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After Two Years, Equities Make New Highs

Major Equity Indices (Price Returns)	Value (2/27/24)	2024 (through 2/27) Price Return	Previous All-Time High	Date of Previous All-Time High	Current Price vs. Previous All-Time High
S&P 500	5,078.18	6.5%	4,864.60	1/3/22	4.4%
NASDAQ Composite	16,035.30	6.8%	16,057.00	11/19/21	-0.1%
Dow Jones Industrial Average	38,972.41	3.4%	36,799.65	1/4/22	5.9%
S&P 500 Equal-Weight	6,561.49	2.5%	6,664.65	1/4/22	-1.5%
Russell 2000	2,056.11	1.4%	2,441.00	11/8/21	-15.8%

Data Source: FactSet as of 2/27/24. Price return does not include dividends. Calculations use closing prices.

U.S. stocks have posted gains in 2024 through late February and both the S&P 500 index and Dow Jones Industrial Average (DJIA) set new all-time high closing prices in January. This was notable because despite strong gains in 2023 (the S&P 500 and DJIA increased +24.2% and +13.7%, respectively, in 2023), those indices had not achieved new highs in more than two years. The 2023 rally, as strong as it was, only clawed back 2022 declines, keeping many equity portfolios flat over a two-year period. The widely followed S&P 500 index closed at 4,840 on 1/19/24, above the early January 2022 level for the first time. Each of the five U.S. equity indices noted above were positive in 2024 year-to-date (YTD) through 2/27/24, and gains continued to favor large, growth- and technology-centric companies. YTD gains for the S&P 500 and Nasdaq Composite (both include technology stocks as the largest sector) increased +6.5% and +6.8%, respectively, while the DJIA increase was +3.4%. Small companies, as measured by the Russell 2000 index, increased a more modest +1.4% in 2024 through 2/27. We attribute equity market gains in the first two months of 2024 to 1) solid fourth quarter 2023 (4Q23) S&P 500 earnings results as reported earnings exceeded expectations and grew an estimated +4% year-over-year (Y/Y), and 2) soft inflation data that is expected to support a lower short-term interest rate policy in 2024 from the Federal Reserve Bank (Fed). As the S&P 500 broke through to new highs, investor sentiment remained positive.

Not all major indices have established new highs in 2024, however; as of 2/27/24, the Nasdaq Composite remains a shade below its all-time closing high in November 2021 (27 months ago) and the Russell 2000 remains -15.8% away from its last peak, also in November 2021. In addition, the Equal Weight S&P 500 index, which we view as representing the “average stock” in the S&P 500, remains -1.5% below its all-time closing peak established in early January 2022. This suggests that, while the S&P 500 (weighted by market capitalization, giving larger companies greater influence) broke out to new highs in January, many individual stocks did not, and indeed, the average stock remains below the prior peak levels. Since establishing the new high on 1/19/24, the S&P 500 has traded to 5,078, up +4.4% from that date.

The lack of a new S&P 500 high for more than two years was due to the 2022 bear market. We define a bear as a peak-to-trough decline (using closing prices) of at least -20%. From 1/3/22 to 10/12/22, the S&P 500 declined -25.4%, qualifying as a bear market and marking the 10th S&P 500 bear market since 1960, a period of 62 years (on average, a bear market every 6.2 years). As far as historical bear markets go, the 2022 bear market was middle-of-the-road. The peak-to-trough decline of -25.4% was below the average decline for all 10 bear markets of -36.0%, and the peak decline happened over 10 months, compared to 14 months on average. As previously mentioned, it took 24 months from the previous high in January 2022 to the new high in January 2024 (peak-to-peak), which is well below the average bear market peak-to-peak duration of 39 months. Now that the S&P 500 has broken out of a two-year period of flat price returns for investors, a logical question is: where do we go from here?

Historically, following the nine previous bear markets, once eclipsing the previous peak (new high), the S&P 500 has continued to move higher, on average adding an additional +7.4% after six months and +12.2% after twelve months. We looked at the one-month period as well, where performance was mixed; on average -0.2% lower, but this year, one month after setting a new high on 1/19/24, the S&P 500 gained an additional +2.8%.

New Highs Following S&P 500 Bear Markets (since 1960)

Date of Pre-Bear Mkt High	Date of Index Low	% Index Decline peak-to-trough	Peak-to-Trough # of Months	Date of New High	% Index Increase trough-to-new-high	Peak-to-Peak # of Months	Forward Returns from New High +1 mo	+6 mos	+12 mos
12/12/61	6/26/62	-28.0%	7	9/3/63	38.9%	21	0.2%	7.7%	13.6%
1/18/66	10/7/66	-22.1%	10	4/28/67	28.4%	15	-3.7%	1.0%	3.4%
11/29/68	5/26/70	-36.1%	18	3/6/72	57.0%	40	0.6%	1.6%	4.9%
1/11/73	10/3/74	-48.2%	19	4/22/80	66.1%	87	5.4%	27.5%	29.7%
11/28/80	8/12/82	-27.1%	20	11/3/82	39.5%	24	-2.9%	13.6%	14.4%
8/25/87	12/4/87	-33.5%	4	7/27/89	52.7%	23	3.0%	-4.7%	3.3%
3/24/00	10/9/02	-49.1%	30	5/30/07	97.0%	86	-0.7%	-3.2%	-8.5%
10/9/07	3/9/09	-56.8%	17	3/1/13	131.9%	65	-0.4%	7.8%	18.4%
2/19/20	3/23/20	-33.9%	1	8/21/20	51.8%	6	-3.4%	15.0%	30.7%
1/3/22	10/12/22	-25.4%	10	1/19/24	35.3%	24	2.8%		
Averages		-36.0% bear market	14		59.9% recovery	39	-0.2%	7.4% post-recovery	12.2%

Data Source: FactSet, St. Louis Federal Reserve Bank, and D.A. Davidson & Co. S&P 500 price uses daily closing prices. Does not include the impact of dividends. *Bear Market defined as a peak-to-trough decline (using closing prices) of 20% or above.

This, of course, does not predict that the S&P 500 will repeat the historical average, and there have been past periods when the index was lower six and twelve months after making a new post-bear market high. Following the 1987 bear market, the S&P 500 took 23 months to reach a new peak (in July 1989) but six months later the index was -4.7% lower. Similarly, following the 2000 to 2002 bear market (which saw a -49.1% peak-to-trough decline), it took 86 months (7 years) to establish a new high. But six months later, the S&P 500 was down -3.2%, and 12 months later it dropped -8.5%. So far in 2024, investor reaction to the new all-time high has been positive as recession fears have faded at the same time that inflation trends have meaningfully improved (lower). One year ago, with consumer inflation remaining elevated (the January 2023 consumer price index increased +6.4% Y/Y), the Fed was committed to raising short-term interest rates, a plan to restrict credit and slow the economy to battle inflation. Many believed, us included, that the higher interest rates, if successful in limiting inflation, would entail job market losses and a weakening economy. By January 2024, the CPI increased +3.1% Y/Y, the unemployment rate was 3.7%, up only modestly from 3.4% in January 2023, and the U.S. economy grew +3.2% annualized in the fourth quarter of 2023.

This has led to an improved economic outlook in 2024; while FactSet consensus estimates reflect full-year growth in gross domestic product (GDP) of +1.5%, lower than the +2.5% reported in 2023, estimates no longer anticipate a recession. This has driven positive investor sentiment, in our view. We remain cautiously optimistic as the S&P 500 trades above our 4,700 estimate of fair value and close to our 5,200 upside level, but we advocate investors remain invested, with diversified (across sectors) portfolios of high-quality companies. Despite better-than-expected S&P 500 4Q23 earnings results, 2024 earnings estimates have not moved higher, and we would like to see improved visibility for sustained earnings growth in 2024 and 2025 to justify higher index levels. Having said that, we see value in many individual companies that have not fully participated in the equity market rally from the 2022 lows.

While the S&P 500 index has recently surged to a new all-time high, just 3 of 11 sectors have reached new highs (as measured by Global Industry Classification Standards, or GICS). Those three sectors collectively comprise 51.1% of the total market capitalization of the index, as of 2/28/24, with Information Technology alone at 29.6%. But eight sectors, comprising 49% of the S&P 500 market capitalization, have not reached new highs. We continue to believe the potential for sustained market gains ahead is somewhat dependent upon broad participation, which would include underperforming sectors.

S&P 500 Sector Performance From Pre-2022 Bear Market High

Sector	Date of Pre-Bear Mkt High	Value at High	Value on 2/29/2024	% Change vs. previous peak
Information Technology	12/27/21	3,107.46	3,748.57	20.6%
Industrials	1/4/22	905.63	1,022.56	12.9%
Health Care	4/8/22	1,664.58	1,686.41	1.3%
Financials	1/12/22	688.85	670.05	-2.7%
Materials	12/31/21	569.63	550.91	-3.3%
Communication Services	9/1/21	288.46	272.50	-5.5%
Consumer Staples	4/20/22	841.99	789.20	-6.3%
Energy	11/15/22	720.16	653.14	-9.3%
Consumer Discretionary	11/19/21	1,673.27	1,485.31	-11.2%
Utilities	9/12/22	394.81	313.71	-20.5%
Real Estate	12/31/21	324.75	245.41	-24.4%

Data Source: FactSet as of 2/29/24. Value is the the calculated index value of S&P 500 Global Industry Classification Sector (GICS) as compiled by MSCI and SP Global. (derived from the market cap weighted price contribution from each company in the sector)

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The S&P 500 Equal Weight Index is compiled by S&P Dow Jones. It is an equal-weight version of the widely used S&P 500. The index includes the same constituents as the capitalization-weighted S&P 500, but each company is allocated a fixed weight, or 0.2%, of the index total at each quarterly rebalance.

The Federal Reserve Bank's Open Market Committee (FOMC) consists of twelve members--the seven members of the Board of Governors of the Federal Reserve System; the president of the Federal Reserve Bank of New York; and four of the remaining eleven Reserve Bank presidents, who serve one-year terms on a rotating basis. The FOMC holds eight regularly scheduled meetings per year. At these meetings, the Committee reviews economic and financial conditions, determines the appropriate stance of monetary policy, and assesses the risks to its long-run goals of price stability and sustainable economic growth. The Federal Reserve influences the demand for, and supply of, balances that depository institutions hold at Federal Reserve Banks and in this way alters the federal funds rate. The federal funds rate is the interest rate at which depository institutions lend balances at the Federal Reserve to other depository institutions overnight.

Gross domestic product (GDP) refers to the monetary measure of the market value of all final goods and services produced within a country's borders within a specific time period. The U.S. Bureau of Economic Analysis reports inflation adjusted (real) GDP as annualized percentage growth from the previous quarter. The BEA also reports data on a year-over-year percentage change from the same period one year prior. The most recent GDP report can be found at www.bea.gov.

The National Bureau of Economic Research (NBER) is a private non-profit research organization. The NBER is widely used as an organization that analyzes U.S. economic data and the business cycle and determines the start dates and end dates of economic recessions. The NBER defines recession as "a significant decline in economic activity that is spread across the economy and that lasts more than a few months;" and also looks at the depth, diffusion, and duration of the downturn.

The consumer price index (CPI) is a measure of average change over time in the prices paid by urban consumers for a market basket of goods and services. It is reported monthly by the U.S. Bureau of Labor Statistics

FactSet is a data aggregation software utilized by D.A. Davidson's Wealth Management Research. The FactSet Consensus refers to the aggregate of all analysts' estimates from firms that submit estimates to FactSet for a given financial metric.

S&P 500 earnings growth reflect the year over year change in operating earnings on a per share basis. Earnings data are aggregated for all S&P 500 constituents and are measured according to the relative market capitalization weights for each company. Estimated earnings are the combined FactSet estimates of analysts covering each company included in the index.

Fair value refers to a valuation method based on our view of the intrinsic value of an asset or index, determined by macroeconomic factors and earnings expectations rather than current market prices. This is our view of intrinsic value as of the date of this report.

The Global Industry Classification Standard (GICS) is a four-tiered, hierarchical industry classification system. Companies are classified quantitatively and qualitatively. Each company is assigned a single GICS classification at the Sub-Industry level according to its principal business activity. MSCI and S&P Dow Jones Indices use revenues as a key factor in determining a firm's principal business activity.

The Bureau of Labor Statistics (a division of the U.S. Department of Labor) publish a monthly employment report, The Employment Situation. It presents statistics from two monthly surveys to report labor force status, including unemployment and demographics. The unemployment rate is the number of unemployed as a percent of the labor force.

We define a Bear Market as a peak-to-trough decline (using closing prices) of 20% or more. We generally use the S&P 500 index as a proxy for the broad market for large, leading U.S. companies.