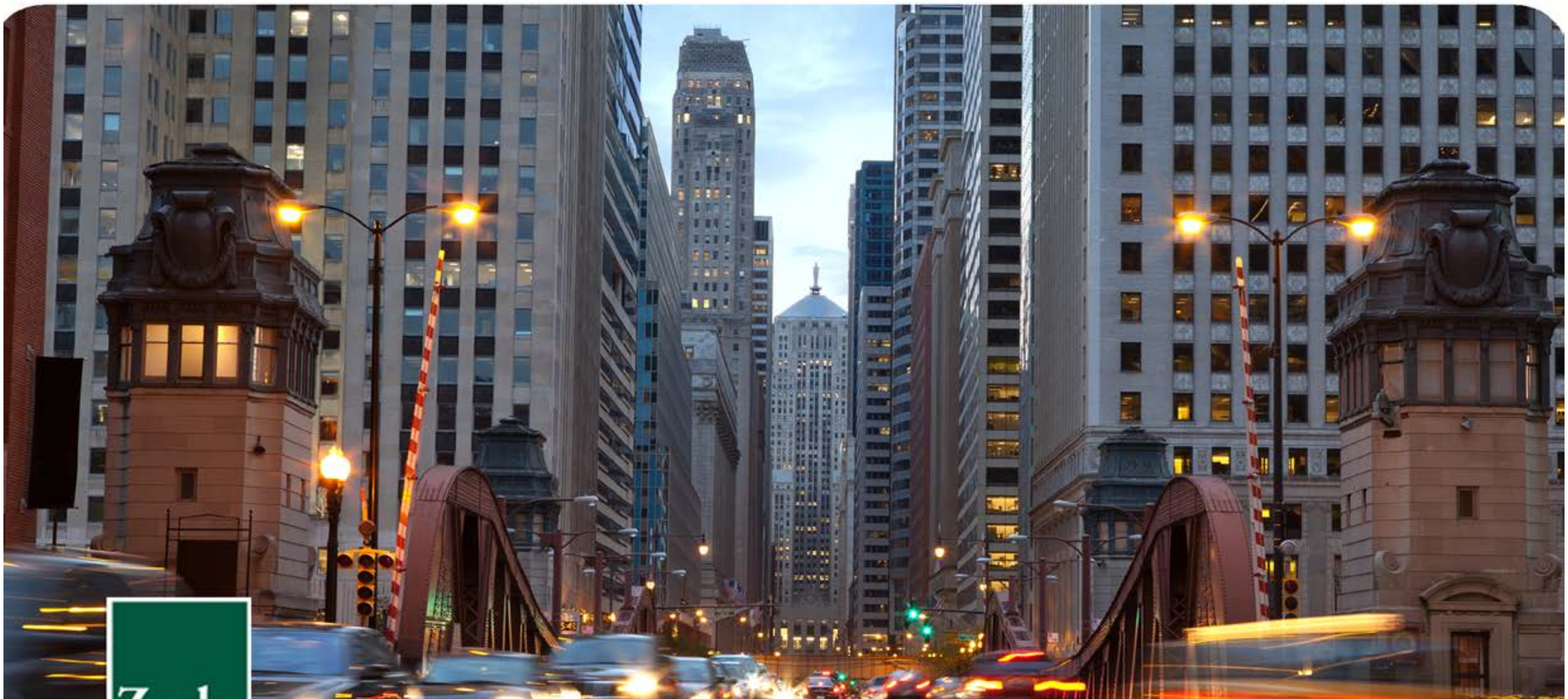

Zacks INVESTMENT MANAGEMENT

Market Insights by Mitch Zacks

# Time for Concern? Equities Markets Continue Reaching All-Time Highs

By Mitch Zacks,
Senior Portfolio Manager

February was a solid month for stocks, with gains felt broadly across the world. The S&P jumped +5.10% on the month and as a global measure the MSCI All-Country World Index [ACWI] did even better, posting a +5.40% gain.

The dragged-out fears of a Greece departure from the euro were dropped from media narratives (as predicted), oil prices bounced off lows, February delivered a very strong US jobs report, and earnings season finished on a high note with over 60% of S&P 500 companies beating expectations. And if that wasn't enough, central banks stepped-in to give investors even more reason to line up for equities. In the past month, over 20 central banks have cut interest rates or eased monetary policy, with the most notable change coming from Europe's implementation of quantitative easing [QE] programs.

Yet, investors are still worried. With February's strong up-move, several indices – including Germany, India, the UK, and the US – were pushed into record territories, and with every move higher the fear of a 'market top' grows. With the markets giving back some of those gains to start March, some of our investors are asking: Is this a sign that the market is at (or near) a peak, with a bear lingering just ahead? Have we reached the top?

Those are all fair questions, and it's normal investor behavior to fear an 'all-time high' more than to celebrate it. What's more, March 9th marked the six-year anniversary of this bull market, making it the 5th biggest and 4th longest bull market in history. In just a few months, it will pass the 1974 – 1980 bull market to become the 3rd longest. How much fight can this bull really have left?

If you believe as we believe, the answer is: plenty.

**What Happens in the Market One Year Does Not Influence the Next Year**

If there's one thing I want you to remember from this post, it is this: individual stocks and the market indices are not serially correlated. In plain speak, that means what happens one day to a stock price or an index level does not have any bearing on what happens the next day. If a stock goes up one day, it statistically has a 50% chance of going up or down the next. If there were always certainty about future direction, investors would never lose money. And we know that's not true.

The reality is, for all the 'new record highs' talk you'll hear these days from commentators, it's been about two years since the market eclipsed the 2007 peak level reached in October of that year. For two years, the market has been puncturing resistance and finding new all-time highs, over and over again. And I don't see any reason why that can't keep happening for the balance of the year.

**The Fundamentals Still Point to More Upside**

I can't stress enough how important it is for investors to look at each year's potential stock returns in a vacuum. Doing so will help you determine – in an unbiased way – if you still see value in equities and whether fundamentals point to the potential for more upside. A past years' returns cannot and should not determine your attitude about investing in the current or even the next year. Invest for what you can see out in front of you.

**And here's what that picture looks like:**

• Economics – Some estimates have global GDP growth coming in at 2.9% for 2015, which is better than the estimated 2.5% we saw in 2014. Zacks estimates the US will sustain a run of moderately above-trend growth of 3.0% for 2015. Read: the global economy is strengthening, not weakening.

• Interest Rates – Overnight rates in most developed countries are near historic lows, meaning that borrowing costs and financing costs are highly attractive for businesses that can obtain loans. Central banks (other than the Fed) appear poised to keep rates low for the balance of the year. The issue, that still needs working on, is getting banks comfortable enough to up the ante on loan issuance.

• Inflation – Zacks projects US core and headline inflation of 1.3% and 1.0%, respectively, for 2015. Europe, and even China, are also expecting inflation in the 1% - 2% range. When you couple that with improving GDP growth, you have a global economy I like to think as "Goldilocks Light."

• Sentiment – We think sentiment will continue to improve as the US consumer benefits from lower energy prices and improving employment, which could support higher spending and lower risk aversion. The same should apply to Europe as the economic picture gradually improves.

**Market Highs Should Inspire Reassessment, but Not Necessarily Rebalancing**

Reaching new highs does create a need for caution, and as valuations rise to "above average" levels it does make sense to constantly reconsider how much more upside equities could really have. But neither of those two things alone – record highs or high valuations – should inspire an investor to go defensive or keep cash out of the markets. The nature of bull markets is to reach new highs and then create new ones after that.

That's what happened in every other bull market to date, and that's where I think we are now. So don't be afraid of heights just yet.

-Mitch

**About Mitch Zacks**

Mitch is a Senior Portfolio Manager at Zacks Investment Management. Mitch has been featured in various business media including the Chicago Tribune and CNBC. He wrote a weekly column for the Chicago Sun-Times and has published two books on quantitative investment strategies. He has a B.A. in Economics from Yale University and an M.B.A in Analytic Finance from the University of Chicago.

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