Sandpiper Capital

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Gleanings

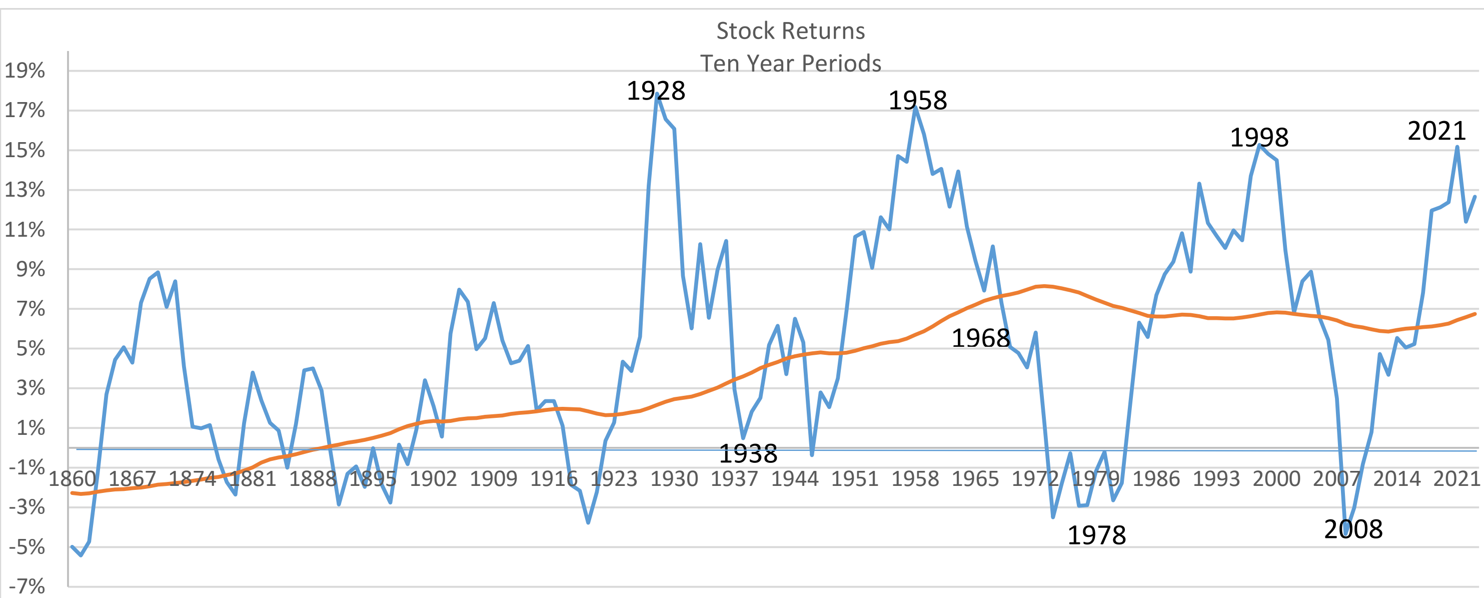
Index Returns	2021	2022	2023	2024
S&P 500	28.7	-18.3	26.3	15.3%
ML 1-5 yr Gov't/Corp	-.9	-5.5	5.2	1.1%
EAFE (Dev Fgn Mkts)	11.3	-14.4	18.2	3.5%
Emerging Markets	-2.5	-20.9	10.1	6.1%

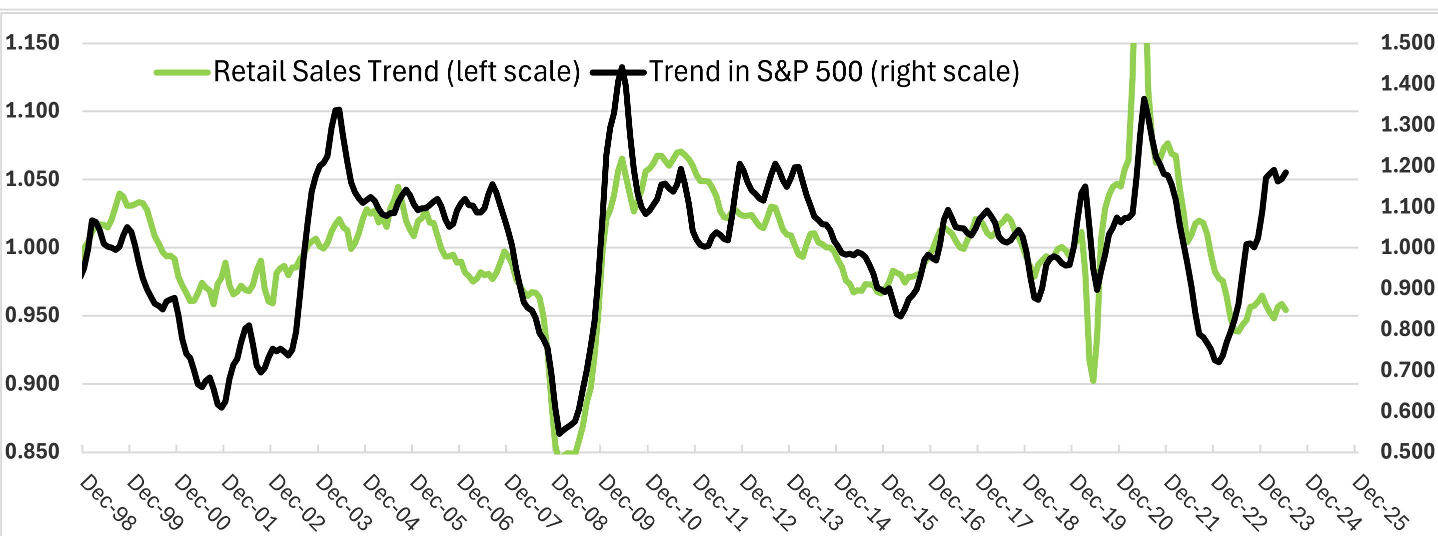
999 Waterside Dr #2600
Norfolk, VA 23510
(757) 679-9781
www.sandpiper-capital.com

"If history is precedent, then the 15% per year that the S&P composite made for the ten years ending 2021 might well be followed by a -1% for the period ending in 2031."

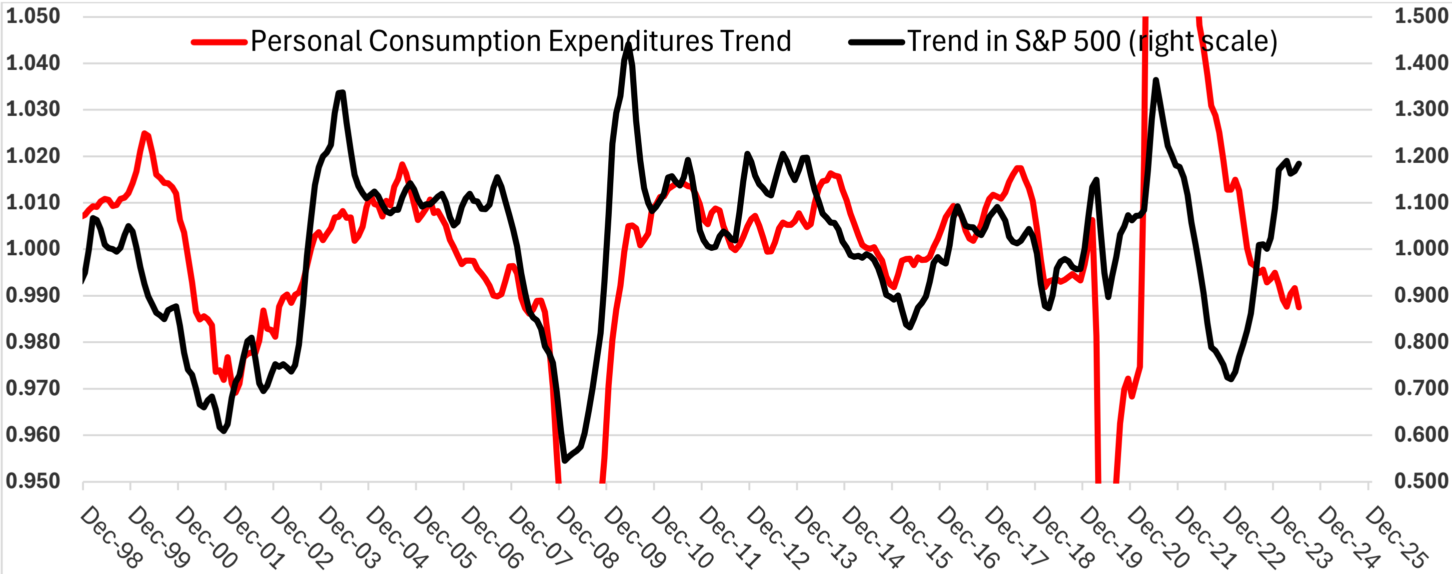
Danger Zone

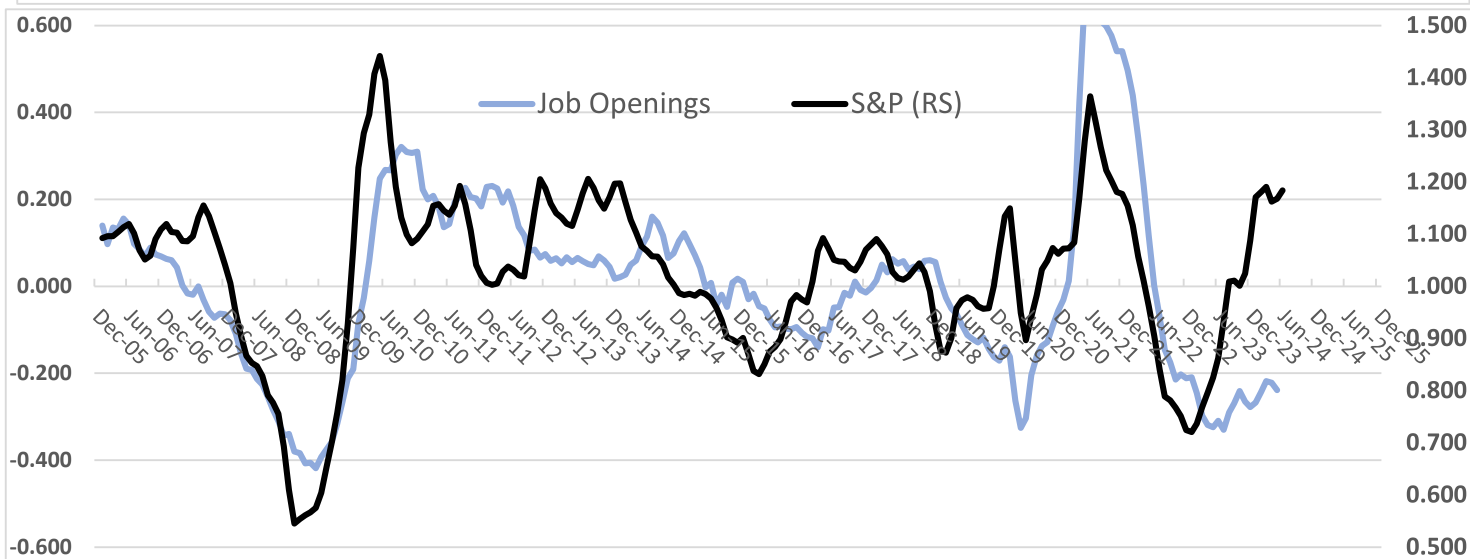
While holding stocks for the long run has certainly been a winning strategy recently, that has not always been the case. New research on historical returns for twenty, thirty and even fifty-year periods shows stocks underperforming bonds with some regularity. As most of us consider ten-year periods pretty long term, I've charted the new historical data below using that measure. While the late 19th century numbers would certainly give you pause, with average returns in the (very) low single digits, it's the cycles over the last 120 years that stand out the most to me. Cycle highs of 15% plus do seem to be regularly followed by ten-year periods of very low or negative returns. If the market grows at 6 or 7% in the long run, then it makes sense that 17% would be followed by -3%, (that would average 7%, right?). If history is precedent, then the 15% per year that the S&P composite made for the ten years ending 2021, might well be followed by a -1% for the period ending in 2031.
While there is no sign that the market is at a top, at least as measured by the enthusiasm around Nvidia, Google, Amazon and Microsoft, the economic trends are not so rosy. I referenced retail sales last quarter and the picture hasn't improved any. The market is trending up and sales are trending down, with growth slowing to about the same level as August 2008.

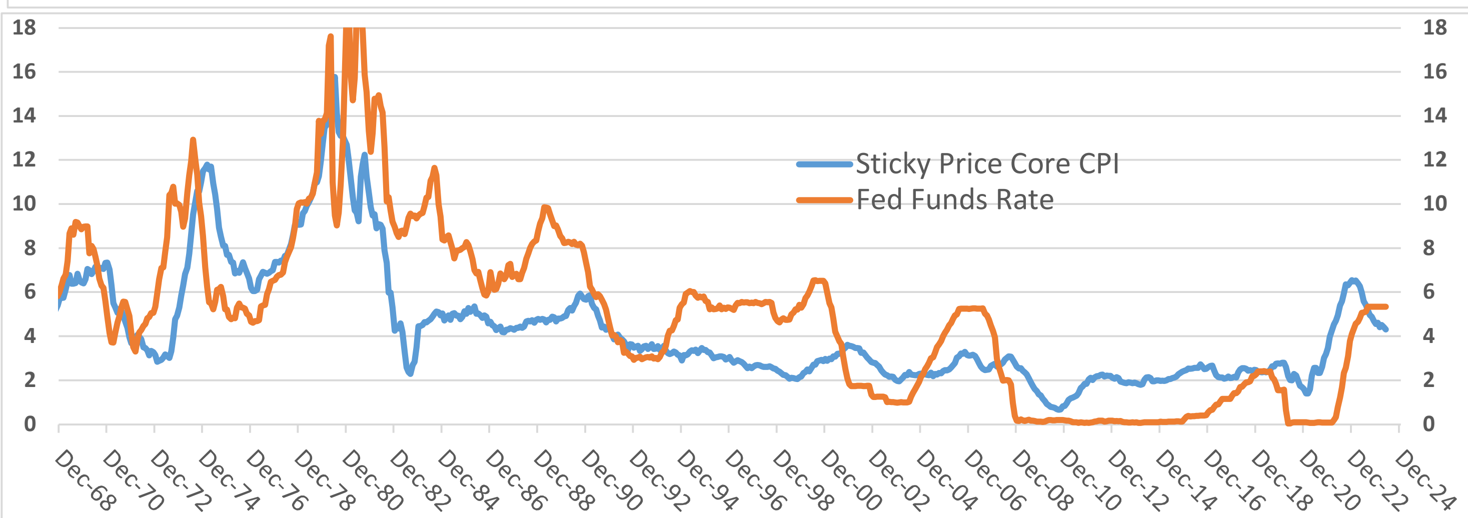




We see the same pattern with personal consumption (a much broader number than retail sales) and job openings. The trends are down to a similar level as 2008, but the market is still levitating. Everyone expects that the Federal Reserve will cut rates to bail out the markets, and maybe they're right. Certainly, the last few years has shown the government's willingness to print and spend money. As we have just moved into restrictive territory however, (a federal funds rate higher than inflation), it may require high rates for a considerable period of time before we see that inflation number drop back to 2%.







Here's a link to the source material if you're interested. ttps://www.tandfonline.com/doi/full/10.1080/0015198X.2023.2268556

Tom Lukic