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LESSONS FROM THE PAST DECADE

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As we begin 2020, we've had a chance to reflect on what was an unprecedented decade for financial markets. The 2010s taught long-term investors two important lessons: to ignore short-term market noise and to be prepared for volatility. It was a curious time, but many investors who followed the basic principles of long-term investing and diversification ultimately triumphed.

LESSON #1: BE PATIENT WITH STOCKS

The S&P 500 Index embarked on a historically long rally last decade. At the end of 2009, the benchmark was nine months into what would become the longest bull market on record (129 months and counting). Since then, the S&P 500's price has almost tripled, riding a wave of economic growth, improved earnings, muted inflation, and central bank accommodation.

However, the equities rally has been slow and steady compared to history, even with a few strong years mixed in. The S&P 500 has grown at an 11.2% annualized rate over the past 10 years, the fourth-slowest pace among all decades since 1950. Though the growth rate trailed other decades, price appreciation closer to long-term averages helped keep sentiment in check and sustain the bull market **[Figure 1]**.

1 A LOOK BACK AT THE DECADE: S&P 500 INDEX STATISTICS BY DECADE

Decade	Annual Return	Annual Return (Including Dividends)	Number of Record Highs	Number of Corrections
1950s	13.6%	19.3%	141	6
1960s	4.4%	7.8%	224	5
1970s	1.6%	5.9%	35	7
1980s	12.6%	17.5%	190	9
1990s	15.3%	18.2%	310	5
2000s	–2.7%	–0.9%	13	11
2010s	11.2%	13.5%	242	6

Source: LPL Research, Bloomberg, Ned Davis Research 12/30/19

All indexes are unmanaged and cannot be invested into directly. Past performance is no guarantee of future results.

The modern design of the S&P 500 Index was first launched in 1957. Performance before then incorporates the performance of its predecessor index, the S&P 90.

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The record bull market has had its bumps in the road, too. The S&P 500 posted six corrections (a 10% decline from a 52-week high) over those same 10 years, including two 19% slides—one in October 2011, the other in December 2018.

We believe the biggest lesson for long-term investors in recent years has been learning the importance of sticking to a long-term investing plan in times of both volatility and calm. Understandably, investors' confidence has been shaken at times since the 2007–08 financial crisis, and a few pullbacks have felt like the end of the bull market. Although riding out the volatility was uncomfortable, each time stocks bounced back to new highs. The S&P 500 took four months to recover from its October 2011 slide, and seven months to rebound from the December 2018 decline. The S&P 500 even found its way back to record highs less than six years after its pre-crisis high in October 2007, erasing a 56% decline. Lesson learned: Pullbacks have not lasted forever.

It's tough to say what the next decade has in store for the stock market. The 2000s were some of the worst years for stock performance, and the S&P 500 has clocked solid returns since then. There's still evidence of cash on the sidelines, and sentiment remains largely in check. We think the bull market could last at least through 2020, and we expect the S&P 500 to rise from current levels as earnings grow. We also believe U. S. stocks can provide an attractive long-term opportunity for suitable investors despite above-average valuations.

LESSON #2: BE PREPARED IN BONDS

The 2010s were a rough decade for fixed income investors. The Bloomberg Barclays U.S. Aggregate Bond Index (the Agg), a benchmark of diversified domestic bonds, rose at an annualized 3.8% rate over the past 10 years, its slowest pace for a decade since the index's inception in 1976. The 10-year U.S. Treasury yield steadily fell from 2009 to 2012 as the Federal Reserve started buying bonds in its quantitative easing program, and the yield hasn't risen above 3.5% since then. In 2019, the 10-year yield fell as low as 1.47%, and yields on many trillions of dollars of international sovereign debt fell into negative territory.

It has been difficult to justify owning bonds over the past several years with historically low interest rates and central bank intervention. However, bonds still played a vital role as a hedge against stock volatility (bond prices typically rise when stock prices fall) during the decade, helping diversified investors breathe a little easier. The Agg outperformed stocks by an average of 17% in all six S&P 500 corrections. A hypothetical 60/40 portfolio with 60% in S&P 500 stocks and 40% in a diversified portfolio of bonds would have outperformed an all-equity portfolio by 6.8% in those corrections.

Fixed income's prospects could be just as perplexing going forward. We don't expect the 10-year yield to rise substantially in 2020, and there's still an $11 trillion pile of negative-yielding debt around the globe. While we can't see U.S. yields falling negative, we suspect global buying pressure may persist as international investors turn to U.S. debt for income. That dynamic could keep a lid on yields unless global growth picks up materially.

Still, stock pullbacks generally have arrived without warning, and we believe that teaches us the importance of being prepared. Looking forward, we continue to encourage long-term investors to consider diversifying their portfolios where appropriate to help manage risk. Bonds can help soften the blow when stocks fall and may offer a safe haven for capital needs in the short-term. We continue to emphasize a blend of high-quality intermediate bonds in tactically oriented portfolios for fixed income allocations.

We wish all of you a happy New Year!

OUTLOOK 2020

For more investment insights, check out our newly released *Outlook 2020: Bringing Markets Into Focus*.

WEEKLY MARKET PERFORMANCE REPORT

Please see our new *Weekly Market Performance* report with insights on major asset classes.

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INDEX DESCRIPTIONS

The Standard & Poor's 500 Index is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. The modern design of the S&P 500 stock index was first launched in 1957. Performance back to 1950 incorporates the performance of predecessor index, the S&P 90.

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