

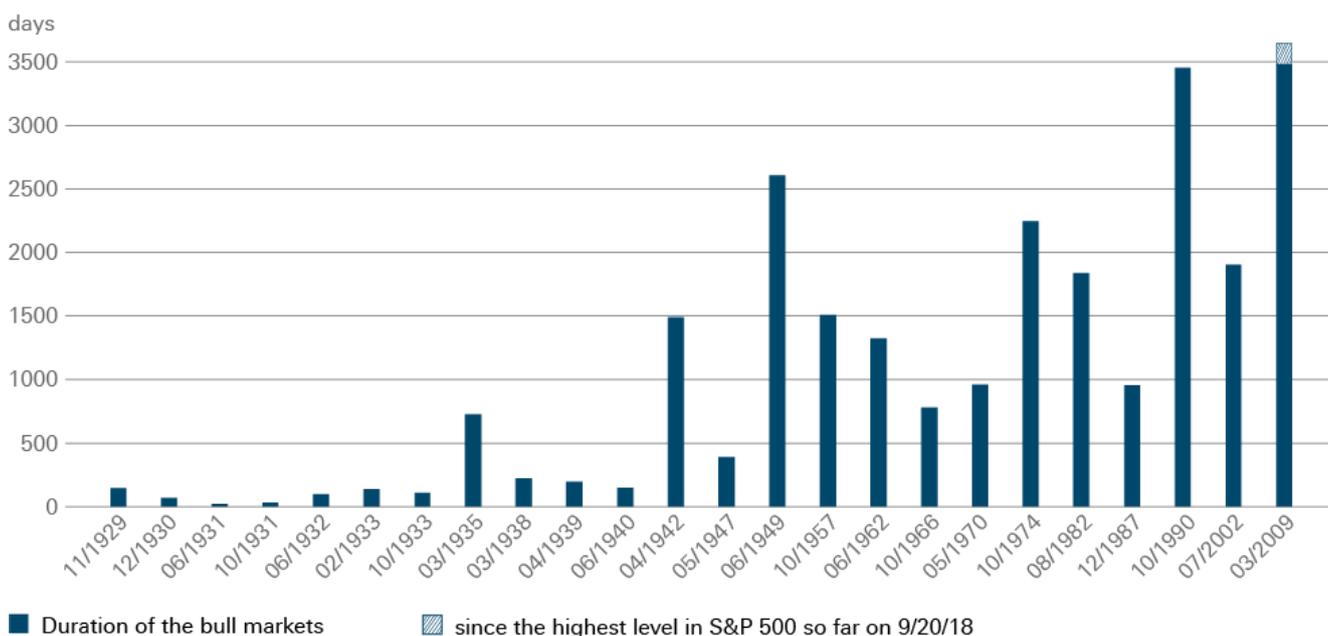
TEN YEARS AFTER

The last bear market ended ten years ago. How does the current cycle compare to past experiences?

Almost exactly 10 years ago to the day, on March 9, 2009, the last bear market in global stocks ended. Since then, many investors in equities have reaped handsome returns. Taking the S&P 500 index as a reference, stocks are up by 312%, or 15.25% per annum. As of last September, when the S&P 500 reached a level of 2930, the index has even made 333% compared to 2009.

In our "Chart of the Week" we compare the bull market that started in 2009 with past bull markets. Looking at the experience before 2009, several observations can be made: the 1930s were a bumpy time with several bull markets, which lasted only half a year on average. After the Second World War, the duration increased to four years on average. Since 1990, bull markets have lasted more than eight years on average. What could explain the increasing duration? For one, the last two business cycles in the United States and many other advanced economies have been unusually long. That might well have structural causes. More efficient management of inventories or the shift from manufacturing to services come to mind as possible causes.

Another factor might have contributed, too: After the crash of 1987, markets have been increasingly banking on monetary policy to come to the rescue, if something threatens to go wrong. This concept is usually called the "Fed Put." Moreover, after 10 years, memories of the bear market fade. Of the generation old enough to remember life before the Fed Put, more and more are retiring. Many of today's market participants have never even gone through the (quite unpleasant) experience of a bear market. Of course, they are aware that the last bear market started at the onset of the great financial crisis. But that may actually contribute to complacency – with the benefit of hindsight, it seems all too obvious how and why trouble struck. Most recessions and bear markets are not like that – they tend to catch central bankers, investors and even economists by surprise. All this argues for a bit of caution. In the United States and especially in the Eurozone, the scope for conventional monetary policy is very limited. It remains an open question how well less conventional approaches might work next time around. And even if central banks eventually succeed in coming to the rescue, things could get painful in the meantime.



Sources: Bloomberg Finance L.P., DWS Investment GmbH as of 2/28/19

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Source: DWS Investment GmbH

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APPENDIX: PERFORMANCE OVER THE PAST 5 YEARS (12-MONTH PERIODS)

| | 01/14 - 01/15 | 01/15 - 01/16 | 01/16 - 01/17 | 01/17 - 01/18 | 01/18 - 01/19 |
|---------|---------------|---------------|---------------|---------------|---------------|
| S&P 500 | 11.9% | -2.7% | 17.5% | 23.9% | -4.2% |

Past performance is not indicative of future returns.

Sources: Bloomberg Finance L.P., DWS Investment GmbH as of 2/4/19

GLOSSARY

Bear market

Technically, a **bear market** refers to a situation where the index's value falls at least 20% from a recent high.

Bull market

A **bull market** is a financial market where prices are rising - usually used in the context of equities markets.

Central bank

A **central bank** manages a state's currency, money supply and interest rates.

Eurozone

The **Eurozone** is formed of 19 European Union member states that have adopted the euro as their common currency and sole legal tender.

Financial crisis

The **financial crisis** refers to the period of market turmoil that started in 2007 and worsened sharply in 2008 with the collapse of Lehman Brothers.

Monetary policy

Monetary policy focuses on controlling the supply of money with the ulterior motive of price stability, reducing unemployment, boosting growth, etc. (depending on the central bank's mandate).

Recession

A **recession** is, technically, when an economy contracts for two successive quarters but is often used in a looser way to indicate declining output.

S&P 500

The **S&P 500** is an index that includes 500 leading U.S. companies capturing approximately 80% coverage of available U.S. market capitalization.

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