MARKET Insights

Webster Private Bank®

September 2018

Riding The Bull

US Markets continued to rally in August, with the S&P 500 up a further **+3.3%** including dividends. Corporate earnings have continued driving higher, helped partly by recognized tax savings from the Tax Cuts and Jobs Act of 2017 as well as by the continued strength of the global economy. Earnings for companies in the S&P 500 rose **+25.0%** in Q2 on a year-over-year basis, the best result since Q3 2010 (per FactSet Earnings Insights, Aug 31). Energy, materials and technology companies had the fastest growing earnings. The strong dollar this year hasn't yet become a meaningful obstacle to profit growth for globally diversified US companies. Those with more than 50% of revenues overseas saw their earnings increase **+22.2%** (per FactSet Earnings Insight, Aug 24th). The bond market currently seems to be dismissing any significant increase in growth in the future. In spite of the acceleration of corporate sales and profits this year, the yield on the US ten-year Treasury Note ended August at **2.85%**, down from **3.00%** on August 1st.

Stocks, Bonds and Economy	Return / Growth in 2018
US Stocks (S&P 500 Index)	+9.9%
US Bonds (Barclays US Aggregate Bond Index)	-1.0%
US Real GDP (Q2 Annual growth rate)	+4.2%

Source:FactSet Indexes, FactSet Economics. Return for US Stocks and US Bonds are total returns through Aug 31, 2018.

Evaluating "The Longest Bull Market"

There has been some fanfare recently about the length of the current bull market. It started on March 9, 2009 and since then has not fallen by **20%** or more (the technical definition of a "bear market"). As of the end of August, the bull market was 3,462 days old, based on closing prices for the S&P 500 index. Some press reports have dubbed this the "longest bull market ever." However, the stock market run from December 4, 1987 to March 24, 2000 was even longer, at 4,494 days (also based on closing prices). The current bull market could be even younger, considering the intra-day decline on October 4, 2011 that pushed the S&P 500 index into bear territory, down **-21.6%** from its May 2, 2011 daily high. From that starting point, the current bull market would be less than 7 years old, at 2,523 days.

> ***"As of the end of August, the bull market was 3,462 days old, based on closing prices for the S&P 500 index."***

While many long-term investors typically have responded to such milestones with a hearty "who cares?", we have noticed increased concern over market volatility in recent client discussions. The journey of a long bull market comes with some often surprising and unexpected turns. For example, since the March 9, 2009 low, the S&P 500 index has delivered 6 major retreats of at least **-10%** from a recent peak. Early in the decade it twice fell by more than **-15%**. The rewards for patience may be great, but the bull ride certainly can be a rough one.

S&P 500 Declines of -10% Since March 9, 2009					
From	To	Days	% Decline	S&P 500 Starting Level	S&P 500 Ending Level
April 23, 2010	July 5, 2010	73	-16.0%	1,217.28	1,022.58
April 29, 2011	October 3, 2011	157	-19.4%	1,363.61	1,099.23
April 2, 2012	June 1, 2012	60	-9.9%	1,419.04	1,278.04
May 21, 2015	August 25, 2015	96	-12.4%	2,130.82	1,867.61
November 3, 2015	February 11, 2016	100	-13.3%	2,109.79	1,829.08
January 26, 2018	February 8, 2018	13	-10.2%	2,872.87	2,581.00
Averages		**83**	**-13.5%**		

Source: FactSet Indexes, Webster Private Bank calculations. As of Aug 31, 2018. April-June 2012 decline rounds up to -10%.

Conclusion – The Path Forward

What Do We Do Now?

While the picture isn't quite as rosy as it seemed at the start of 2018, we do not see an end to the bull run in the near future. Increased volatility, however, remains very likely. Interest rates are trending higher, inflation is picking up, and economic growth outside the US has slowed. Yet, corporate earnings growth is robust, with 80% of S&P 500 companies reporting a positive EPS surprise and 72% reporting a positive sales surprise in Q2 (per FactSet Earnings Insights, Aug 31). As a result, we have generally increased our cash or "near cash" holdings modestly, in order to take advantage of any future market weakness in both US and international equity markets, supported by a bullish view over the longer term.

As always, we invite your insights and observations and encourage you to contact your Webster Private Bank Portfolio Manager to discuss your investment portfolio.

TO VIEW A MORE DETAILED DESCRIPTION AND ANALYSIS OF THESE INSIGHTS, VISIT WWW.WEBSTERBANK.COM/PB.

We hope you've found this commentary helpful. When you're ready to put these insights into action, visit www.WebsterBank.com/pb, contact your Webster Private Bank Portfolio Manager, or email us at pbinfo@websterbank.com.

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