

Mitch on the Markets

Bull Market's 9th Birthday, but is it Too Soon to Celebrate?



By Mitch Zacks
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On March 9, 2009, the S&P 500 hit its low point for the treacherous bear market of 2008, which was spurred by the global financial crisis. The index bottomed out at 676.53.¹

Today, the S&P 500 trades at over 2,500, with total gains off-the-bottom approaching +250%. As I write this column, however, I cannot actually wish this bull market a happy 9th birthday. Why? Because the fact is, the S&P 500 reached a high of 2,872 on January 26, and it has not returned to that level since.²

In other words, it is entirely possible that the bull market hit its peak on January 26, and we are actually in the very early stages of the next bear market. No one at Zacks Investment Management believes this to actually be the case, but we cannot know for sure until we have the benefit of hindsight. If or when the bull market recovers from

this correction and crosses back over 2,872, I'll send the birthday cake.

For the sake of this week's column, however, let's assume the bull market is indeed still alive charging ahead (which, again, is what we believe). In that case, I'd like readers to mark their calendars for August 21st. If the bull market is still going strong on that date, it will be the longest bull market since World War II, making it even longer than the 1990's tech bull³.

But while this bull market only needs to live for five more months to be the longest, it has quite a bit to go if it wants to qualify as the largest. The 1990's bull market delivered returns north of +400%, which is substantially higher than the less than +250% we have so far in this bull⁴.

Could this bull market end up being the largest in modern history? That question got us thinking about what it takes to keep a bull market moving, and we've come up with a checklist of questions that readers can continue to revisit as this bull market marches on. Here it is:

- ✓ Are earnings still growing quarter-over-quarter with a healthy percentage of positive surprises?
- ✓ Is the Conference Board LEI still high and rising?
- ✓ Has the yield curve inverted?
- ✓ Is there skepticism/pessimism about where the markets are headed, or whether this bull market can go any further? (If yes, that is a good sign in my opinion)
- ✓ Is the earnings yield on stocks (inverse of the P/E ratio) higher than the yield of the 30-year US Treasury?

Here is what the bull market answer key looks like, in my view:

- ✓ Yes
- ✓ Yes
- ✓ No
- ✓ Yes
- ✓ Yes

In the months ahead, I would encourage readers to come back to this questionnaire, to check the pulse of the bull market. Of course, this list is by no means comprehensive, but I think it offers solid scan of the conditions that I believe are needed for a bull market to thrive. And in the current environment, it likely indicates more bull market ahead.

Bottom Line for Investors

This bull market may feel old, but investors should remember that bull markets do not necessarily have to die of old age. In fact, I'd argue that no bull markets in history have died that way. There is nothing that says this bull market cannot continue for another nine years, though I doubt it considering how business cycles work. The point is, while many may obsess over the bull market being the longest or the largest or being too long or being stocks too expensive, none of those things really matter if economic fundamentals remain strong and continue in a growth pattern. And I believe that's what we have today.

About Mitch Zacks

Mitch is a Portfolio Manager at Zacks Investment Management. Mitch has been featured in various business media including the Chicago Tribune and CNBC. He wrote a weekly column for the Chicago Sun-Times and has published two books on quantitative investment strategies. He has a B.A. in Economics from Yale University and an M.B.A in Analytic Finance from the University of Chicago.

¹ Source – Washington Post:
https://www.washingtonpost.com/business/us-bull-market-hits-ninth-birthday-2nd-longest-since-wwii/2018/03/09/8d994a08-2392-11e8-946c-9420060cb7bd_story.html?utm_term=.0718148dc957

² Source - Yahoo Finance:
<https://finance.yahoo.com/quote/%5EGSPC/>

³ Source – Washington Post:
https://www.washingtonpost.com/business/us-bull-market-hits-ninth-birthday-2nd-longest-since-wwii/2018/03/09/8d994a08-2392-11e8-946c-9420060cb7bd_story.html?utm_term=.0718148dc957

⁴ Source – Washington Post:
https://www.washingtonpost.com/business/us-bull-market-hits-ninth-birthday-2nd-longest-since-wwii/2018/03/09/8d994a08-2392-11e8-946c-9420060cb7bd_story.html?utm_term=.0718148dc957

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