MARKETS IN FOCUS

Long-term insights

The case for investing at all-time highs

By Matt Orton, CFA, and Joey Del Guercio

When markets start to hit new all-time highs, it's natural to start worrying about what could go wrong and to focus on seeking protection from future drawdowns. It's even more challenging to deploy new capital given our behavioral biases toward loss aversion.

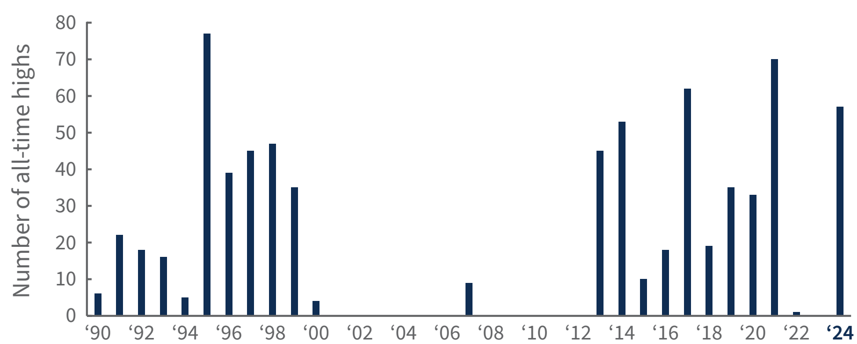
In reality, all-time highs are nothing to fear. In fact, they occur more frequently than most investors think and tend to portend further upside: The S&P 500 Index has made 1,316 all-time highs since 1950, which is 7% of all trading days.[1] It's worth highlighting that 31% of those all-time highs marked a new market floor; that is, the index never fell 5% below that level again. That's why we contend that it's important to embrace all-time highs rather than fear them – that "better entry point" might not come back around.

While the S&P 500 hit 57 all-time highs in 2024, this is not abnormal, particularly following a prolonged market pullback and recovery. It took the S&P 500 745 days – including a 25% drawdown – between all-time highs from 2022 through early 2024.

Fresh all-time highs following a drawdown are typically indicative of positive forward returns to come. In fact, the S&P 500's one-year forward return is positive 79% of the time following an all-time high that has been preceded by a drawdown of 10% or more. Why do we tend to see such a high hit rate of positive performance following new all-time highs? That largely rests with the fundamentals. Nearly all of these instances of continued upside coincided with periods of recovering earnings growth within the context of a solid or recovering economy.

2024 saw plenty of all-time highs, but by no means an abnormal amount

S&P 500 all-time highs per year



Source: Bloomberg, as of 12/31/2024.

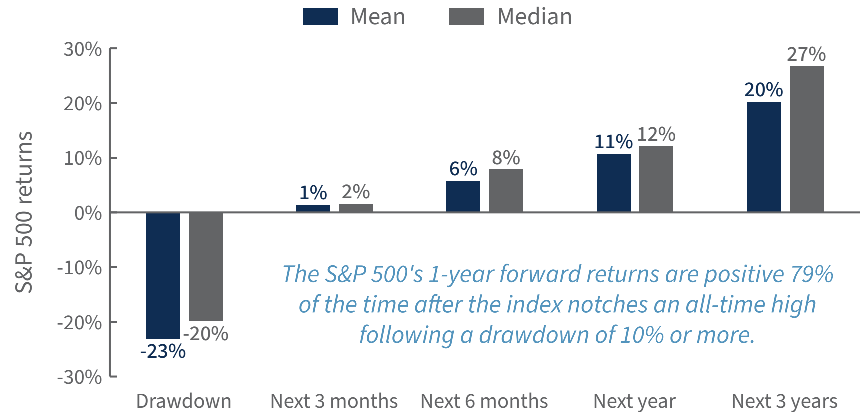
[1] Unless otherwise indicated, all data cited is sourced from Bloomberg as of Dec. 31, 2024.

Don't fear an all-time high. Embrace it.

The current bull market is also grounded in solid and improving fundamentals. The S&P 500's earnings growth is accelerating into 2025 and becoming less reliant on the Magnificent Seven, which have powered the index forward to date. Earnings for the Magnificent Seven recovered first coming out of 2022, aided by strong secular growth drivers. The broader market (informally known as the S&P 493) is finally starting to see an earnings recovery. In fact, the current quarter (4Q24) is expected to be only the third quarter in a row of positive earnings per share (EPS) growth for the average stock, with the consensus expecting the 493 to contribute more than the Magnificent Seven to overall index earnings growth in 2025.

To those worried about valuations, it's first worth mentioning that historical comparisons of valuations aren't reliable considering how much growthier the index is now versus 20 years ago. Historically, a growthier index has a positive correlation to a higher multiple. Second, the index's valuation is largely controlled by the Magnificent Seven, and there are plenty of undervalued names within the S&P 493 that are expected to get more attention as earnings breadth expands, providing further support to the index.

S&P 500 returns following an all-time high post-10% drawdown, since 1950



Source: Bloomberg, as of 12/31/2024. This chart covers 24 instances of S&P 500 returns following a drawdown of 10% or more, starting in 1950.

This bull market is young by historical standards

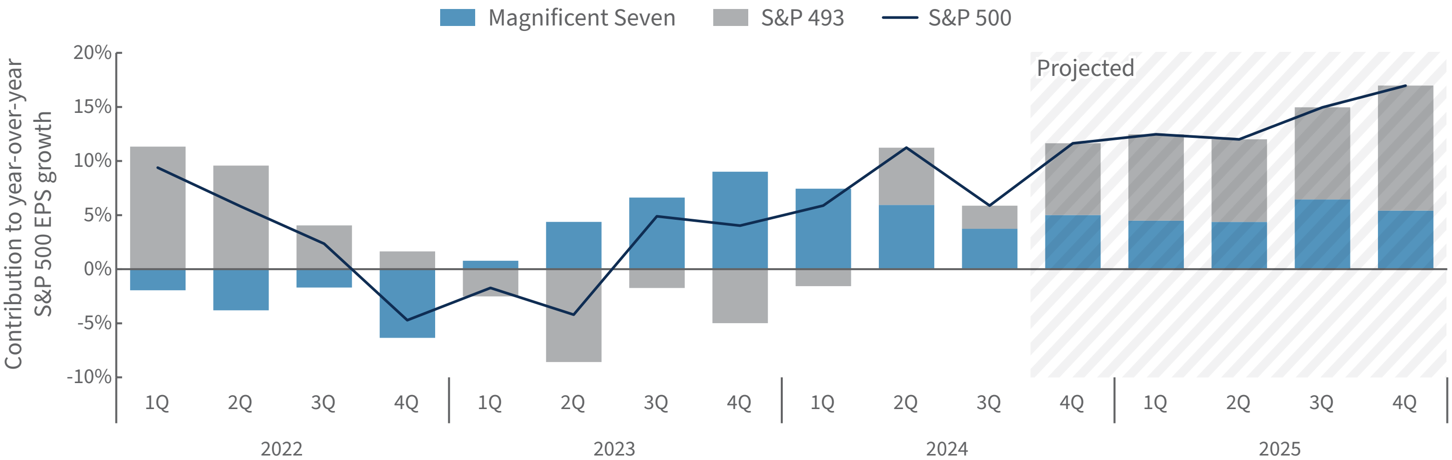
S&P 500 bull markets since 1950

Bear market bottom	Bull market peak	Days	S&P 500 return
6/13/1949	8/2/1956	2,607	267.1%
10/22/1957	12/12/1961	1,512	86.4%
6/26/1962	2/9/1966	1,324	79.8%
10/7/1966	11/29/1968	784	48.0%
5/26/1970	1/11/1973	961	73.5%
10/3/1974	11/28/1980	2,248	125.6%
8/12/1982	8/25/1987	1,839	228.8%
12/4/1987	3/24/2000	4,494	582.1%
10/9/2002	10/9/2007	1,826	101.5%
3/9/2009	2/19/2020	3,999	400.5%
3/23/2020	1/3/2022	651	114.4%
10/12/2022	12/31/2024*	811	64.4%
	Average:	1,921	181.0%
	Median:	1,864	173.8%

Source: Bloomberg, as of 12/31/2024.
* This bull market is ongoing, with more potential peaks ahead.

Calling in backup: The S&P 493's earnings recession only just ended

Contribution to S&P 500 year-over-year EPS growth: Magnificent Seven vs. the rest of the index

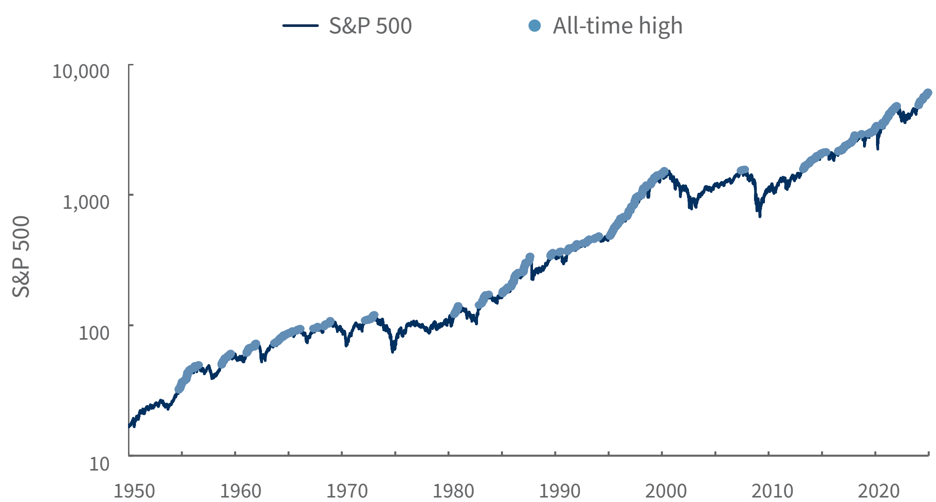


Source: FactSet, as of 12/31/2024.

Going forward, we're likely to see elevated volatility and heightened reactivity to headlines. There are multiple unknowns to which the market is increasingly sensitive. Whether it's inflation, the labor market, monetary policy, geopolitics, or the read-through of new policy ushered in by a new administration, there is a lot for the market to digest. As such, volatility is likely to pick up, but we believe none of this should derail the fundamentals underpinning this market. Expect a high-volatility bull market going forward, underscoring both the benefits of better diversification in portfolios and the importance of selectivity. We expect that heightened volatility also will provide investors with better entry points to prepare for. We think unreasonable market weakness should be bought. The path of least resistance for this market is higher. Don't let past progress derail your future returns. All-time highs are a feature of a healthy market, not a bug.

Take a step back

S&P 500, with all-time highs highlighted, since 1950 (log-scale)



Source: Bloomberg, as of 12/31/2024. Index levels are shown at logarithmic scale.

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Definitions

Breadth describes the relationship between the median and the mean of a market index. When a few data outliers result in a mean that is substantially larger (or smaller) than the median of the full data set, then the performance of the entire index is being driven by a “narrow” selection of companies. An index supported by “broad” market movements is one where the median is closer to the mean.

A consensus estimate is a forecast of a public company’s projected earnings, the results of a particular industry, sector, geography, asset class, or other category, or the expected findings of a macroeconomic report based on the combined estimates of analysts and other market observers that track the stock or data in question.

Correlation is a statistic that measures the degree to which two securities or variables move in relation to each other.

Earnings per share (EPS) is calculated as a company’s profit divided by the outstanding shares of its common stock. The resulting number serves as an indicator of a company’s profitability.

A logarithmic scale, or log scale, is used to display data that covers a large range of values, a large range of magnitudes between the top and bottom values, or both. Unlike a linear scale, where each unit of measurement reflects the same degree of change in the data being measured, units of measurement on a logarithmic scale generally reflect units of measurement that is a multiple of a base value raised to a power, typically to the power of 10.

The Magnificent Seven refers to the seven largest stocks by market capitalization in the S&P 500 Index, as of Dec. 31, 2024. Collectively they made up more than 25% of the market capitalization of the entire index. They are Alphabet, Amazon.com, Apple, Meta Platforms, Microsoft, NVIDIA and Tesla.

Market capitalization, or market cap, refers to the total dollar market value of a company’s outstanding shares of stock.

The mean is the average value of a set of numbers. It is calculated by dividing the sum of all the values in the set by the total number of values in the set.

The median is the midpoint value in a set of numbers that are arranged largest to smallest. It separates the top half of the values from the bottom half.

A multiple, sometimes referred to as the price multiple or earnings multiple, is a measure of a company’s value based on the ratio of its current share price to its earnings per share. This ratio is known as the price-to-earnings ratio, or P/E.

Read-through describes the process by which market participants analyze and work to understand the financial implications of government policies or large trends that affect the broader economy or capital markets.

The S&P 493 is an informal way of describing the companies in the S&P 500 Index apart from those companies in the Magnificent Seven.

Secular trends are large-scale and ongoing changes in economies and societies that have the potential to drive broad and lasting economic, technological, social or other kinds of changes.

A valuation reflects the current or projected worth of a company or other asset. Valuations can be derived using a variety of analytical models and data. Valuations can reflect the absolute value of a company considered singly or the relative value of a company compared with other companies in the market.

Index

The S&P 500 Index measures changes in stock market conditions based on the average performance of 500 widely held common stocks. It is a market-weighted index calculated on a total return basis with dividend reinvested. The S&P 500 represents approximately 80% of the investable U.S. equity market.

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