

The Outlook: Oct. 15, 2024

“When’s the next Bear Market?”

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That’s a question which crosses our minds, as investors, every once in a while: no more than once an hour or so, 24 hours a day, 7 days a week. And if we’re being honest, the only exaggeration there is our sleeping hours. The “Bear Market!” nightmare never leaves its perch in the back of our minds because though we investors must deal with Nightmare Headlines ‘round the clock, the media being what it is, when those headlines coincide with a real Bear Market they’re much more frightening. The cure for fear is always perspective. Let’s get some.

The last 2 Bear Markets: 6 weeks and 27% (2000) and 10 months and 23% (2022)



Those were two very different Bear Markets, weren’t they? First came the Virus Lockdown Calamity: the first time in world history a government tried to shut down its own economy. It was something new and frightening, all right . . . but it is pretty incredible to look back now and realize that Bear Market lasted all of 6 weeks! It began in mid-February and ended in late March, 2020. At Outlook we do make fun of the betting crowd’s way of “thinking,” because most of the time it’s not “thinking” at all. But the crowd does not get it wrong all the time. When it eventually switches to betting on real facts instead of vague impressions, it gets it dead right . . . which is why the roller coaster tilts way up over time. Back in 2020 it took the crowd less than 6 weeks to figure out that “Lockdown!” was not going to last long . . . and that Main Street was too strong to be badly hurt.

The next gray-boxed Bear Market is just as interesting, and very different. It lasted 10 almighty months, from January 2022 into October. That's a lot longer than 6 weeks. Was something badly wrong on Main Street?

Nope. It was just an old-fashioned cycle . . . the downturn part. All "business cycles" are mainly "inventory cycles," which means Main Street stocks up on products on the shelves because customers are beating the doors down to get them, every morning; until suddenly the customers have more than enough . . . and when Main Street throws open its doors one morning the only noise is that of crickets chirping, with the odd tumbleweed blowing by. Honest Main Street CEO's like Texas Instruments' Rich Templeton have always said, "We don't have the faintest idea when the (inventory) cycle will suddenly top out and plunge; or when it will suddenly bottom out and rocket up. So we build our business looking past the cycles into the long term."

The 2022 Down Cycle was truly vicious because the 2020 Lockdown Calamity was so very strange. Main Street (households and businesses) hunkered down for a few weeks, waiting for the world to end. Of course it didn't. Then households went on a buying spree and businesses frantically loaded up the shelves. The downturn had been strange. The upturn was just as strange in the other direction, with enormous buying of all kinds of goods and services. It was overdone . . . as always. When Main Street threw open the doors in early January, 2022, to see nothing but tumbleweeds blowing in the wind, it took a somewhat long 10 months to clear the shelves and get back to the normal life of buyers at the doors and companies carefully restocking to take care of them.

That brings us to today . . . and our 'round the clock question: "Bear Market?"

One of Outlook's Golden Rules is: "People act like normal human beings, most of the time." When we've been badly hurt or frightened by something, we take special care to avoid being as hurt or frightened in the future. So this Bull Market—and the long, gradual Main Street growth which is driving it—are founded on much more careful buying and more careful inventory restocking, across Main Street Households and Main Street Business. Reckless behavior ends pretty soon. Careful behavior tends to last a long time. Careful behavior has driven these next pictures:

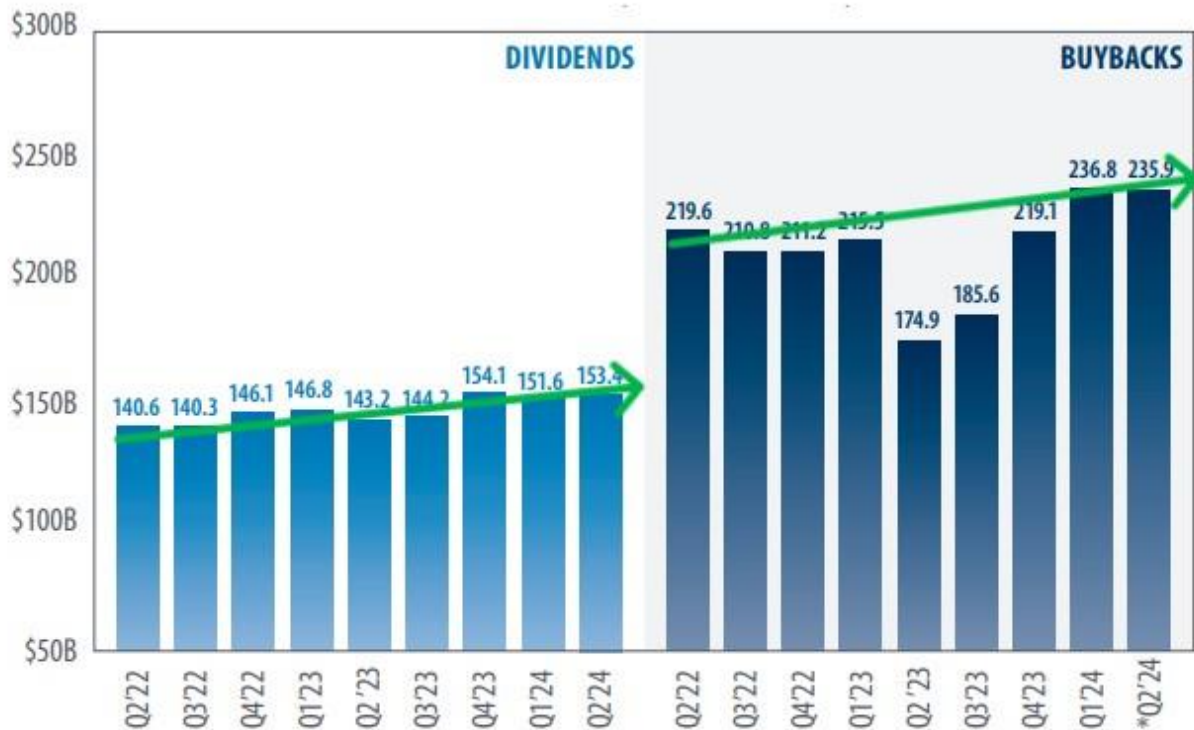
Exhibit 5: Consensus expects 72% of companies to grow EPS YoY in 3Q
% of S&P 500 stocks with EPS growth vs. S&P 500 EPS YoY (2002-3Q24E)



Source: FactSet, BofA US Equity & Quant Strategy

BofA GLOBAL RESEARCH

S&P 500 Dividend Payout vs. Stock Buybacks



Source: S&P Dow Jones Indices. Quarterly data points in \$ Billions. *Q2'24 data is preliminary.

They sum up like this:

1. Since 2022, more and more of Big Main Street is growing its profits.
2. Since 2022, Main Street's cash rewards to investors keep climbing slowly, no matter the bumps in the road.

Another name for those 2 items is: "Tailwinds." These tailwinds are sometimes strong, sometimes weaker . . . but they're persistent. They calm down now and then, but then they come back stronger. We can't ever know the answer to "When's the next Bear Market?" It would be nice if we could know; but since we can't, we don't much care . . . because the answer never matters in the long run.

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