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# THE BULL IS 9, CAN IT MAKE 10?

John Lynch *Chief Investment Strategist, LPL Financial*

Ryan Detrick, CMT *Senior Market Strategist, LPL Financial*

## KEY TAKEAWAYS

During the nine-year bull market period, the S&P 500 nearly quadrupled in value including dividends.

Although valuations are stretched by many historical measures, interest rates and inflation levels remain relatively low, while none of our favorite leading indicators suggest that the bull market is nearing its end.

Given solid momentum in global demand and profits, we would not be surprised if the bull celebrates a record tenth birthday next year.

**The bull market will celebrate its ninth birthday on March 9, 2018.** During that nine-year period, the S&P 500 Index nearly increased fourfold in value including dividends, producing a total return of 385% (19.2% annualized) while rising almost 300% in price. The recent market volatility, driven by fears of tariffs, inflation, and monetary policy, has many wondering if this is the end of the road for the bull market. So how much might the current bull have left in the tank? Given that we are not seeing the warning signs that have historically signaled the ends of past bull markets, including excessive equity flows and activity in initial public offerings and mergers and acquisitions, we would not be surprised if the current bull market celebrates its record tenth birthday next year. This week, we look at some of our favorite bull market indicators and the signals that accompany them.

## HISTORICAL PERSPECTIVE

On March 9, 2009, the S&P 500 closed at 676.53, which was the low close for the worst bear market in stocks since the Great Depression. Few believed it possible

### 1 ONLY THE 1990s BULL LASTED LONGER

Longest Bull Markets Since WWII

- Jun '49–Aug '56
- Oct '74–Nov '80
- Aug '82–Aug '87
- Oct '90–Mar '00
- Oct '02–Oct '07
- Mar '09–Current



Source: LPL Research, FactSet 03/02/18

All indexes are unmanaged and cannot be invested into directly. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment. All performance referenced is historical and is no guarantee of future results.

The modern design of the S&P 500 stock index was first launched in 1957. Performance back to 1950 incorporates the performance of predecessor index, the S&P 90.

at the time, but at 109 months old, the current bull market now ranks as the second longest since World War II, with only the 1990s bull market seeing larger percentage gains [Figure 1].

Although many might feel like this bull market did nothing but go up the full nine years, remember that the S&P 500 was essentially flat during calendar years 2011 and 2015, each experiencing corrections of 19% and 14%, respectively. Not to mention the fastest 10% correction from new highs ever (nine days) that took place last month.

It is notable that at the same stage of the 1990s bull market, the S&P 500 was up 344% on a price basis (compared with the current bull, which is up 297%), before moving up to a 417% gain at its peak about six months later. Will this bull market end in six months—or will it make it to its next birthday?

## IT'S NOT OVER 'TIL "THE OVERS" SAY SO

We don't believe bull markets die of old age; they die of excesses, and we aren't seeing the same type of overspending, overborrowing, or overconfidence we've seen at other major market peaks. The [LPL Research Over Index](#) is a proprietary indicator we use to monitor the accumulation of unhealthy excesses in borrowing, confidence, or spending. These excesses are what have historically ushered in bear markets, and currently, we are not pushing the limits on our overall index or subindex components. The LPL Research Over Index, along with other factors, leads us to believe that we are likely past the midpoint, but not at the end, of this economic expansion and bull market.

## INDEX OF LEADING ECONOMIC INDICATORS

Turning to one of our favorite signals to gauge the bull's health, the Conference Board's Leading Economic Index (LEI) has historically provided early warnings of recessions and the start of bear markets. Specifically, when the year-over-year change has turned from positive to negative, a recession has typically followed within the next 14 months. The latest reading for January 2018 rose 6.2% over the past 12 months, signaling a low probability that a recession will cause a bear market in the next year [Figure 2].

The LEI, which gives a good snapshot of the overall health of the economy, is an aggregate of 10 diverse economic indicators that have historically tended to lead changes in the level of economic activity, including data on employment, manufacturing, housing, bond yields, the stock market, consumer expectations, and housing permits. Considering its breadth of data points, we've grown to rely on its predictive capabilities.

### 2 INDEX OF LEADING ECONOMIC INDICATORS SUPPORTS AN IMPROVING ECONOMY



Source: : LPL Research, FactSet 02/28/18

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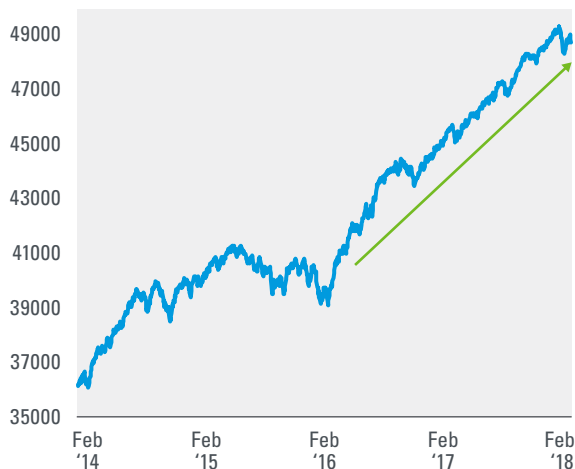
## THE 5 FORECASTERS

The LEI is one of LPL's [5 Forecasters](#), used to help capture a more complete view of the economic and market environment. We also rely on the U.S. Treasury yield curve, market breadth, market valuation, and the Purchasing Managers' Index (PMI) to signal late stages of the economic cycle. Only market valuation is flashing a warning currently, while the other four are not signaling late-cycle warnings yet.

Today we look at LEI and market breadth; we will examine the other three indicators next week.

### 3 STRONG PARTICIPATION IS AN INDICATION OF A DURABLE RALLY

● NYSE Advance/Decline Line



Source: LPL Research, FactSet 03/01/18

NYSE—New York Stock Exchange

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The advance/decline line (A/D) is a technical indicator that plots changes in the value of the advance-decline index over a certain time period. Each point on the chart is calculated by taking the difference between the number of advancing/declining issues and adding the result to the previous period's value.

## MARKET BREADTH STILL STRONG

Market breadth, which we measure by the number of stocks advancing versus declining, gives us a sense of how broad and durable a rally may be. For example, if breadth begins to decline and diverge from the rise in the NYSE Composite Index, and is followed by a decline in the index overall as it begins to succumb to the dwindling number of stocks that are still rising, the potential for a market downturn increases. (We use the NYSE Composite because of its many constituents.)

The late 1990s provide a great example, when technology was the only thing holding up the market before the weak technical underpinnings eventually led to a bear market. Currently, the NYSE Composite Advance/Decline line shows no major warning signs [\[Figure 3\]](#), or any concerning divergences between equities and breadth that might suggest an imminent downturn.

## CONCLUSION

Despite its old age, we believe the nine-year-old bull market has quite a bit left in its tank, given solid momentum in global demand and corporate profits. Proposed tariffs, fear of inflation, geopolitics, valuations, and the risks of a policy mistake are present, yet we believe the current fundamentals should be able to sustain any potential near-term market volatility. We do not currently see warning signs from our favorite leading indicators that might signal the end of the economic cycle. However, we are not complacent. Volatility has returned and we anticipate more of it in 2018, but we continue to recommend adhering to your long-term investment plans and consider using any further volatility as an opportunity to rebalance diversified portfolios back toward targeted asset allocations. ■

#### IMPORTANT DISCLOSURES

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. To determine which investment(s) may be appropriate for you, consult your financial advisor prior to investing. All performance referenced is historical and is no guarantee of future results.

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Investing in stock includes numerous specific risks including: the fluctuation of dividend, loss of principal, and potential liquidity of the investment in a falling market.

Because of its narrow focus, specialty sector investing, such as healthcare, financials, or energy, will be subject to greater volatility than investing more broadly across many sectors and companies.

There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not protect against market risk.

All investing involves risk including loss of principal.

#### INDEX DESCRIPTIONS

The Standard & Poor's 500 Index is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The NYSE Composite Index is a float-adjusted market-capitalization weighted index which includes all common stocks listed on the NYSE, including ADRs, REITs, and tracking stocks and listings of foreign companies. The index was recalculated to reflect a base value of 5,000 as of December 31, 2002.

The Leading Economic Indicators (LEI) Index is an economic variable, such as private-sector wages, that tends to show the direction of future economic activity.

To complete the Over Index, LPL Research measures trends in three broad economic drivers: spending, borrowing, and confidence. For each of these three drivers, we found four diverse components that reflect the economic activity of that sub-index from a different angle. The Over Index takes each of the subcomponents and uses a sophisticated statistical process to normalize and index each data series into an overall score for each of the three drivers. The combined aggregated data helps to measure the likelihood that the economy is showing signs of overactivity and that we may be approaching a cyclical peak.

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