Raging or Aging Bull?

Global Financial Private Capital

Key Takeaways

- This week marks the longest bull market in history as measured by the S&P 500 index.
- The U.S. economy remains quite strong. Coupled with strong corporate earnings, this economic strength continues to support the case for owning equities.
- The length of the current bull market is not necessarily a reason to get out of stocks but could be a good impetus for investors to consider rebalancing their portfolios.

A look back on how we got here

Wall Street celebrated the longest bull market in history this week. The aging Wall Street bull continues to defy skeptics, despite myriad negative headlines ranging from tariffs to trade wars to geopolitical concerns to the concern of a global economic slowdown. A widely-used definition for a bull market is a period without a decline of 20% or more. Put another way, a bull market begins once it rises 20% from its bear market low. The longest previous bull market occurred in the 1990s and ended with the bursting of the technology bubble. The current bull market began on March 9, 2009, when the S&P 500 index bottomed due to the financial crisis. Over this period, the S&P 500 index is up over 320% and the bull market has lasted 3,453 days. U.S. stocks have outpaced the rest of the world since the March 2009 low in dollar terms, as shown in the chart below. Many may argue that while this is the longest bull market ever, it is certainly not the greatest – at least not yet. The S&P 500 gained 417% during the 1990s bull market versus today's return of just over 320%.

American Bulls Run Faster

U.S. stocks have outpaced the rest of the world since the March 2009 low, in dollar terms.

Note: Weekly data through Aug. 21;
Indexes are MSCI Emerging Markets, Topix, MSCI EMU, FTSE 100
Source: Thomson Reuters

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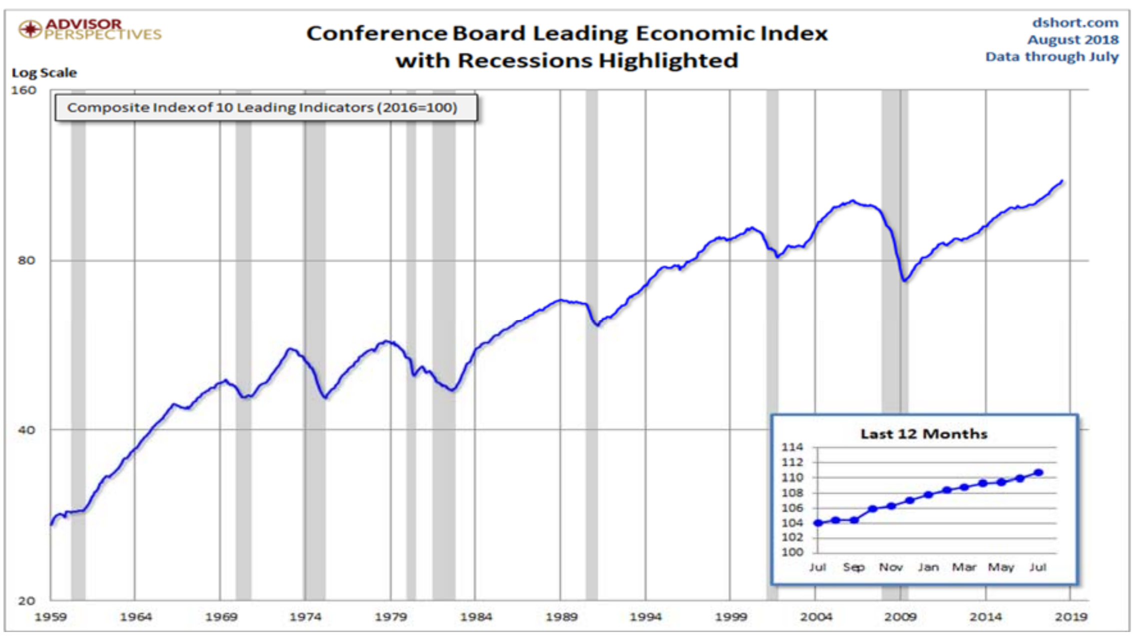
The road to this record certainly has not been smooth. In fact, in 2011, just two years into the recovery, the current bull market nearly ended abruptly not long after it started. News about U.S. credit rating agencies reducing the credit rating for U.S. Treasuries sent shock waves through the global market. The concern was widespread and led to the European debt crisis. In fact, using the 20% correction definition as a guide, this bull market corrected more than 20% in October 2011 intraday, but ended up rallying off the lows to close down 19.4%, allowing the bull market to continue. Investors experienced another ugly stretch in late 2015 and early 2016 when China devalued its currency – an event that was also paired with an oil crisis. With the election of Donald Trump in November 2016, the stock markets gained new steam. At the same time, a big corporate tax cut boosted profits, sending the stock markets soaring to new highs.

Where do we go from here?

Bull markets begin during terrible times and bear markets begin during periods of euphoria and excess. Or, as Sir John Templeton famously said: “Bull markets are born on pessimism, grow on skepticism and die on euphoria.” However, many of the key market indicators presently seen do not point to the same type of euphoria seen at previous major market peaks.

One such key indicator is the Conference Board Leading Economic Index (LEI). The LEI, which measures 10 key data points, rose for the third month in a row in July. The index tracks economic elements such as unemployment, building permits, and stock prices. This indicator has turned negative year over year ahead of every recession going back to the 1970s. Ataman Ozyildirim, Director of Business Cycles and Growth Research at the Conference Board, said: “The U.S. LEI increased in July, suggesting the U.S. economy will continue expanding at a solid pace for the remainder of this year. The strengths among the components of the leading index were very widespread, with unemployment claims, the financial components, and the ISM® New Orders Index making the largest positive contributions.” While this bull market and economic recovery may be old, the current signs suggest there may be further room to run.



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What does this mean for investors?

The most important takeaway for investors, in my opinion, is that bull markets typically last a lot longer than bear markets. The current bull market turned nine years old in March of this year. One cannot predict the end of a bull market simply based on its length. Just because the bull is old and tired, doesn't necessarily mean the end is imminent. Research has shown that investors are rewarded for staying invested—not timing the market—which remains the key to long-term success. For investors who may have enjoyed this rally and seen their equity exposure rise beyond its strategic allocation, a conversation about rebalancing may be in order. Finally, regular readers will know that we're big fans of diversification* and strong advocates for investors keeping an eye on their long-term goals. Those principles remain prudent and sound throughout all market cycles.

*Diversification does not ensure a profit or guarantee against loss.

Index Definitions

All indexes are unmanaged, and an individual cannot invest directly in an index. Index returns do not include fees or expenses.

The Standard & Poor's 500, often abbreviated as the S&P 500, or just the S&P, is an American stock market index based on the market capitalizations of 500 large companies having common stock listed on the NYSE or NASDAQ.