Investment Watch

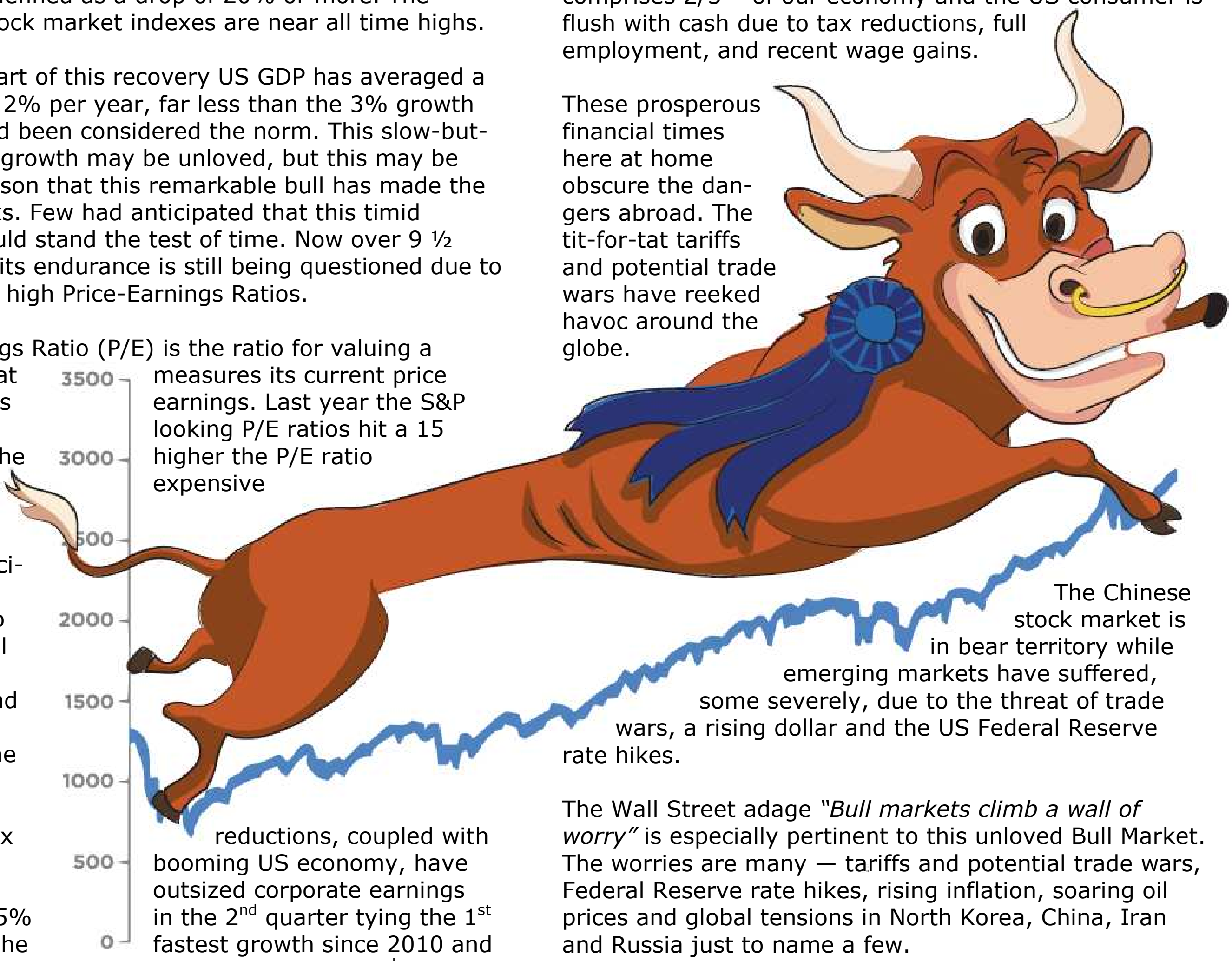
3rd Quarter, 2018

Longest Bull Market!

On August 22nd the US Bull Market set an all-time record marking 3,453 days of uninterrupted gains, the longest period in American history. This remarkable run began from the depths of the Great Recession on March 9, 2009 when the S&P 500 index hit rock bottom at 676.53. Based on this index, one of the broadest gauges of the US stock market, this Bull Market has posted continuous gains without being broken by a market correction, defined as a drop of 20% or more. The major US stock market indexes are near all time highs.

Since the start of this recovery US GDP has averaged a below par 2.2% per year, far less than the 3% growth rate that had been considered the norm. This slow-but-steady GDP growth may be unloved, but this may be the very reason that this remarkable bull has made the history books. Few had anticipated that this timid recovery could stand the test of time. Now over 9 ½ years later, its endurance is still being questioned due to the markets high Price-Earnings Ratios.

Price-Earnings Ratio (P/E) is the ratio for valuing a company that measures its current price relative to its earnings. Last year the S&P 500 forward looking P/E ratios hit a 15 year high. The higher the P/E ratio the more expensive the stock. Many pundits anticipated that a correction to more normal prices was imminent and with it the demise of the Bull Market. However, corporate tax reductions, coupled with the recent booming US economy, have produced outsized corporate earnings spiking at 25% in the 2nd quarter tying the 1st quarter for the fastest growth since 2010 and now FactSet anticipates 19% growth for the 3rd quarter. These hefty earnings have pushed the forward P/E ratios down close to the 5 year average, likely extending the life of the Bull Market.



This Bull Market met two very close calls on his way into the record books. The first was in 2011 when the S&P dropped 19.4%, narrowly missing a 20% downturn, which marks entry into Bear territory and the end to the Bull Market. The second was an even narrower escape in 2015-16 when the market dropped 19.52%. A few pessimistic pundits say rounding would have resulted in a 20% decline and that the Bull Market ended in 2016, but most experts dismiss this as hogwash. The signs of a bear market are typically high unemployment, lower disposable income and a drop in business profits. Nothing could be further from the truth of the shape of the US economy with record low unemployment, rising incomes and expansive business profits.

Today most strategists expect him to keep running for a while driven by a robust US economy, confident consumers, and strong corporate earnings. Consumer spending comprises 2/3rds of our economy and the US consumer is flush with cash due to tax reductions, full employment, and recent wage gains.

These prosperous financial times here at home obscure the dangers abroad. The tit-for-tat tariffs and potential trade wars have reeked havoc around the globe. The Chinese stock market is in bear territory while emerging markets have suffered, some severely, due to the threat of trade wars, a rising dollar and the US Federal Reserve rate hikes.

The Wall Street adage *"Bull markets climb a wall of worry"* is especially pertinent to this unloved Bull Market. The worries are many — tariffs and potential trade wars, Federal Reserve rate hikes, rising inflation, soaring oil prices and global tensions in North Korea, China, Iran and Russia just to name a few.

But another Wall Street adage is even more appropriate to this historic Bull Market, *"Bull markets do not die of old age, they end in recessions."* The Conference Board's Leading Economic Index points to solid growth for the rest of 2018 with no recession in sight. Let's all cheer on the Bull and hope these good economic times keep rolling.

September 30, 2018

ĒkonBenefits
YOUR TRUSTED PARTNER

4940 Washington Blvd.
St. Louis, MO 63108