What Can We Expect From an Aging Bull Market?

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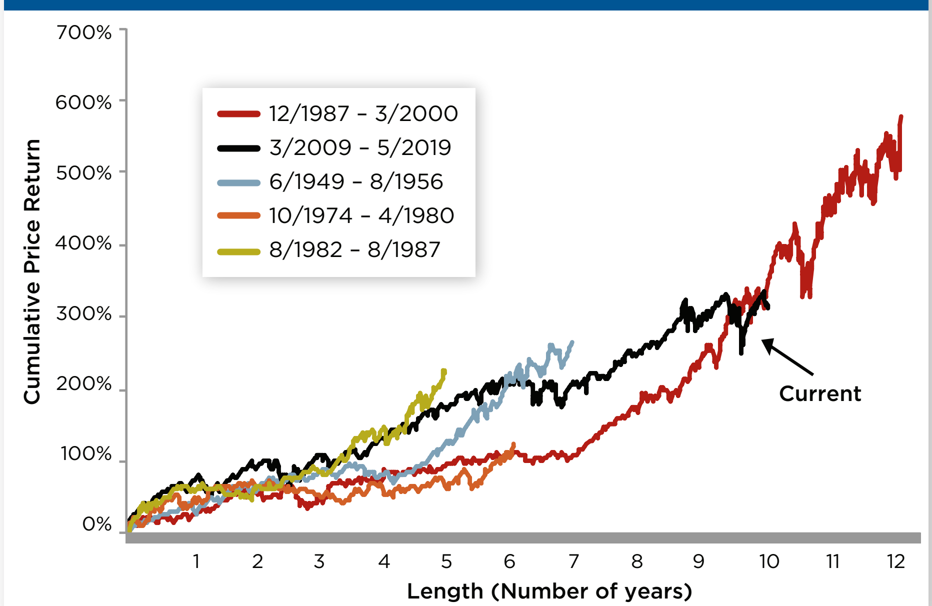
This bull market in stocks is now more than 10 years old – a senior citizen by market standards. Will it age gracefully from here, or are its days numbered? It's probably neither, in our view.

What Makes a Bull Run?

Automobiles don't have an expiration date. However, they do show wear and tear, and their performance is influenced by terrain, routine maintenance and gas in the tank. Market expansions are similar: They have no prescribed life span, but their longevity is driven by surrounding conditions and fundamental fuel (economic growth, corporate profits and interest rates).

We think mileage is still left in this positive cycle, but it's likely past its prime. Routine portfolio maintenance and proper expectations can help you navigate the road ahead, in our view.

5 Longest Bull Markets Since WWII



Source: Bloomberg, Edward Jones calculations, 5/29/2019. S&P 500 Index used to calculate returns and dates of bull markets. Past performance of the market is not an indication of what will happen in the future.

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How Old Is Too Old?

Over the past 70 years, there have been 10 previous bull markets lasting an average of just over 1,700 days.[1] At 3,700 days, the current expansion is more than twice as long. We think this bull has more life left in it because:

- **Bull markets don't die of old age –** Bull markets nearly always end with a recession, a bursting bubble or a significant global shock (such as the oil embargo in 1973). Fortunately, we don't think these conditions are imminent. We believe the economy is poised to expand through this year and potentially beyond, and there's little evidence that an asset bubble is forming. A more likely catalyst will be if the Federal Reserve's interest rate policy becomes too restrictive.
- **It has strong bones –** A healthy economic and corporate earnings backdrop won't prevent temporary market declines but can keep pullbacks from becoming a prolonged or severe downturn. Very low unemployment and faster wage growth should support consumer spending (which is 70% of the U.S. GDP). This, in turn, provides the foundation for ongoing corporate profit growth, which historically has been the most powerful guide for longer-term market performance.

Changing Complexion

While the market's broader path can still be higher, we believe this cycle is unlikely to age as gracefully as it has thus far. 2018 was a good example: Concerns over interest rates and global growth prompted significantly larger and more frequent market fluctuations than we had experienced previously. As we progress, we expect:

- **Higher volatility –** From 2013 through 2017, market volatility was 25% below its long-run average. Since October, it has risen back in line with the historical trend.[2] We expect dwindling central bank stimulus, political drama here and abroad, continuing trade tensions, slowing global growth and more moderate domestic economic and earnings growth to capture more of the spotlight moving forward, with the market less willing to overlook disruptions.
- **Lower returns –** Since the bull market began in March 2009, the stock market has provided an average annualized gain of 17% per year.[3] Moving forward, we expect stock returns to be more moderate, with modest earnings growth and current average valuation levels combining to drive returns closer to the mid- to upper single digits over the balance of the cycle.

Make Sure Your Portfolio Ages Well

There's more to the market than just U.S. large-cap stocks and, more important, more to achieving your financial goals than just stock market moves. To stay on track toward your goals, it's important to maintain a well-diversified portfolio and realistic expectations for long-term returns and potential volatility. We recommend:

- **Rebalancing your portfolio** to ensure you have an appropriate amount of equity to provide the growth you need to help achieve your goals, as well as fixed-income investments, as appropriate, to help reduce your portfolio's sensitivity to market volatility and potential short-term pullbacks.
- **Broadening your diversification.** U.S. stocks have been the strongest performer during this bull market, but history shows that leadership rotates. We believe international equities offer an attractive opportunity for diversification.

1 Source: Ned Davis Research, measured by the S&P 500 index.

2 Source: Bloomberg, VIX Index.

3 Total return of S&P 500 index, 3/9/2009 – 5/30/2019.

