M.M.WARBURG & CO
BANK

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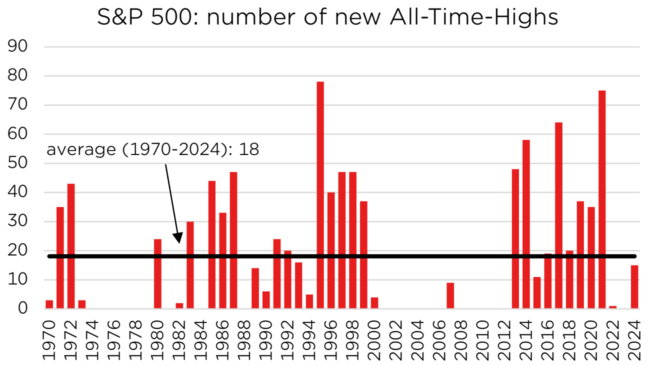
Investing at the all-time high?

The stock markets currently seem to be heading in only one direction: upwards. Despite geopolitical trouble spots in the Middle East or Ukraine and below-average global economic growth, many stock market indices are recording new all-time highs. The S&P 500 and the DAX, for example, have reached one new record high after another in recent weeks.

All-time highs are no exception

From an investor's point of view, however, the question now arises as to whether it is still worth getting in at all or whether it would be better to wait for a setback. To answer this question, let us first take a look at the history of the S&P 500 Index. Since 1970, the S&P 500 has recorded a total of 994 trading days with a new all-time high. Or to put it another way: every year, the US stock market index reaches a new high on average every 15 trading days. New record highs are therefore not uncommon. Of course, the all-time highs are not evenly distributed over the entire period. Rather, there are crisis years such as 2001/2002 (dotcom bubble) or 2008/2009 (global financial crisis) in which the S&P 500 did not record any new highs. On the other hand, history also includes record years such as 1995 or 2021, in which the S&P 500 reached a new all-time high on average every fourth trading day.

Given the positive price trend of the S&P 500 Index, the high number of all-time highs is not surprising. Why are many investors nevertheless unsettled in the current environment and afraid of buying? On the one hand, many are irritated that the market is largely ignoring the negative factors and, on the other, the recent crises have stoked fears of new price setbacks. For example, the S&P 500 suffered a maximum drawdown of almost 34 percent during the coronavirus pandemic. The fear of another price slide is deep-seated for many.



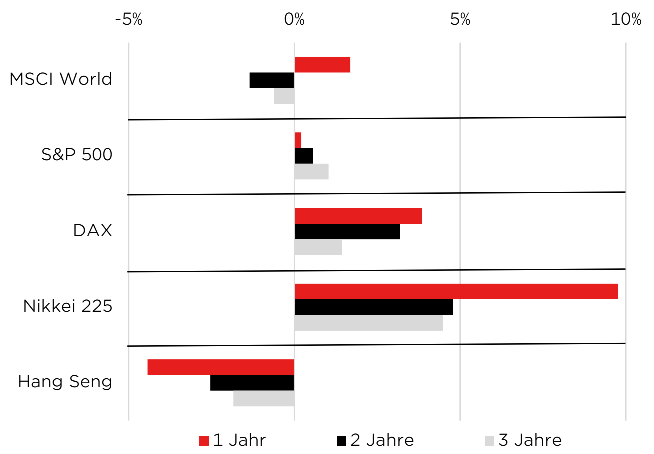
source: Refinitiv Datastream and own calculations

Is the concern justified?

The question now arises as to whether the concern about a bad entry point is justified. In order to answer this question statistically, we compared the average annual return that results on the one hand if you enter at an all-time high and on the other hand if you buy the S&P 500 Index on any other trading day. The result surprised even us: with an investment horizon of one to three years, the average annual return on an investment in the S&P 500 was higher on an all-time high than on any other day. In other words, historically, entering the S&P 500 at an all-time high has not been a disadvantage in terms of returns - quite the opposite. How can this be explained? Since the S&P 500 has been dominated by bull markets with new record highs in the past and bear markets have tended to be the exception, it was also worth entering the market at an all-time high.

Is this result possibly just a peculiarity of the US stock market? Looking at other stock market indices, the picture is indeed heterogeneous: While the return differences are also positive for both the German DAX index and the Japanese Nikkei 225 index, they are negative for the Hang Seng and MSCI World Index. But be careful: when classifying the results, it must be borne in mind that the proportion of trading days with a new all-time high is generally low, which increases the statistical uncertainty. In the case of the DAX, for example, this was only four percent of all trading days. Furthermore, the all-time highs are not evenly distributed over the years (see also the first chart). Looking at the Nikkei 225 Index, for example, it is noticeable that almost all highs were reached by 1990 and new all-time highs were only reached again in 2024.

Difference in the average annual return of an investment at an all-time high and on any other trading day (in percentage points)



source: Refinitiv Datastream and own calculations. Data: 1970 to 2024.

Fundamentals provide a tailwind

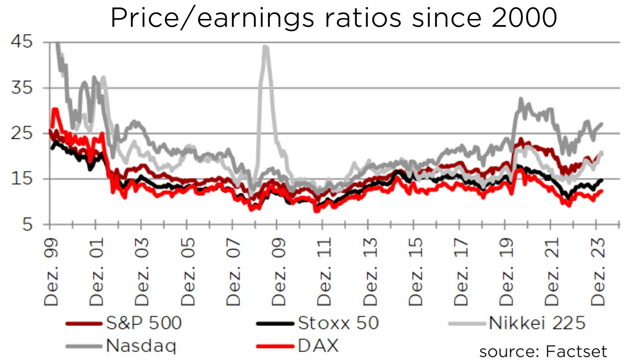
The analysis so far is based exclusively on historical correlations, which will of course not necessarily be repeated in the future. However, in our view, a look at the fundamentals does not rule out further price increases and new all-time highs over the course of the year, particularly in the USA. Essentially, three developments make us confident:

1) Inflation rates are likely to fall further over the course of the year and reach the central banks' target levels. This will be helped not only by an easing of energy prices, but also by a normalization of food price increases. At the same time, disinflation expands the monetary policy leeway for central banks and paves the way for interest rate cuts, which in turn increase the attractiveness of equities.

2) With the first monetary easing steps, the economic outlook for many economies is likely to improve. In addition, the world's largest economy remains in robust shape, meaning that the recession feared by many economists in the USA is unlikely to materialize in 2024. The re-election of Donald Trump as US President could provide a further positive boost for the US stock market. However, his "America First" political agenda is likely to make things uncomfortable for many European economies: New US import tariffs and a global trade war would be likely, meaning that the headwinds for export-oriented countries would remain strong.

3) At company level, the picture is also constructive. The reporting season for the fourth quarter of 2023 in the US was encouraging: around 76 percent of all reporting companies in the S&P 500 beat earnings expectations. Companies from the tech sector were particularly convincing. However, the further increase in earnings expectations for companies in the S&P 500 and announced share buybacks also justify further price increases. However, the higher valuations of US equities should not be ignored. The price/earnings ratio of the S&P 500 is just over 20, a premium of around 30 percent compared to the historical average.

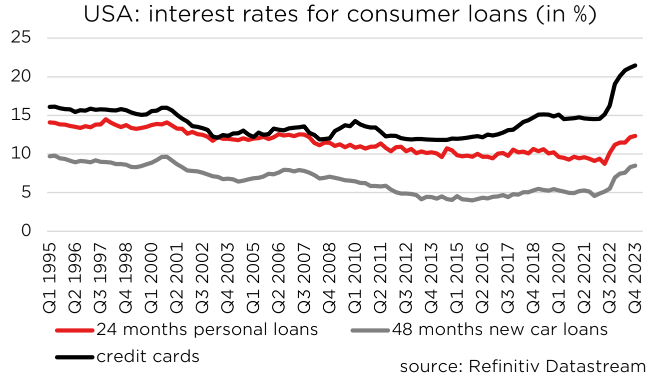
Price/earnings ratios since 2000



source: Factset

Keeping an eye on risk factors

Even if we consider the upside potential to be greater than the downside risk in the medium term, it is essential to take a look at the risk factors. On the one hand, the eurozone economy continues to tread water, even though many economic indicators have probably bottomed out. However, economic stagnation means that no great leaps in profits are to be expected for European stock corporations. On the other hand, there is a risk that the strong growth in consumption in the USA will weaken over the course of the year. Even if the real income situation of many US households continues to improve due to falling inflation rates, coronavirus savings have been used up and a cooling of the labor market cannot be ruled out. At the same time, the significant rise in interest rates for personal loans is dampening the outlook for private consumer spending and leading to higher credit default risks due to adverse selection and so-called moral hazard behavior: risk-averse consumers are taking out fewer loans due to the rising interest burden and more risk-averse consumers are asking for more loans.



source: Refinitiv Datastream

What is our conclusion?

New all-time highs should not unsettle investors for the time being. Historically, an investment in the S&P 500 at an all-time high has not had a negative impact on short to medium-term returns. But be careful: this result cannot be directly transferred to other stock market indices. Furthermore, no causal relationship can be derived from the statistics, so it is essential to look at the fundamental data. In this respect, we believe that the outlook for the US market in particular remains constructive. However, it is also clear that the positive effects of the upcoming key interest rate cuts are largely priced in and that the stock markets are not only on a steady upward trend, but that corrections are just as much a part of it. In practice, it is impossible to anticipate these market movements perfectly over a longer period of time. Therefore: "Time in the market beats timing the market."

Simon Landt

Market data

Stock marktes	As of 15.03.2024 09:27	Change versus 08.03.2024 -1 week	14.02.2024 -1 month	14.12.2023 -3 months	14.03.2023 -1 year	29.12.2023 YTD
Dow Jones	38906	0,5%	1,3%	4,4%	21,0%	3,2%
S&P 500	5216	1,8%	4,3%	10,5%	33,1%	9,4%
Nasdaq	16129	0,3%	1,7%	9,3%	41,1%	7,4%
DAX	17933	0,7%	5,8%	7,0%	17,7%	7,1%
MDAX	26268	1,1%	0,8%	-3,4%	-5,4%	-3,2%
TecDAX	3411	-1,5%	0,7%	2,6%	4,8%	2,2%
EuroStoxx 50	4994	0,7%	6,0%	10,0%	19,5%	10,4%
Stoxx 50	4395	0,7%	4,2%	7,9%	14,9%	7,4%
SMI (Swiss Market Index)	11731	0,7%	4,6%	4,6%	9,5%	5,3%
Nikkei 225	38708	-2,5%	2,7%	18,4%	42,2%	15,7%
Brasilien BOVESPA	127690	0,5%	0,5%	-2,4%	24,1%	-4,8%
Russland RTS	1133	-1,7%	0,9%	7,3%	18,2%	4,5%
Indien BSE 30	72717	-1,9%	1,2%	3,1%	25,6%	0,7%
China CSI 300	3570	0,7%	6,1%	6,5%	-10,4%	4,0%
MSCI Welt	3382	0,1%	3,6%	8,1%	26,5%	6,7%
MSCI Emerging Markets	1049	1,1%	5,0%	5,7%	11,0%	2,4%
Bond markets						
Bund-Future	132,01	-175	-156	-421	-195	-521
Bobl-Future	117,47	-112	51	-116	78	-181
Schatz-Future	105,58	-36	8	-72	34	-97
3 Monats Euribor	3,94	3	3	3	119	6
3M Euribor Future, Dec 2024	3,04	15	22	55	-28	73
3 Monats $ Libor	5,59	1	0	-5	65	0
Fed Funds Future, Dec 2024	4,67	17	20	72	152	84
10 year US Treasuries	4,28	20	0	38	61	42
10 year Bunds	2,44	20	12	34	-1	44
10 year JGB	0,78	5	3	11	51	16
10 year Swiss Government	0,76	4	-16	11	-48	6
US Treas 10Y Performance	585,24	-1,7%	0,1%	-2,1%	-1,5%	-2,6%
Bund 10Y Performance	550,58	-1,2%	-0,5%	-1,8%	3,0%	-2,6%
REX Performance Index	441,59	-0,5%	-0,1%	-1,7%	1,2%	-1,4%
IBOXX AA, €	3,36	10	-3	18	-38	30
IBOXX BBB, €	3,94	8	-7	4	-74	19
ML US High Yield	7,90	5	-14	-3	-95	11
Commodities						
MG Base Metal Index	396,48	1,6%	6,6%	4,1%	-3,6%	1,4%
Crude oil Brent	85,03	3,5%	3,2%	10,5%	9,7%	9,4%
Gold	2166,50	-0,3%	8,9%	6,2%	13,8%	4,9%
Silver	24,83	2,0%	10,8%	2,5%	13,5%	2,4%
Aluminium	2205,11	0,4%	-0,2%	1,9%	-4,2%	-6,0%
Copper	8783,25	3,5%	8,5%	3,8%	-0,3%	3,8%
Iron ore	110,94	-5,2%	-14,1%	-18,0%	-14,7%	-18,6%
Freight rates Baltic Dry Index	2350	0,2%	48,5%	-2,5%	48,1%	12,2%
Currencies						
EUR/ USD	1,0882	-0,5%	1,6%	-0,3%	1,4%	-1,5%
EUR/ GBP	0,8539	0,4%	0,0%	-0,9%	-3,3%	-1,5%
EUR/ JPY	161,80	0,5%	0,3%	4,5%	12,3%	3,5%
EUR/ CHF	0,9625	0,4%	1,4%	1,4%	-1,6%	3,9%
USD/ CNY	7,1965	0,1%	-0,2%	1,2%	4,7%	1,3%
USD/ JPY	148,33	0,8%	-1,5%	4,5%	10,5%	5,1%
USD/ GBP	0,79	1,1%	-1,5%	0,2%	-4,6%	0,1%

Source: Refinitiv Datastream

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