MORNINGSTAR Wealth

Investment Insight

The Market Minute: The Bull Market Turns Two, More Than Just 'The Mag 7,' and When in Doubt Zoom Out

Morningstar Investment Management LLC
For General Educational Use Only

November 2024

Danny Noonan
Senior Investment Writer

For General Public Use

Exploring the investment markets through important charts and themes.

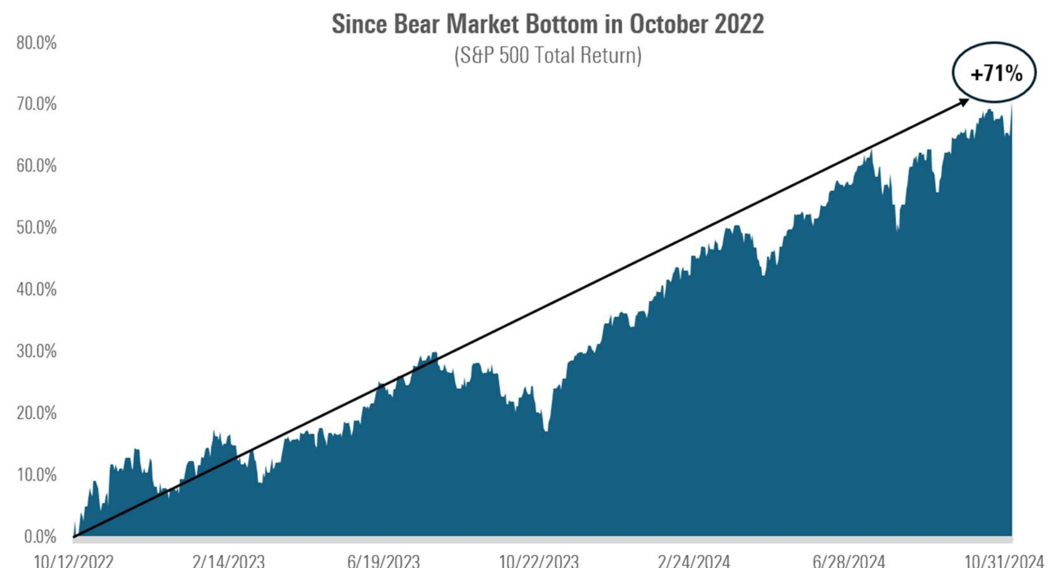
The Bull Market Turns Two

In October 2022, headline inflation was 8.2%, the highest rate since the early 1980s, while the S&P 500 had tumbled 24% over the preceding 10 months and consumer sentiment had plunged to levels typically associated with recessions.

That backdrop invites the quip, *"But other than that, how was the play, Mrs. Lincoln?"*

Yet, ironically, it was this very backdrop that laid the foundation for a new bull market. This October 12 marked the two-year anniversary of the bear market low, and since that point, the market has delivered a return of more than 70%.

Exhibit 1



Source: Morningstar Direct. Data as of November 6, 2024. S&P 500 used for performance analysis. Past performance no guarantee of future results. For illustrative purposes only. Indexes shown are unmanaged and not available for direct investment.

Last year, on the one-year anniversary, we noted, *"It may not be time to give up on stocks."* Fast forward, and that comment holds up well. To be candid, though, it wasn't an edgy prediction—it was backed by data. History showed that the second year of a new bull market had been positive nearly 90% of the time.

© 2024 Morningstar Investment Management LLC. All Rights Reserved. Morningstar Investment Management LLC is a registered investment advisor and subsidiary of Morningstar, Inc. The Morningstar name and logo are registered marks of Morningstar, Inc.

With this bull market now entering its third year, the new question is: What does the data suggest now?

If history is any guide, this bull market may still have room to run. According to data from Carson Group, since 1950, bull markets have typically lasted more than five years, delivering gains of approximately 180% on average.

Exhibit 2

S&P 500 Bull Markets (1950 - Current)

Bear Market Bottom	Bull Market Peak	Total Return	Years
June 1949	Aug. 1956	267%	7.1
Oct. 1957	Dec. 1961	86%	4.1
June 1962	Feb. 1966	80%	3.6
Oct. 1966	Nov. 1968	48%	2.1
May 1970	Jan. 1973	74%	2.6
Oct. 1974	Nov. 1980	126%	6.2
Aug. 1982	Aug. 1987	229%	5.0
Dec. 1987	March 2000	582%	12.3
Oct. 2002	Oct. 2007	102%	5.0
March 2009	Feb. 2020	401%	11.0
March 2020	Jan. 2022	114%	1.8
Oct. 2022	**???**	71%	2.1
	Average	**182%**	**5.5**

Source: Carson Group. Data as of November 7, 2024. Past performance no guarantee of future results. For illustrative purposes only. Indexes shown are unmanaged and not available for direct investment.

Predicting whether this bull market will make it to year five would be akin to spinning a roulette wheel—nobody knows for certain what the future holds.

Instead of betting on certainties, it’s easier to think in probabilities. The most reasonable outlook might be that the odds of reaching year five could be better than many might expect. But it’s also likely that year three won’t be as smooth as year two.

After all, how could it be? The S&P 500 is on track for back-to-back years of returns above 20%, a streak last seen in 1998–1999.

Data from Carson Group shows the third year of a bull market tends to cool off, with average gains of just 2%, compared to the robust 36% and 15% seen in years one and two, respectively.

Exhibit 3

S&P 500 Bull Markets (1950 - Current)					
Bear Market Bottom	**Bull Market Peak**	**Total Return**	**Year 1**	**Year 2**	**Year 3**
June 1949	Aug. 1956	267%	40%	15%	13%
Oct. 1957	Dec. 1961	86%	32%	10%	-5%
June 1962	Feb. 1966	80%	33%	17%	2%
Oct. 1966	Nov. 1968	48%	33%	7%	X
May 1970	Jan. 1973	74%	45%	10%	X
Oct. 1974	Nov. 1980	126%	35%	21%	-8%
Aug. 1982	Aug. 1987	229%	13%	15%	14%
Dec. 1987	March 2000	582%	58%	2%	-8%
Oct. 2002	Oct. 2007	102%	21%	29%	5%
March 2009	Feb. 2020	401%	29%	6%	4%
March 2020	Jan. 2022	114%	75%	X	X
Oct. 2022	???	65%	22%	34%	???
	Average	**181%**	**36%**	**15%**	**2%**

Source: Carson Group, Morningstar Direct. Data as of November 7, 2024. X represents the bull market peaked, and a bear market occurred. Past performance no guarantee of future results. For illustrative purposes only. Indexes shown are unmanaged and not available for direct investment.

Put simply, the climb might become more difficult. But that's expected—the early years of a bull market often rebound from the depths of despair (nobody likes stocks!), and by year three, more investors have joined in, pushing up both prices and expectations.

It's common for bull markets to evolve as the initial winners slow down and new leaders emerge. In other words, now might be a good time to consider diversification. While it’s too early to say anything definitive, there are some intriguing dynamics unfolding under the surface.

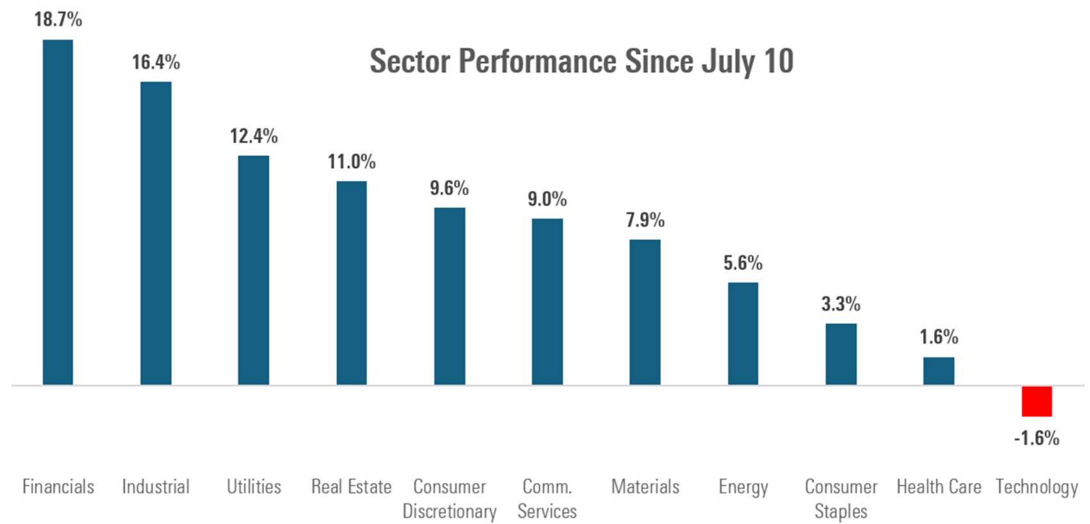
More Than Just ‘The Mag 7’

The ink spilled over technology stock dominance in recent years could fill an Olympic swimming pool.

Since October 2022, returns from the 'Mag 7' have been a significant driver of equity market strength.

But what’s flown under the radar? Technology stocks have recently hit a slowdown. In fact, since July 10, technology has been the only sector in the S&P 500 to post negative returns.

Exhibit 4



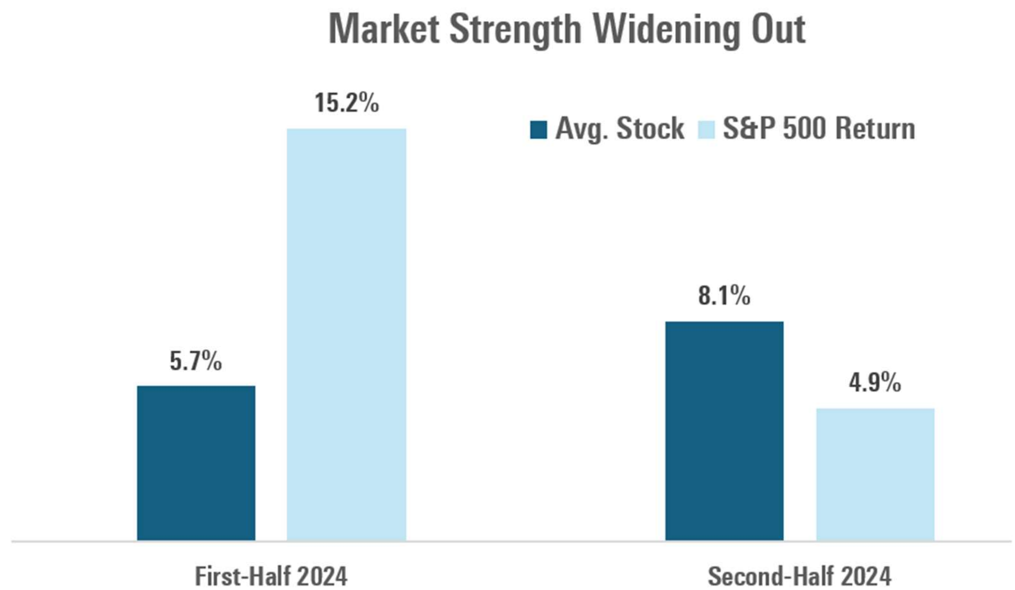
Source: Morningstar Direct. Data as of November 7, 2024. Sector ETFs used for performance analysis. Past performance no guarantee of future results. For illustrative purposes only. Indexes shown are unmanaged and not available for direct investment.

A quiet sector rotation is underway, with market leadership expanding as sectors like financials, industrials, and utilities move to the forefront. Our data to highlight this shift.

In the first half of the year, the S&P 500 rose 15.2%, but the average stock in the index gained only 5.7%, as leadership was primarily concentrated in technology.

However, this trend has reversed in the second half. While the S&P 500 is up 4.9%, the average stock has outperformed, rising 8.1%.

Exhibit 5



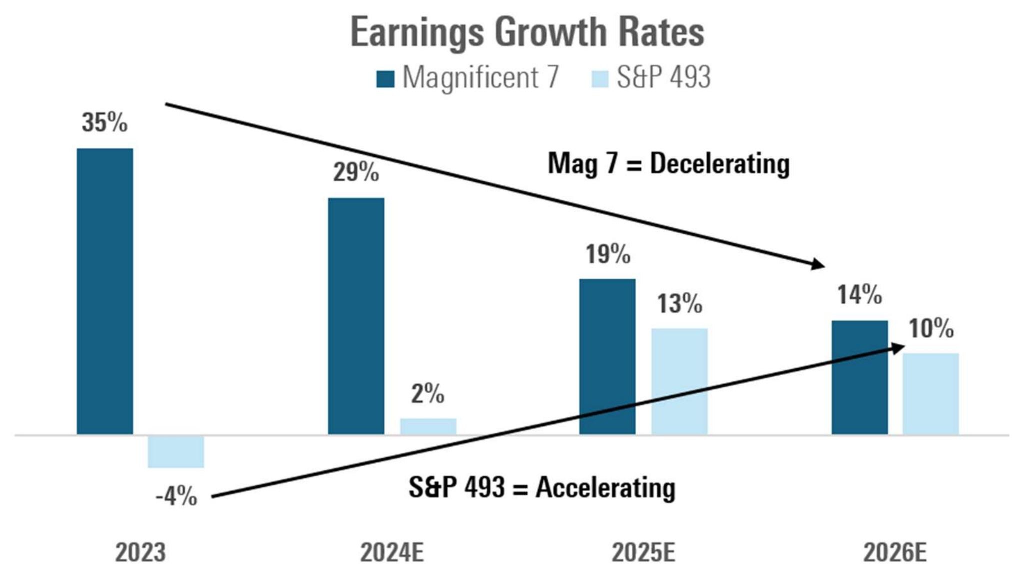
Source: Morningstar Direct. First-half 2024 represents the period from January 1, 2024—June 30, 2024. Second-half 2024 represents the period from July 1, 2024—November 4, 2024. S&P 500 used for performance analysis. Past performance no guarantee of future results. For illustrative purposes only. Indexes shown are unmanaged and not available for direct investment.

Broader participation in market performance is becoming evident. While a few months of this trend could be dismissed as noise, a good question would be: Are there reasons to believe it's sustainable?

Earnings growth provides a potential clue.

Over the past two years, the 'Mag 7' experienced explosive earnings growth, but that pace is now slowing. In contrast, earnings estimates for the S&P 493 are trending upward, with growth expected to accelerate.

Exhibit 6



Source: Goldman Sachs. The "E" after 2024-2026 represents estimates.

Looking at 2025 earnings estimates, one might argue, *"19% growth among the Mag 7 is still better than 13% for the S&P 493!"*

But the funny truth about markets? They often care more about the direction of a trend rather than the absolute number. While 19% earnings growth for the Mag 7 is impressive, it's decelerating. For the S&P 493, the opposite is happening. The growth trend is accelerating—albeit from a low base—but could suggest that market leadership has a chance to continue widening out.

Elections & Markets: When in Doubt Zoom Out

Change and uncertainty are never pleasant, and presidential elections tend to bring a surge of fear and anxiety. This is understandable, as cable news viewership spikes during these times. However, the intense media focus tends to be short-term oriented, often centered on the outcome and predictions for the future.

This is not the path investors should take. While challenging, it's crucial to separate the two—think of them like oil and water, two elements that simply don't mix.

That doesn't mean elections don't have long-term impacts; of course, they do. But to achieve the investment outcomes we seek, it's essential to maintain perspective—to separate the forest from the trees.

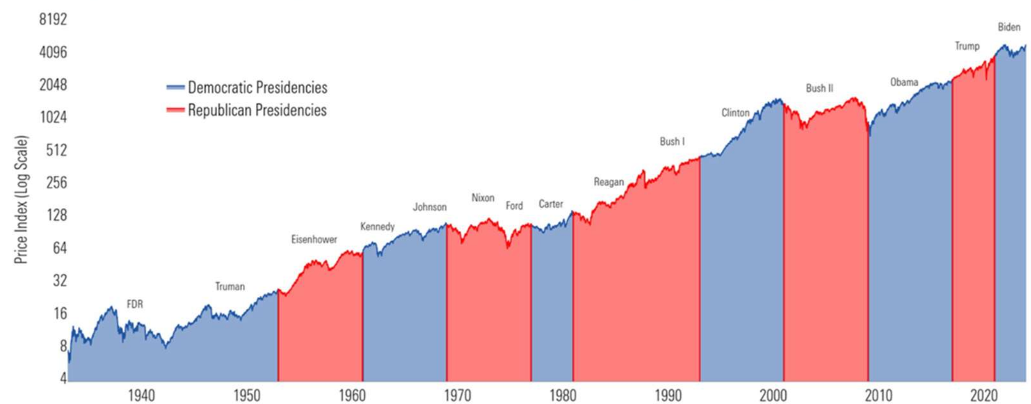
One effective way to do this? An evidence-based approach.

Presidential elections are important, but they can be financial distractions if you let them. Since FDR's administration in 1933, history shows stocks have always trended higher, regardless of who occupies the White House.

Exhibit 7

The Stock Market and Presidencies

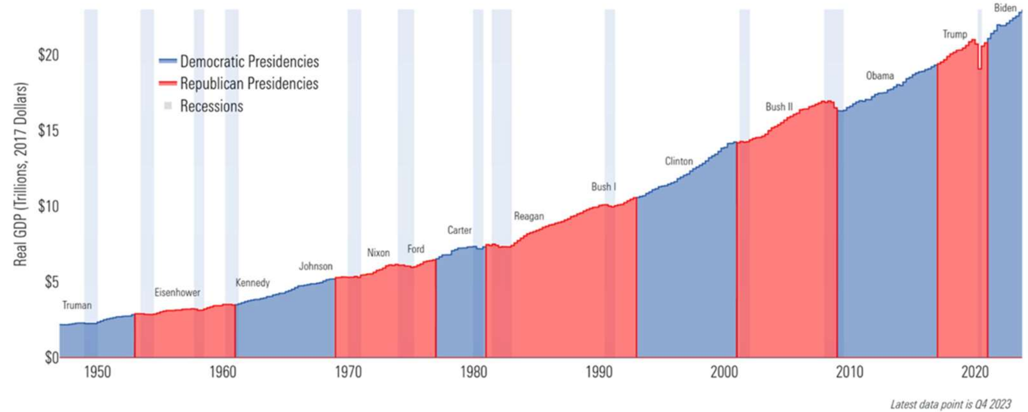
S&P 500 price returns on a log scale with presidents and their parties highlighted since 1933



Source: Clearnomics, S&P. Past performance no guarantee of future results. For illustrative purposes only. Indexes shown are unmanaged and not available for direct investment.

The same goes for the economy, which has consistently grown under both parties. While each party is often associated with policies believed to impact the economy in a 'positive' or 'negative' way, business cycles are driven by numerous factors outside Washington's control.

Exhibit 8



Source: Clearnomics, Bureau of Economic Analysis, NBER. Past performance no guarantee of future results. For illustrative purposes only.

While the charts above represent the long tail of investing (spanning multiple decades), we acknowledge that most people don't have a 70-year investing horizon. However, even when we shorten the time frame, a similar trend is observable.

Consider the total returns across various asset classes following each of the past five US presidential election days.

Exhibit 9

Past Five Presidential Elections	Total Return by Asset Class from Each Election Day			
Election Day	**Large Cap**	**Mid Cap**	**Small Cap**	**Bonds**
November 3, 2020	83%	58%	49%	-7%
November 8, 2016	206%	135%	106%	9%
November 6, 2012	399%	282%	218%	19%
November 4, 2008	698%	606%	412%	59%
November 2, 2004	634%	564%	393%	79%

Source: Morningstar Direct. Data as of November 4, 2024. Asset class ETFs used for performance analysis. Past performance no guarantee of future results. For illustrative purposes only.

There's only one reasonable conclusion: The path of least resistance has always been higher. While near-term volatility is always possible, there's little reason to believe this election will alter any of this history.

Disclosures

For general educational use only.

This commentary is for general educational and informational purposes only. The information, data, analyses, and opinions presented herein are designed to provide general information about investing, to inform investors about developments in the broader financial ecosystem, and/or to help investors interpret market and regulatory shifts. This material is not an offer of our investment advisory services or an offer to buy or sell a security.

References to specific securities or other investment options within this piece should not be considered an offer (as defined by the Securities and Exchange Act) to purchase or sell a specific investment. We will not be responsible for any trading decisions, damages or other losses resulting from, or related to, the information, data, analyses or opinions or their use.

All investments involve risk, including the loss of principal. There can be no assurance that any financial strategy will be successful. Morningstar Investment Management does not guarantee that the results of their advice, recommendations or objectives of a strategy will be achieved.

Investments in common stocks involve risk (e.g., market and general economic conditions) and will not always be profitable. Common stocks are typically subject to greater fluctuations in market value than other asset classes as a result of such factors as a company's business performance, investor perceptions, stock market trends and general economic conditions.

Morningstar Wealth includes investment advisory services from Morningstar's Investment Management group, which includes the Morningstar Wealth Platform, portfolio management software Morningstar Office℠, investment data aggregator ByAllAccounts®, and the individual investor experience across Morningstar.com®.

Morningstar's Investment Management group consists of Morningstar's subsidiaries that are authorized in the appropriate jurisdiction to provide investment management and advisory services. In the United States, such services are offered by Morningstar Investment Services LLC or Morningstar Investment Management LLC on a discretionary or non-discretionary basis.

Morningstar Wealth Platform is an advisory platform offered by Morningstar Investment Services LLC, a registered investment adviser and subsidiary of Morningstar Investment Management LLC. Through the Morningstar Wealth Platform, Morningstar Investment Services offers model portfolios and separately managed accounts ("SMA"), which include proprietary managed portfolios ("Morningstar Portfolios"), third-party asset manager portfolios where a third-party asset manager acts as a non-discretionary model provider ("Model Provider") in which Morningstar Investment Services has discretion, and third-party asset manager portfolios where third-party asset manager acts as a discretionary asset manager ("Sub-Advisor"). The Morningstar Wealth Platform is intended for citizens or legal residents of the United States or its territories and can only be offered by a registered investment advisor or investment advisor representative.

About Morningstar's Investment Management Group

Your investment goals matter to us. Our mission is to empower investor success by building investment portfolios selected by your financial advisor. Our world-class investment strategies draw on our core capabilities in research, asset allocation, investment selection and portfolio construction. Our investment professionals are located around the world, which provides both a global point of view and local market expertise.

Based on a proprietary valuation-driven asset-allocation process, our strategies offer investors a range of multi-asset, risk- and outcome-based strategies designed to help meet a variety of goals. Also, our separately managed accounts offer concentrated portfolios of our portfolio managers' best ideas. We put more than 35 years of investment experience to work in every portfolio we manage to offer you a better investing experience, because your journey matters.

For More Information

Phone: + 1-800-866-1749

Email: wealth.us@morningstar.com
Online: www.mp.morningstar.com

MORNINGSTAR Wealth

22 West Washington Street
Chicago, IL 60602 USA

© 2024 Morningstar Investment Management LLC. All rights reserved. The Morningstar name and logo are registered marks of Morningstar, Inc. Morningstar Investment Services LLC is a registered investment adviser and subsidiary of Morningstar Investment Management LLC. Portfolio construction and ongoing monitoring and maintenance of the model portfolios discussed herein are provided on Morningstar Investment Services' behalf by Morningstar Investment Management LLC.