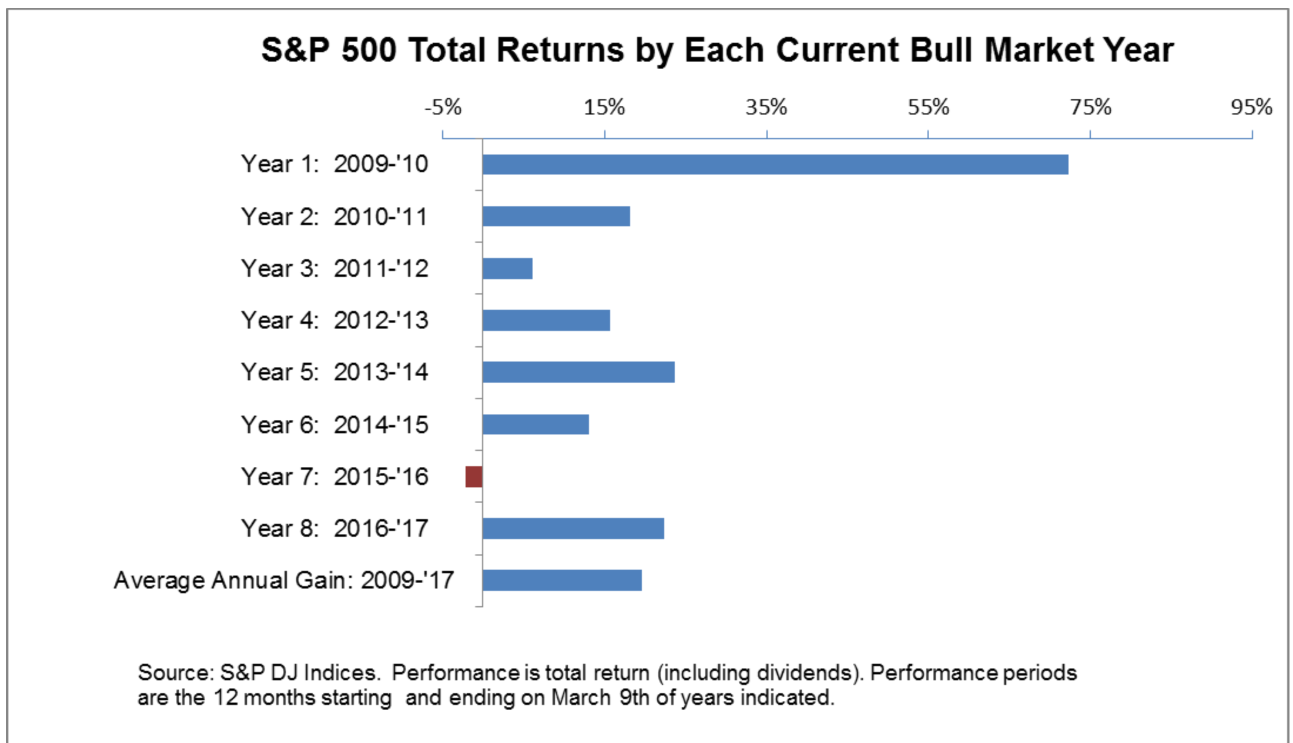
Happy Eighth Birthday, U.S. Bull Market!

Earlier this month, on March 9th, the U.S. equity bull market celebrated its eighth birthday. Looking back, with bull markets nearly always born out of pain, the S&P 500 had plunged nearly 60% from an October 9, 2007 market peak of 1,565 to the financial crisis closing low of 676 on March 9, 2009. Despite one 12-month interruption last year, the bull market has grown by an average annual gain of 19.6% since its 2009 low.

As shown in the chart below, the bull market, as represented by the S&P 500, began with first year surge of 72.3%. With the exception of the seventh year of this bull market, the S&P 500 has consistently risen higher every year. Each year's performance represents a 12-month period starting and ending on March 9th for each of the years indicated. Since the start of the current bull market, the S&P 500 has more than tripled to its March 9, 2017 closing level of 2,365.

Chart 1



Source: S&P DJ Indices. Performance is total return (including dividends). Performance periods are the 12 months starting and ending on March 9th of years indicated.

Bull Market Drivers

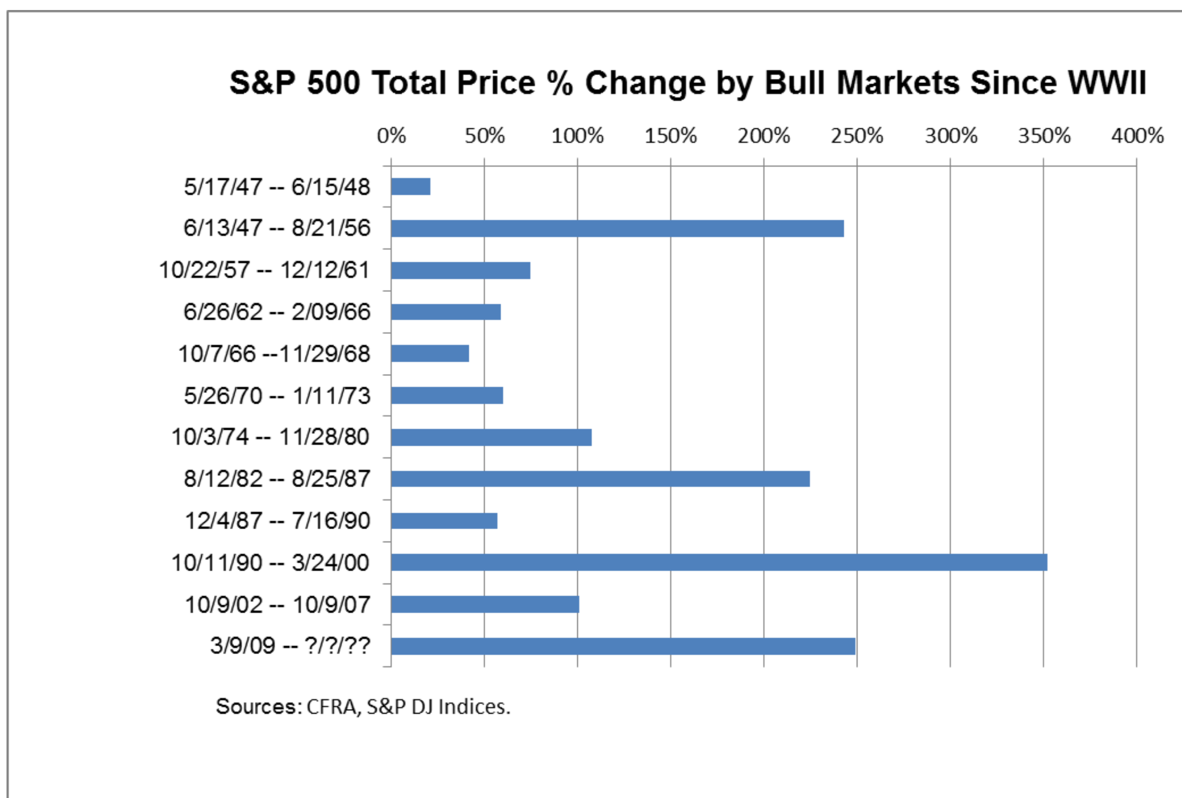
Since the Federal Reserve began lowering interest rates in response to the financial crisis and adopted a near zero-rate-investment policy, one can readily observe that accommodative (low) interest rates have been a major driver in recent equity performance. With a 72% return during the first year of the bull market, we can also reiterate the importance of staying invested during downturns so as to not miss a potential recovery. Outsized foreign demand for U.S. equity and debt exposures has also played a strong role in the subsequent seven year rally.

From a sector perspective, the strongest-performing parts of the market during the eight-year rally have predominately been the more cyclical, growth-oriented sectors, including Financials, Technology, and Industrials. The S&P 500 sectors that have posted slightly smaller gains have been those associated with higher dividend-yielding returns, including Utilities, Consumer Staples, and Telecom. The one exception to this has been Real Estate, which has had the second strongest returns after Consumer Discretionary

Second Longest Bull Market since World War II

A bull market is classically defined as a prolonged period in which investments within a category (or the leading equity index in our case) are rising faster than their historic average compound annual growth rates (CAGR). Since 1947, modern-era bull markets typically last around 4.3 years. At eight years old, the current bull market is second-longest-lasting rally since the conclusion of World War II. The only older bull market ran from 10/11/1990 to 3/24/2000 – lasting almost 9½ years. During that period (shown in Chart 2 below as the third to last bull market), the S&P 500 experienced growth at the fastest and highest pace in its recorded history – at a cumulative 352%, which is much higher than the current bull market's 249% increase.

Chart 2



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Conclusion

At nearly 250%, the advance in the S&P 500 since the low point of the Great Recession has surpassed any bull market at the eight-year mark. And while history shows stocks tend to get more volatile as rallies age, it is not occurring now. In the past 12 months, the S&P 500 has only seen 23 days when it has risen or fallen by more than 1%. That compares with 85 days during the eighth year of the bull market 1990-2000 run. The current bull market is quite aged and, as history also ostensibly shows, it will end at some point in the future. Given recent global events and generally improving economic conditions, including a more solid financial footing in manufacturing and services, there are several optimistic reasons to be hopeful the U.S. bull market may reach its ninth birthday.

As the bull market progresses into its ninth year, we continue to favor domestic equities over international equities, with a slight bias toward growth over value-oriented companies. With the Federal Reserve's ¼-point rate hike on March 15th now in place, we are now more confident in our view toward retaining global exposures. Lastly, while we recommend having exposures to bonds consistent with one's risk objectives, we urge caution against overweighting below investment grade corporate bonds, which presently correlate with equities during market declines. We believe a diversified fixed income portfolio is important as the Fed continues its course toward interest rate normalization.

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