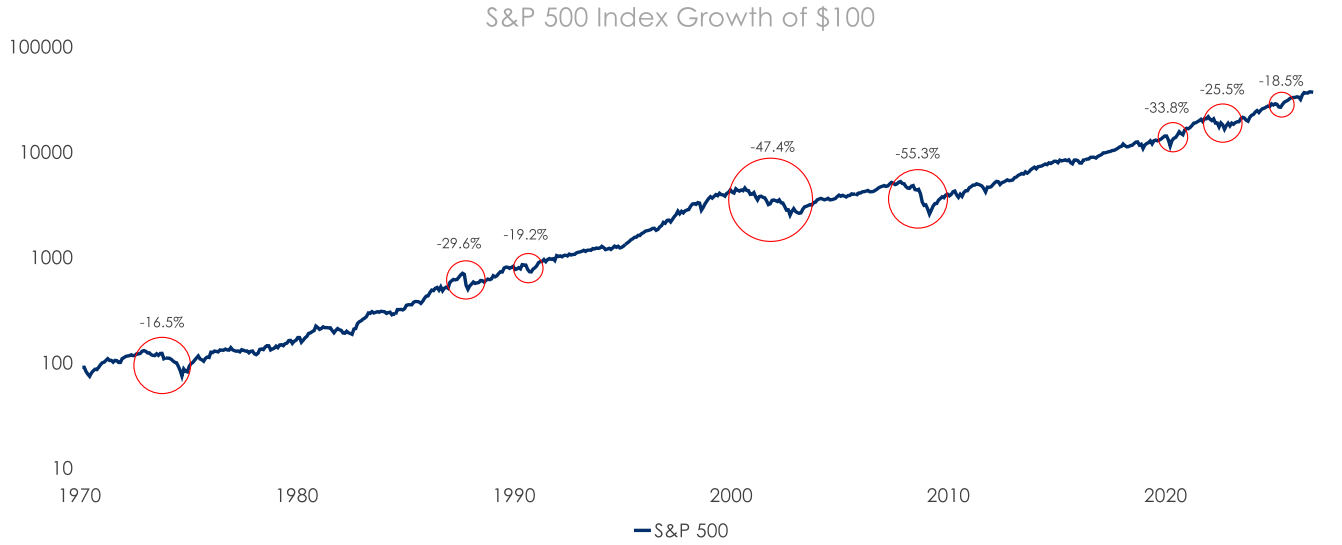
What to do about it

Given the ongoing risks, it is prudent to ensure you are following your risk tolerance and avoid highly risky positions.

The smartest way to navigate turbulent markets is to have a plan and stick with it. Sticking with your plan helps ensure you don't take more risk than you can bear and that you are still on the field when markets eventually rally again, whether that's a week from now or several years from now.

In conclusion

Big equity market sell-offs can be scary. But they are also normal, and indeed are the reason investors get paid to bear risk over the long run. So make sure you stick with your plan and don't take more risk than you can bear. It can pay to bear the risk over the long run, you simply must ensure you can endure the short run as well.



Source: Bloomberg and WMIT Research as of 11/20/2026.
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Investing involves risk, including the possible loss of principal.

S&P 500 Index: A market-capitalization-weighted index of 500 of the largest publicly traded companies in the U.S. and is considered a proxy of the U.S. equity market.

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