ASCENSION CAPITAL

Are All-Time Highs in the Stock Market a Cause for Concern?

BY PAUL THOMPSON, JR. CFP

The stock market is flirting with all-time highs, and that has some investors worried.

As I write, the S&P 500 is up over 5% to start the year, and the index has recorded 10 all-time highs so far in 2024[i]. I can understand why some investors are feeling concerned. Stocks have been climbing for the better part of four months, even as interest rates remain high, inflation remains above target, many Americans are feeling down on the economy, and the geopolitical environment is unstable.

And yet stocks keep going up?

It may be a bit of a head scratcher, but I do not think investors should be surprised by the recent market rally, nor worried that the stock market is behaving irrationally. If we consider current economic and corporate earnings fundamentals–alongside a few insights from stock market history–I think recent gains look reasonable, if not justified.

Let's start with economic and earnings fundamentals. The U.S. economy continues to surprise to the upside, with better-than-expected GDP growth and job creation in the second half of 2023. At the outset of last year, nearly every economist was forecasting an economic recession, but the economy went in the opposite direction. Approximately 2.7 million new jobs were created in 2023, and wages rose faster than inflation[ii]. The engine of the U.S. economy, consumer spending, remained strong all year.

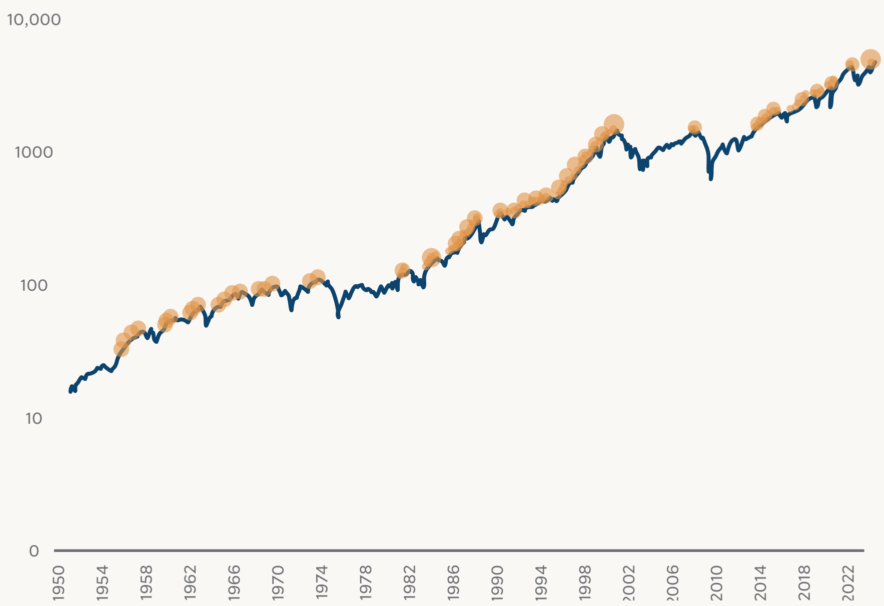
On the earnings front, with 79% of S&P 500 companies reporting Q4 earnings as of February 16, the blended earnings growth rate was 3.2%, with 75% of companies surprising to the upside[iii]. Positive earnings and upside surprises are happening despite the ongoing drag from the Energy and Materials sectors, and the stock market's enthusiastic response mirrors what we saw in 2023.

Thinking in the context of stock market history, the data tell us that all-time highs in the stock market tend to be followed by more all-time highs - a lot more of them. Take a look at the chart on the next page, showing S&P 500 index all-time highs since 1950. The orange dots represent the all-time highs, which readers can see tend to cluster together during bull markets.

---

[1] All references to "all-time highs" refer to S&P 500 index levels.

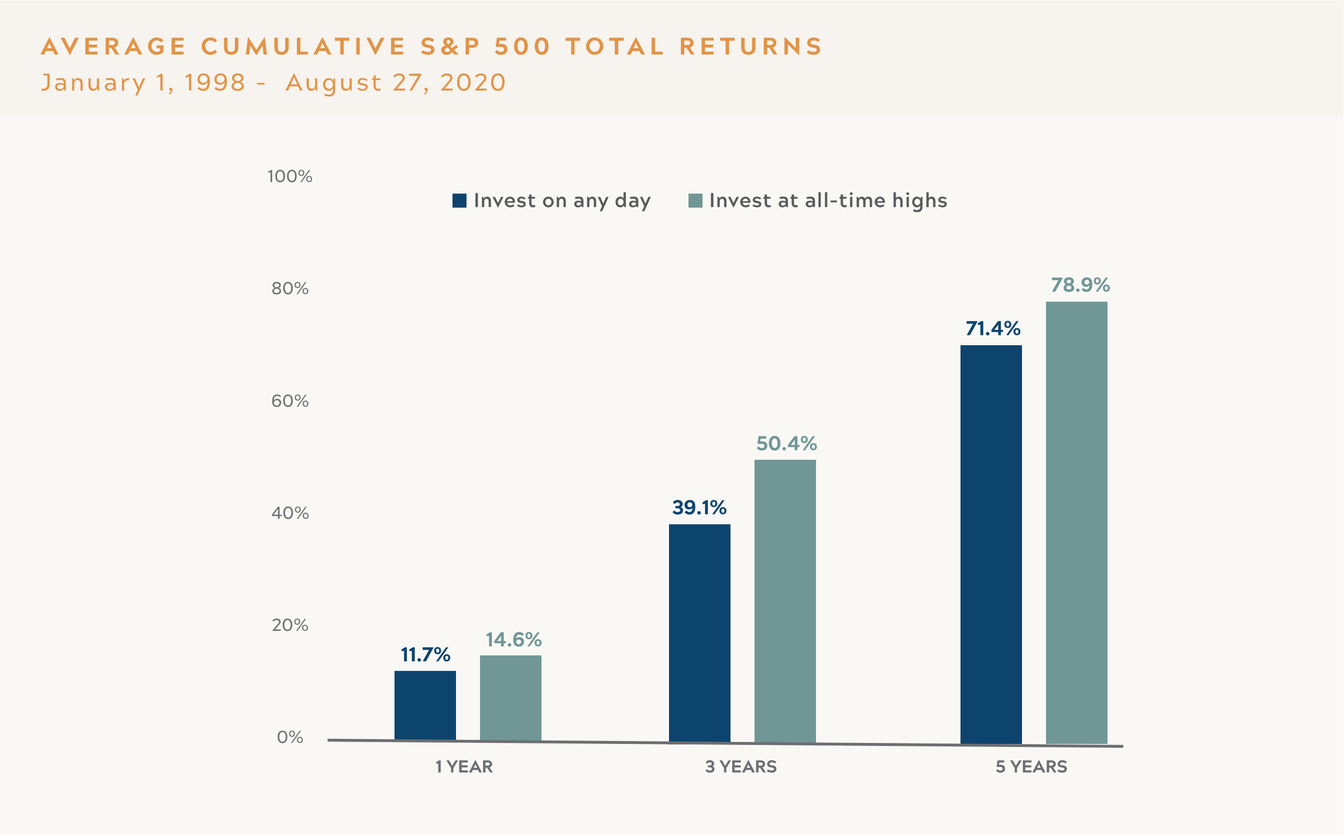
S&P 500 ALL-TIME HIGHS SINCE 1950



Source: YCharts, A Wealth of Common Sense

During the 1990s, for instance, the S&P 500 recorded a new all-time high on 12% of all trading days. More recently, there have been two bear markets since 2020, and yet the stock market still reached a new all-time high on 11% of all trading days[iv]. It happens more often than many investors appreciate.

JPMorgan also compiled data on stock market returns following all-time highs. Their findings, presented in the chart on the next page, are quite interesting and probably a bit surprising. From January 1, 1988 to August 27, 2020, investing at all-time highs, on average, reaped higher forward returns than investing on any day.



Source: YCharts, A Wealth of Common Sense

The data above may come as a surprise, but there's a reason the findings look this way. It's because bull markets generally do not reach all-time highs and then abruptly end. Instead, bull markets tend to produce several new all-time highs during the cycle, a direct reflection of the expanding economy and rising corporate profits — both of which we expect to see in 2024 given our current outlook.

SOURCES:

i **Source:** "Stocks Are at Records, but Are They Expensive? These Models Have an Answer", The Wall Street Journal, https://www.wsj.com/finance/stocks/stock-prices-valuations-financial-advisers-35ced497?&mod=djemMoneyBeat_us

ii **Source:** The Bureau of Labor Statistics

iii **Source:** "Earnings Insight," February 16, 2024. Factset.

iv **Source:** "All Time Highs in the Stock Market are Usually Followed by More All-Time Highs," February 8, 2024, Ben Carlson, https://awealthofcommonsense.com/2024/02/all-time-highs-usually-lead-to-more-all-time-highs-in-the-stock-market/