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Current Bull Market
Longest but not the strongest

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Key Takeaways

- Investors might have the wrong impression about the nature of the current cycle.
- The true bull market in everything was the cycle leading up to the global financial crisis.
- Unconventional monetary policy only explains part of asset returns in the past 10 years.

With the current growth cycle more than a decade old, it's hard to dispute claims that it's the greatest expansion in history. However, a closer look at various asset classes tells a different story. Here's why this bull market is the longest but not necessarily the strongest.

Divergence Among Asset Classes

This growth cycle has been fueled to a seemingly large extent by the Federal Reserve and central banks around the world. Through low interest rates and assets purchases (also known as quantitative easing), these institutions have pumped more liquidity into the system than ever before. Unfortunately, not all markets have benefited from these actions as initially anticipated. U.S. equities, particularly growth stocks, have delivered strong, above-average returns while international and emerging market equities have been about average over the entire cycle.

Asset Class Returns

Asset Class	February 2009 to June 2019 Annualized	February 2009 to June 2019 Cumulative	September 2002 to September 2007 Annualized	September 2002 to September 2007 Cumulative
Large Cap Domestic	16.7%	397.0%	15.4%	105.1%
Small-Mid Cap Domestic	16.9%	405.5%	19.5%	144.2%
International	9.7%	160.0%	23.5%	187.9%
Emerging Market	10.1%	171.0%	38.5%	412.8%
Domestic Tax Exempt	3.3%	40.5%	3.2%	17.0%
Investment Grade Credit	4.1%	51.3%	4.1%	22.4%
High Yield Credit	11.4%	207.3%	12.5%	80.2%
Global Bonds	3.8%	47.7%	3.9%	21.2%
Emerging Market Debt	9.0%	144.4%	13.4%	87.8%
TIPS	4.1%	52.3%	5.3%	29.8%
Real Estate	18.3%	472.7%	21.3%	163.0%
Commodities	-2.2%	-21.0%	14.1%	93.6%
Hedge Funds	3.4%	41.7%	8.7%	51.8%
Global ex US Small Cap	12.8%	248.2%	31.2%	290.2%
MLP	9.8%	164.4%	20.7%	156.4%
EM Currency	2.3%	26.4%	12.6%	81.7%
Gold	3.3%	40.3%	17.3%	122.2%
LT Treasuries	5.9%	80.8%	4.6%	25.4%
Cash	0.5%	5.5%	2.9%	15.4%
Global Stocks	12.8%	247.8%	20.4%	153.6%

Source: Factset

These results are in stark contrast to the cycle leading up to the global financial crisis. While it didn't last as long, the impact of that bull market was broader. Investors had the opportunity to earn 10% returns from multiple asset classes. A side-by-side comparison of today's expansion and the one from 2002-2007 (See table on previous page) shows just how universal the latter was. It indeed was a market for all asset classes.

Monetary Easing vs. Fundamentals

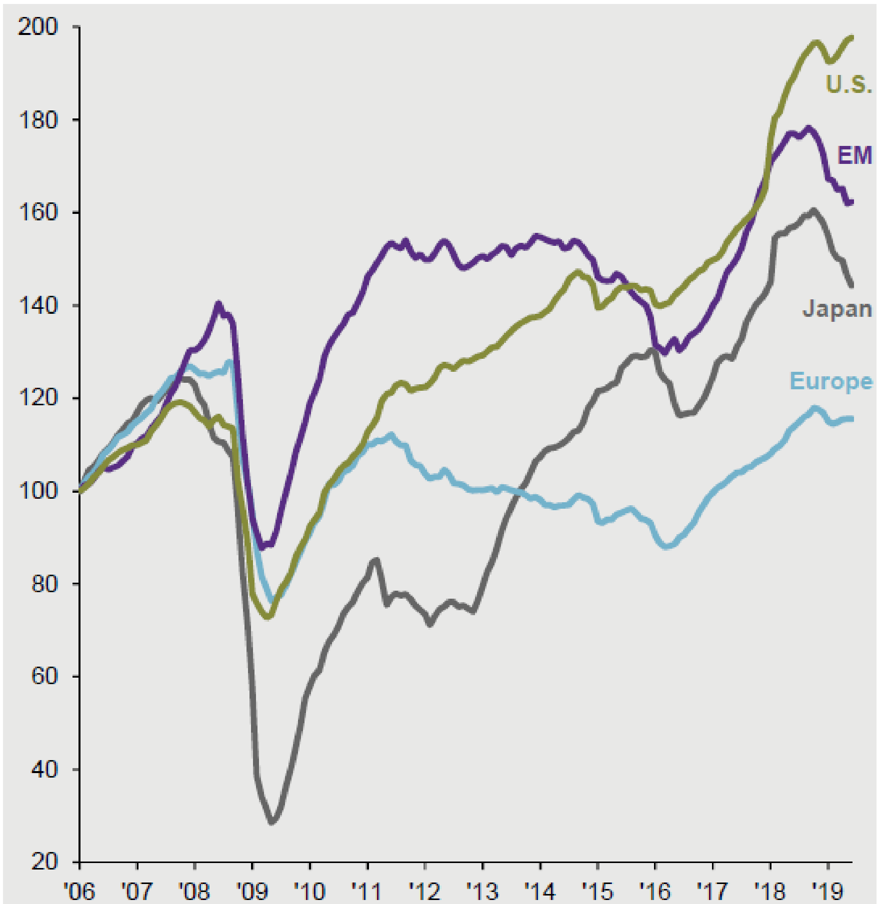
Today, valuations in U.S. equity markets are more expensive than at the end of the prior cycle, a sign that perhaps market movements are more a function of the Fed than fundamentals. While many people believe excessive monetary easing has driven the current expansion cycle, the divergence in performance across the global equities markets points to another possible explanation – good old fundamentals.

Relatively strong growth is propelling U.S. markets ahead of other regions. U.S. earnings have been on an upward trajectory, except for 2015/2016, since the end of the financial crisis. Meanwhile, fundamentals across the globe have been more subdued. Over the last five years, global stocks, excluding the U.S., have returned only 2.1% per year, which seems to indicate risk was priced correctly into the global stock market. European equities, with their anemic growth, structural weaknesses, continued troubles in the banking sector and sub-optimal currency union, trade at a cheaper multiple than U.S. stocks. Emerging market stocks have stared down the end of the commodity super-cycle, a dollar bull market, and the slowdown of Chinese growth over the past seven years, reversing any valuation convergence with U.S. stocks.

The secondary effect of strong relative fundamentals is a quality premium embedded in U.S. valuations; resilient earnings growth attracts capital, leading to higher valuations. All the attention focused on the Federal Reserve for accommodating the U.S. equity bull market should also be given to the strength of U.S. fundamentals and in particular the strong earnings growth in the technology sector over the past 10 years. We cannot completely down play the role of monetary policy in current U.S. stock market prices, but we should also recognize the divergence in returns globally has occurred as most all central banks have aggressively eased.

Global Earnings

EPS, local currency, next 12 months, Jan. 2006 = 100



Source: JPMorgan Guide to the Markets, 3Q 2019

Keeping Bull Markets in Perspective

One thing is clear; there have been winners and losers in the global asset markets during this market cycle. Most observers are taken aback by the length of the current expansion, and the degree to which central banks have intervened in financial markets. Yet, for all the focus on U.S. large-cap stocks and suppressed volatility, it's been an up and down, and at times disappointing ride, for global investors. It was the last cycle, on the back of a massive credit bubble and globalization, that all asset classes moved upward.

Each cycle differs from the last one as the market structure evolves and the macro environment shifts. The previous cycle was abrupt and had broad participation across all risk assets. In this cycle, a handful of asset classes have done very well. This too can change, and investors would do well to stay diversified.

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Tom is a Principal in the New York office and has more than five years of experience in various investment management roles. He is a member of the Investment Committee, Investment Manager Selection Sub-Committee, the Compliance Sub-Committee and the Performance Monitoring Sub-Committee.