MID-CONTINENT CAPITAL

CONSILIUM*

Volume 47 ~ July 2021

*advice; judgment; resolution; wisdom

The End of Volatility? Don't Bet on It

US investors are enjoying one of the strongest bull market advances in history and there is no convincing reason to believe it will end soon. On top of last year's remarkable gains after the Covid "collapse", this year's performance ranks as one of the all-time greats:

- Rising over 15% year-to-date, the first half of 2021 is in the top 15% of all such periods.
- The S&P 500 registered 34 all-time highs through June 30, in the top 12% of all such periods.
- More than 150 trading days have passed since the last decline of 5% or more, placing this rally in the top 7% of all time for its persistency.

As if following Newton's First Law of Motion, such results have consistently led to subsequent gains over the last 70 years:

- When rising for five straight months, the S&P has advanced further in the year ahead 26 of the last 27 times. When closing at an all-time high for five straight months, the market has never experienced a decline one year later.
- When rising for five straight quarters, the S&P has advanced further in the year ahead eight of the last nine times.
- When rising during each of April, May and June, the S&P has advanced further in the year ahead 16 of the last 17 times.

There is a natural tendency to want to take or protect profits after a strong run. After all, the 2020 bear market came with very little warning. But that decline looks extremely unique upon thorough inspection, and all historical examples of a new bull market as powerful as this one suggest giving stocks every benefit of the doubt at this time. The closest parallels we have suggest that the current cycle is likely to last for years, not months, and that the rally will not be thrown off course by mere "noise".

Indeed, most of the issues and debates that television commentators obsess over are essentially irrelevant to a long-term investor. Developing an understanding of this fact significantly simplifies decision-making and obviates the need to make unnecessary predictions. Our approach is to follow the data and evidence as it unfolds and adjust as needed.

As we have noted frequently in past issues of *Consilium*, the most important fundamental factor for equity investors is economic growth. Is the economy expanding or contracting? And, are conditions ripe for a change in direction?   The question is relatively simple and since bear market declines (of at least 20%) are very rare outside of recessions, the answer will almost always put the investor on the "right side" of the market. Currently there is no evidence of imminent economic decline -- if anything, a boom is underway, and it is far too early to begin speculating about the next downturn.

Please turn to next page

Mid-Continent Capital

Every bull market is characterized by volatile price corrections or pullbacks that challenge investors' ability to stick to their plans. But in 2021, we have experienced very little of that, with the S&P 500 rising relentlessly and experiencing just a handful of brief, low-single-digit declines since the advent of the Pfizer vaccine in November. Have the Covid vaccines rendered the stock market "immune" as well?

We doubt it. Human nature rules in the world of investing, and it's almost certain that we will see temporary overreactions to relatively unimportant events in the months and quarters ahead. Specifically, over the last century stocks have experienced declines of 10% or more at least once a year (average = 13.4%); 5-10%, at least once per quarter; and 3-5%, at least once per month. And in the short term, with the market advance well into its second year, we have entered the period historically when -- even in the most powerful cycles -- it has been reasonable to expect some giveback as the market digests its gains, investors fret over "peak growth", and monetary authorities begin to normalize policy.

Big fights over tax hikes and government spending plans, possible changes in leadership at the Federal Reserve, fear of higher inflation and interest rates, worries over the inevitable Covid variants Zeta, Eta and Theta -- these are all hurdles the market must clear in the months ahead. Volatility will rear its head once more, and the challenge to investors will be to distinguish between the rare, pertinent signal and the all-too-common irrelevant noise.

Sources: Sentimentrader.com, First Trust Portfolios, Nerad + Deppe, Bloomberg