

## PERSPECTIVES

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## Why a Stock Peak Isn't a Cliff

Sep 29, 2023

Many investors may think a market high is a signal stocks are overvalued or have reached a ceiling. But they may be surprised to find out that the average returns for the S&P 500 Index one, three, and five years after a new market high are similar to those after months that ended at any level.

In looking at all 1,000-plus monthly closing levels between 1926 and 2022 for the S&P 500 Index, 30% of the monthly observations were new market highs. After those highs, the average annualized compound returns ranged from almost 14% one year later to more than 10% over the next five years. Those results were close to average returns over any given period of the same length. When viewed in terms of the index simply having risen or fallen, the S&P 500 was higher a year after notching a record 81% of the time, and 86% of the time after five years.

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**Exhibit 1****All Rise**

S&P 500 Index: average annualized compound returns, 1926–2022



**Past performance is no guarantee of future results. Performance may increase or decrease as a result of currency fluctuations.**

*Past performance is not a guarantee of future results. Data presented in the growth of \$10,000 chart is hypothetical and assumes reinvestment of income and no transaction costs or taxes. The chart is for illustrative purposes only and is not indicative of any investment.*

*In USD. For illustrative purposes only. New market highs are defined as months ending with the market above all previous levels for the sample period. Annualized compound returns are computed for the relevant time periods subsequent to new market highs and averaged across all new market highs observations. There were 1,163 observation months in the sample. January 1926 -December 1989: S&P 500 Index; Stocks, Bonds, Bills and Inflation Yearbook®, Ibbotson Associates, Chicago. January 1990 -Present: S&P 500 Index (total return), S&P data © 2023 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio.*

History shows that reaching a new high doesn't mean the market will then retreat. In fact, stocks are priced to deliver a positive expected return for investors every day, so reaching record highs with some regularity is exactly the outcome one would expect.

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