Market insights

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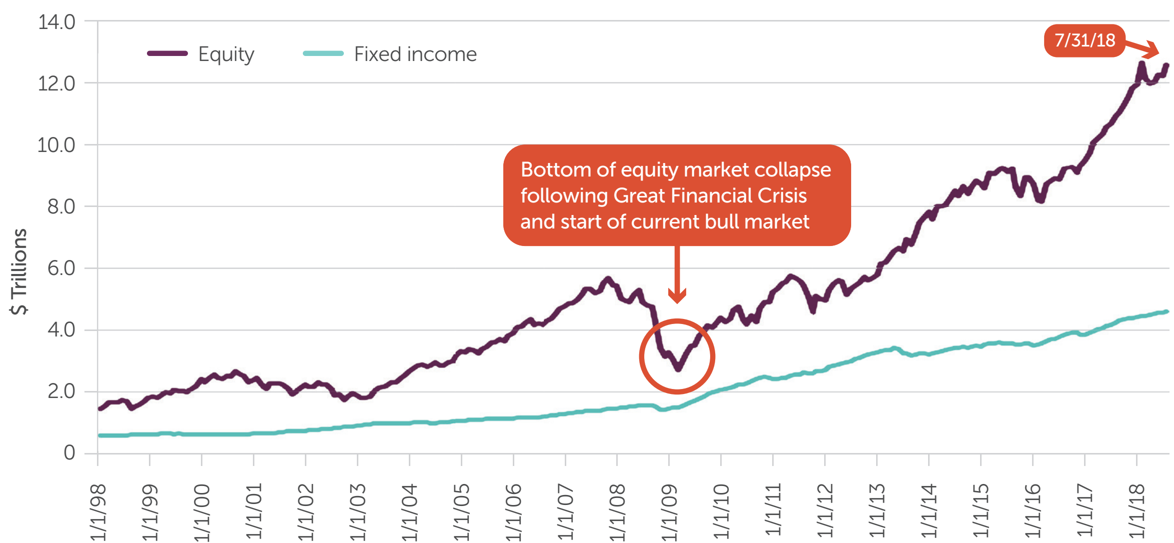
Optimism versus inertia

Key highlights:

- We are now in the midst of the longest-running bull market in stocks on record.
- There is a significant equity overweight in investor portfolios today.
- Now is an opportune moment to consider rebalancing overall allocations.

On March 9, 2009, the *Wall Street Journal* asked "How low can stocks go?".[1] Given the backdrop of the Great Financial Crisis of 2008, it was a timely question. Presumably, the newspaper was unaware that day would mark the end of the market's plunge and the beginning of the current equity bull run (see *Exhibit 1*). The ongoing S&P 500 rally has recently set a new record for the longest in history, reaching more than 3,430 days in duration and gaining a whopping 420.25% cumulative return during that period.[2]

Exhibit 1: Asset growth since 1998



Source: Morningstar, 7/31/18. Assets represented are open-end mutual funds and exchange-traded funds, excluding money market funds.

As *Exhibit 1* illustrates, the beginning of the bull market saw a huge shift of investor assets into the stock market. Fixed income grew as well, but not at the pace witnessed in equities. Many investors, faced with low bond yields, poured their money into stocks and have been doing so ever since. This growing imbalance in investor asset allocation may have arisen from the combined effects of stock market outperformance and investors not realizing the growing overweight in their portfolios. In other words, many folks may have been unaware of this situation and adopted an "autopilot" approach, keeping their investment choices static while overlooking the merits of rebalancing their equity-fixed income mix.

The yield race

Exhibit 2 compares the dividend yield of the S&P 500 Index with the 10-year U.S. Treasury yield, and shows the widening spread between the two over the last year or so. This divergence comes at the same time that bond rates have finally begun to move higher and now look attractive to many market participants. Simply put, with the dividend yield trending downward and fixed income yields looking more attractive, equities are no longer the only game in town.

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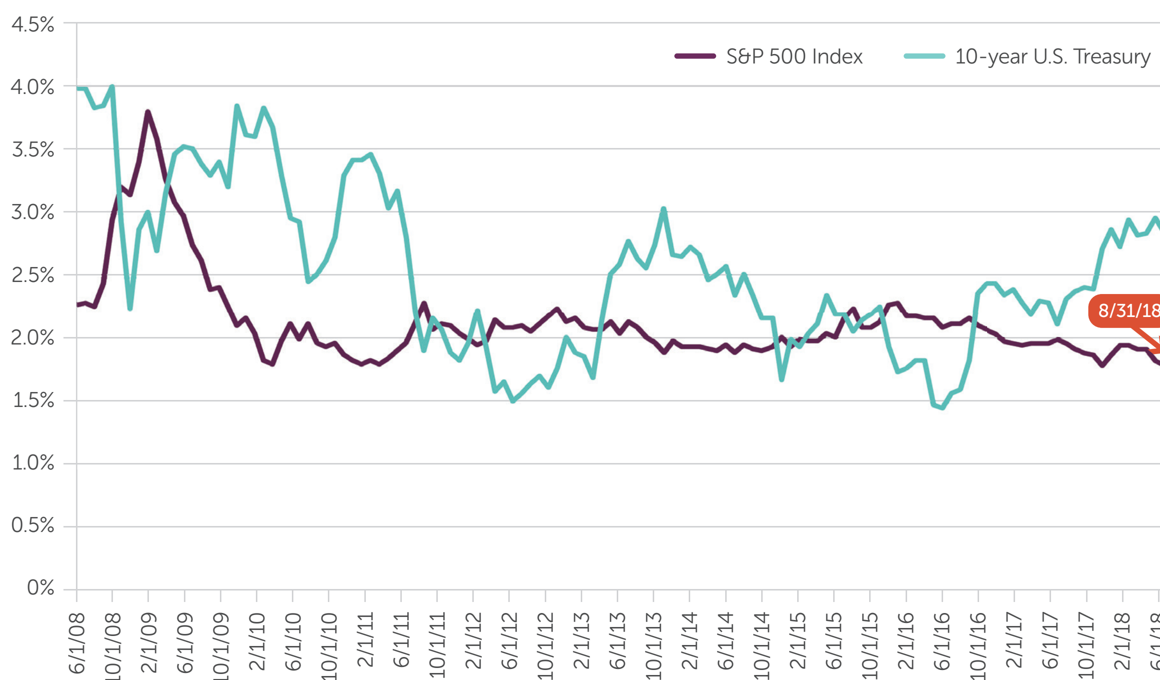
[1] The *Wall Street Journal*, Money and Investing, 3/9/09.
[2] Source: Morningstar Direct, 8/29/18.

Exhibit 2: S&P 500 Index dividend yield vs 10-year U.S. Treasury yield



Source: U.S. Department of the Treasury, Bloomberg. Monthly yields for trailing 10 years ending 8/31/18.

What does this mean for investors?

With the seemingly steady flow of positive economic data, the effects of the financial stimulus resulting from tax reform, and still relatively easy monetary policy (although the Federal Reserve is in a committed tightening posture), the outlook generally remains positive for equities. So, should investors keep their portfolios as they are? We think the occasion of the longest bull market in U.S. history provides a good opportunity for investors to re-think their overweightings to stocks and consider re-balancing their overall portfolios to more traditional allocations.

Disclosure

The **S&P 500 Index** in an unmanaged capitalization-weighted index of 500 stocks designed to measure the performance of the broad domestic economy through changes in the aggregate market value of such stocks, which represent all major industries. Return data is available daily. It is not possible to invest directly in an index.

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