

INSIGHTS

BULL MARKET CYCLES & THE WALL OF WORRY

It has now been more than three-and-a-half years since the bull market began in October 2022. How can investors focus on the long-term cycle as geopolitics continue to drive markets?

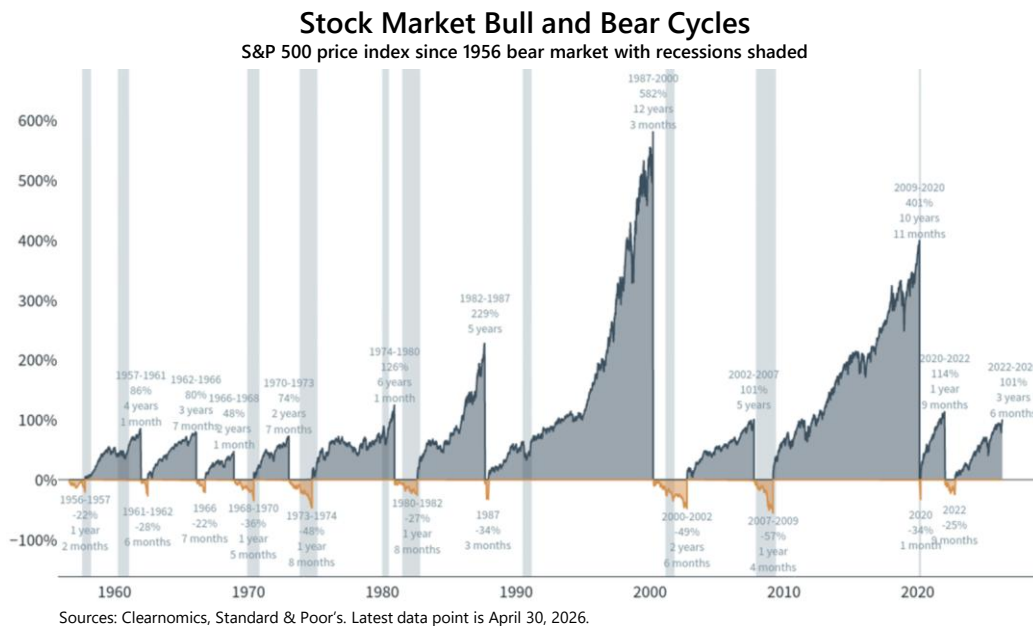
It has now been more than three-and-a-half years since the bull market began in October 2022. At that time, inflation was rising at its fastest pace in fifty years, the Fed was hiking interest rates, and ChatGPT was still a month away from being released to the public. Since then, the S&P 500 has more than doubled in value and the Bloomberg U.S. Aggregate Bond index has fully recovered.

Although the world has changed since then, the fact that there are market concerns in the headlines has not. Each cycle brings new challenges and questions about whether the tried-and-true rules of investing are still relevant. The reality is that each cycle is unique, with catalysts, innovations, and sources of uncertainty that are never quite the same. And yet, the underlying principles of investing and financial planning have remained consistent across decades, and have continued to point investors in the right direction this year.

Bull Markets Climb a Wall of Worry

As geopolitics continue to impact markets, a more important consideration for long-term investors is the overall market cycle. With the market near all-time highs, it's natural to worry about market pullbacks and corrections. These events can occur frequently, with the S&P 500 historically experiencing four or five pullbacks of 5% or worse each year, on average. While they are never pleasant, long-term investing depends much more on historical patterns over years and decades. This is why overreacting to market swings can be counterproductive, since it may leave investors poorly positioned in the context of their long-term financial goals.

Investors often say that the market climbs a "wall of worry" on a regular basis. Over the past several years, markets have overcome high inflation, a banking crisis, geopolitical conflicts, the possibility of Fed policy error, AI-related market concentration, tariff-driven volatility, and more. None of these concerns are trivial and yet, through all of them, the market has performed well.



The chart above helps to illustrate this pattern starting from World War II. Over this 70-year period, bull markets have lasted far longer and generated larger gains than what's lost in bear markets. Specifically, bear markets have typically lasted one to two years on average, whereas recent bull markets have run as long as ten years or more. Even when market corrections occur during bull markets, the average decline is 14%, with the average recovery requiring just four months.

Of course, the past is no guarantee of future results, and how quickly markets rebound depends on specific circumstances. But history demonstrates that trying to react to every market move has often caused investors to miss much of the gains that eventually followed.

A Growing Economy Is the Foundation for Long Run Returns

While the stock market and the economy are not the same thing, they are connected. Corporate earnings drive stock prices in the long run

INSIGHTS

and ultimately depend on economic growth. This is why it is important to keep an eye on the broader economic cycle, even as markets move on a day-to-day basis for many other reasons.

The current business cycle has been running two-and-a-half years longer than the market cycle. The last official recession, as determined by the National Bureau of Economic Research, was the brief but sharp response to the pandemic in 2020. Since then, there have been quarters of slower growth and occasional predictions about recessions, none of which have taken shape.

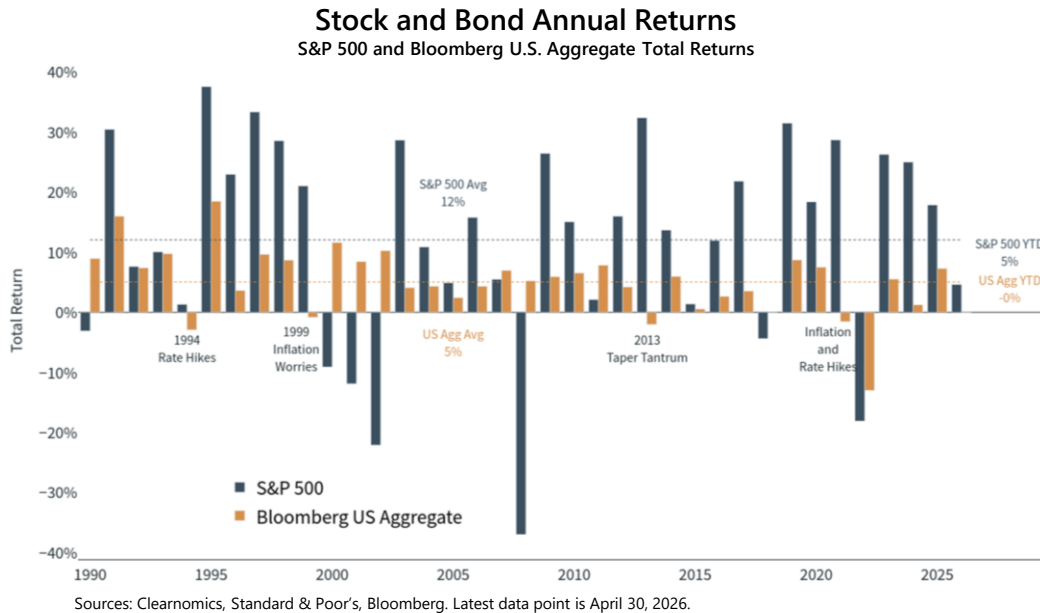
Today, the economy is healthy by many measures despite three areas that investors are watching carefully. First, oil prices above \$100 per barrel, if sustained, could weigh on consumer spending and add to inflationary pressures. Second, the job market has slowed significantly, raising questions about consumer spending. Third, the size and scale of AI investments have raised questions about whether there is a "bubble." This is understandable since many of today's investors have lived through both the dot-com bust and the housing crisis.

Bubbles are difficult to identify in real time, and history shows that not every period of high valuations ends in collapse. So far in this cycle, unlike in past periods, earnings growth has supported valuations. For long-term investors, the key consideration is staying balanced across different parts of the market to benefit from growth while managing risk.

Stocks and Bonds Continue to Work Together

Every cycle raises questions about whether traditional principles of portfolio management still apply. In 2022, when both stocks and bonds declined due to rapidly rising inflation and interest rates, some wondered whether bonds still served a meaningful purpose in a diversified portfolio. This was true after the 2008 financial crisis as well, when bonds struggled due to historically low interest rates.

Over the past few years, bonds have not only recovered, but also provide meaningful income and balance, helping to offset periods of equity volatility. International stocks and commodities have also contributed, providing additional diversification benefits.



This is consistent with what history shows across cycles. Every period raises the question of whether "this time is different" when it comes to the relationship between asset classes. In the 1970s, inflation challenged traditional portfolios. In the dot-com era, technology stocks became extremely popular, despite a lack of corporate profits, making other sectors appear boring. In 2022, rising rates created simultaneous pressure on both stocks and bonds.

Each time, focusing on the principles of diversification and long-term investing has proven to be the right approach. As uncertainty continues and new headlines cause markets to swing, it's more important than ever to focus on the bigger picture.



INSIGHTS

Disclosure

Legacy Capital Wealth Partners, LLC ("Legacy Capital") is a registered investment advisor. Advisory services are only offered to clients or prospective clients where Legacy Capital and its representatives are properly licensed or exempt from licensure.

The information provided is for educational and informational purposes only and does not constitute investment advice, nor should not be relied on as such. It should not be considered a solicitation to buy or an offer to sell a security. It does not take into account any investor's particular investment objectives, strategies, tax status or investment horizon. You should consult with your attorney or tax advisor.

The views expressed in this commentary are subject to change based on market and other conditions. These documents may contain certain statements that may be deemed forward looking statements. Please note that any such statements are not guarantees of any future performance and actual results or developments may differ materially from those projected. Any projections, market outlooks, or estimates are based upon certain assumptions and should not be construed as indicative of actual events that will occur.

All information has been obtained from sources believed to be reliable, but its accuracy is not guaranteed. There is no representation or warranty as to the current accuracy, reliability, or completeness of, nor liability for, decisions based on such information and it should not be relied on as such.

