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TWO MINUTE INSIGHT
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Historical Returns Tell A Different Story Than Recent Record Highs

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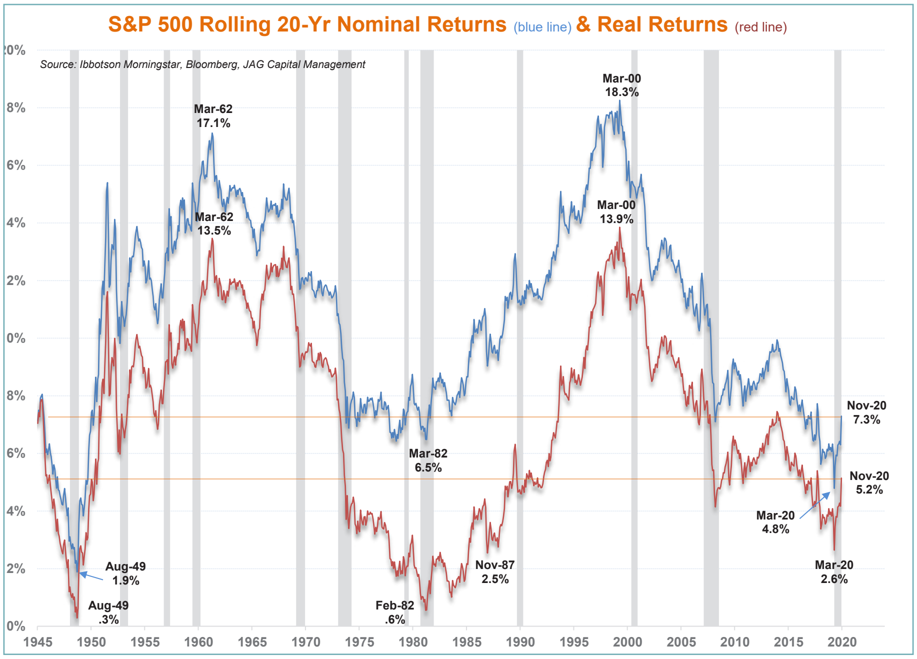

Returns are annualized. The inflation adjustment for real returns is headline CPI. The returns for the S&P 500 are total returns including dividends. Total returns based on the S&P 500 Total Return Index.

The S&P 500 was up 33% in 2019 and is up over 50% since March 2020. It continues to push all-time highs. The Dow Jones Industrial Average and other equity indices are also breaking records while showcasing similarly eye-popping performance over the same timeframe. While welcomed by many long-term investors, these returns may be viewed with cautious skepticism considering the severe economic ramifications of the ongoing pandemic and a worry that the market's strength in recent years will come to an end.

The impressive returns in 2020 come on the heels of the longest bull market in history, lasting more than 11 years. This was also the second strongest bull market, returning over 400%. For some, the coronavirus-induced bear market was suspiciously short. It began on February 19, 2020, and ended on March 23, 2020, making it the shortest bear market in history. Understandably, some investors are dubious of the whipsaw price movement and concerned about overinflated valuations of domestic equities.

As a refresher, a bull market is a situation in which stock prices rise by 20%, usually after a drop of 20% and before a second 20% decline. A bear market is a condition in which securities prices fall 20% or more from recent highs.

In light of this, it will behoove investors to keep in mind a longer historical perspective or risk falling victim to the downside of heuristics, mental shortcuts, or rules of thumb that simplify decisions. Human beings make hundreds of fast and frugal choices with little information under uncertain circumstances every day. How should I dress? What should I eat? Where should I park? Heuristics enable us to do this, and they set our species apart. However, they can also lead to cognitive biases, which lead to poor decision-making. Recency bias is a cognitive bias that favors recent events over historic ones.

With this in mind, let's look at 20-year rolling returns for the S&P 500. Since the end of WWII, 20-year rolling returns peaked in March of 1962 and March of 2000, with real returns (after inflation) of 13.5% and 13.9%, respectively. Meanwhile, returns bottomed in February of 1982 and March of 2020, with real returns of 0.6% and 2.6%, respectively. Even after roaring returns since March, the 20-year rolling returns stand at a muted 5.2%.

While returns over the past decade have been generous, they've been mediocre at best over the past two decades. And when taking a longer historical perspective, it is evident that we're a far cry from past peaks.

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