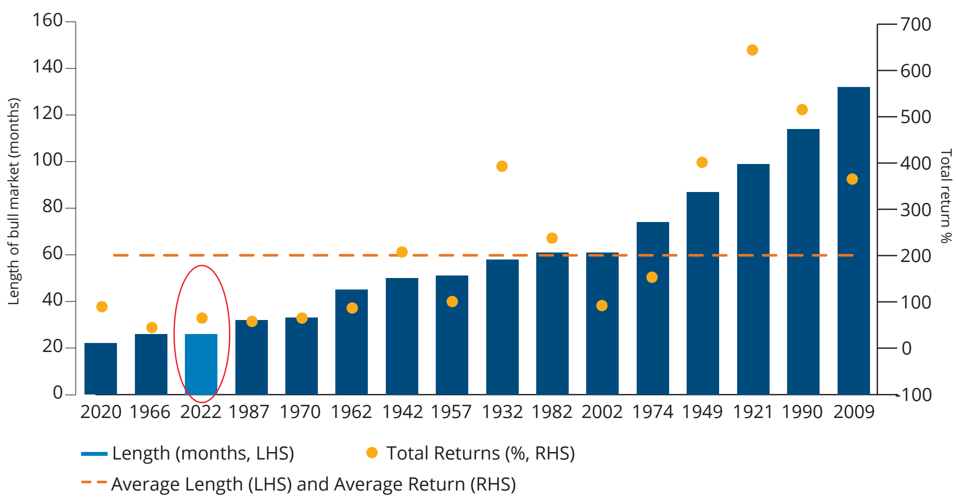
Can This Equity Bull Market Last?

The fundamentals point to a market bull that still has room to run.

Bull markets tend to last a long time. Over the past century, bull markets have averaged five years in duration and returned over 200% (**FIGURE 1**). The current bull market, which started October 2022, may have seemed frothy to investors at times given the hyperfocus on artificial intelligence (AI) dominance and incessant talk of the Magnificent Seven.[1] However, the duration and total returns of the bull market so far are modest relative to history.

There are several leading indicators that can signal the end of a bull market, including weakening economic and corporate fundamentals and a push by investors into increasingly risky assets. We believe these clues are absent today and the economic backdrop is positive, suggesting that the bull market may have room to run further.

FIGURE 1
History Suggests the Current Equity Bull Market May Have More Room to Run (%)
S&P 500 Index Average Returns and Bull-Market Time Spans (1921–2024)



As of 11/24. **Past performance does not guarantee future results.** Investors cannot directly invest in indices. Monthly data from June 1921–October 2024. The current bull market (light blue, circled in red) began on 10/13/22. Index used: S&P 500 Index with Global Financial Data (GFD) extension.[2] S&P 500 Index is a market capitalization-weighted price index composed of 500 widely held common stocks. A bear market is defined as a fall of at least 20% from its previous high in a stock market index. A bull market is regarded as the period of upward price trend between two bear markets. Sources: Wellington Management, Refinitiv, Global Financial Data.

Investment Implications

- Equities tend to benefit in the months following rate cuts in a “no recession” environment. With the Federal Reserve just starting the cutting cycle to normalize rates, this could extend the runway for the current bull market. Rate cuts might boost market segments such as small caps and value stocks, which were hindered by higher-for-longer rates and lagged mega-cap tech.
- Bull markets can still be punctuated by periods of drawdowns. When

Insight from sub-adviser, Wellington Management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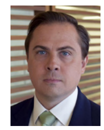
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Key Points

- Equities tend to benefit in the months following rate cuts in a "no recession" environment. With the Federal Reserve just starting the cutting cycle, this could extend the runway for the current bull market.
- Bull markets can still be punctuated by periods of drawdowns. Investors should remain confident when fundamentals appear healthy.
- Several leading indicators can signal the end of a bull market, including weakening economic and corporate fundamentals and a push by investors into increasingly risky assets.

fundamentals appear healthy, investors should remain confident to weather volatility and stay invested, given best-performing days have tended to follow soon after. Missing such days drastically reduces long-term returns. Example: August 2024's drawdown came on the back of unwinding popular trades, but fundamentals looked sound, and the bull market regained its footing soon thereafter.

- As inflation has eased, bond correlation with equities is normalizing, improving bond-diversification benefits in the event of a weak growth-induced bear market. Although 60/40 strategies[3] experienced their worst return in decades during the 2022 bear market, our confidence in such allocations as a diversifier has improved with the inflation outlook.

Corporate fundamentals have been strong, particularly in the US, but heavily concentrated in mega-cap tech stocks.

What We Are Watching

- **Signs of economic deterioration** — The backdrop continues to look healthy with buoyant US GDP and employment numbers. Fears of a slowdown have yet to be meaningfully supported by hard data. When the data weakens, it doesn't bode well for bull markets.
- **Corporate earnings growth and broadening** — Corporate fundamentals have been strong, particularly in the US, but heavily concentrated in mega-cap tech stocks. Sustained earnings growth is not only indicative of a continued bull run, but growth stemming from a wider selection of industries is supportive of a more sustainable market rally moving forward.
- **The rise of speculative investments** — Heightened investor frenzy on assets increasingly detached from fundamentals could signal the end of the bull market. Harbingers of the end of the post-COVID-19 bull market such as bitcoin and SPACs[4] (Special Purpose Acquisition Companies) are not in the same bubble territory today.

Talk to your financial professional to help position your portfolio for potential growth.

[1] The Magnificent Seven stocks are a group of high-performing and influential companies in the US stock market: Alphabet, Amazon, Apple, Meta, Microsoft, NVIDIA, and Tesla.

[2] The S&P 500 Index with Global Financial Data (GFD) extension refers to the S&P 500 Index data that has been extended historically by Global Financial Data, a data-research firm based in San Juan Capistrano, CA. The extension of the S&P 500 Index data involves the use of original records and historical documents to provide a continuous and uninterrupted time series of data, going back much further than traditional data sources.

[3] A "60/40 strategic asset allocation" refers to an investment strategy where 60% of a portfolio is allocated to stocks (considered "growth assets") and 40% is allocated to bonds (considered "stable assets"), essentially aiming to balance potential high returns from stocks with the stability of bonds, creating a moderate risk profile for investors. Wellington used the S&P 500 Index as a proxy for the equity allocation and the Bloomberg US Aggregate Bond Index as a proxy for the fixed-income allocation. Bloomberg US Aggregate Bond Index is composed of securities that cover the US investment-grade fixed-rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities.

[4] A Special Purpose Acquisition Company (SPAC) is a shell corporation that raises money through an initial public offering (IPO) to acquire or merge with an existing company. SPACs are also known as "blank check companies". They are registered with the U.S. Securities and Exchange Commission (SEC) and are publicly traded companies. The general public can buy shares of a SPAC on a stock exchange before a merger or acquisition takes place.

Important Risks: Investing involves risk, including the possible loss of principal. Security prices fluctuate in value depending on general market and economic conditions and the prospects of individual companies. • Small-cap securities can have greater risks, including liquidity risk, and volatility than large-cap securities. • Different investment styles may go in and out of favor, which may cause underperformance to the broader stock market. • Fixed income security risks include credit, liquidity, call, duration, and interest-rate risk. As interest rates rise, bond prices generally fall. Diversification does not ensure a profit or protect against a loss in declining market.

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