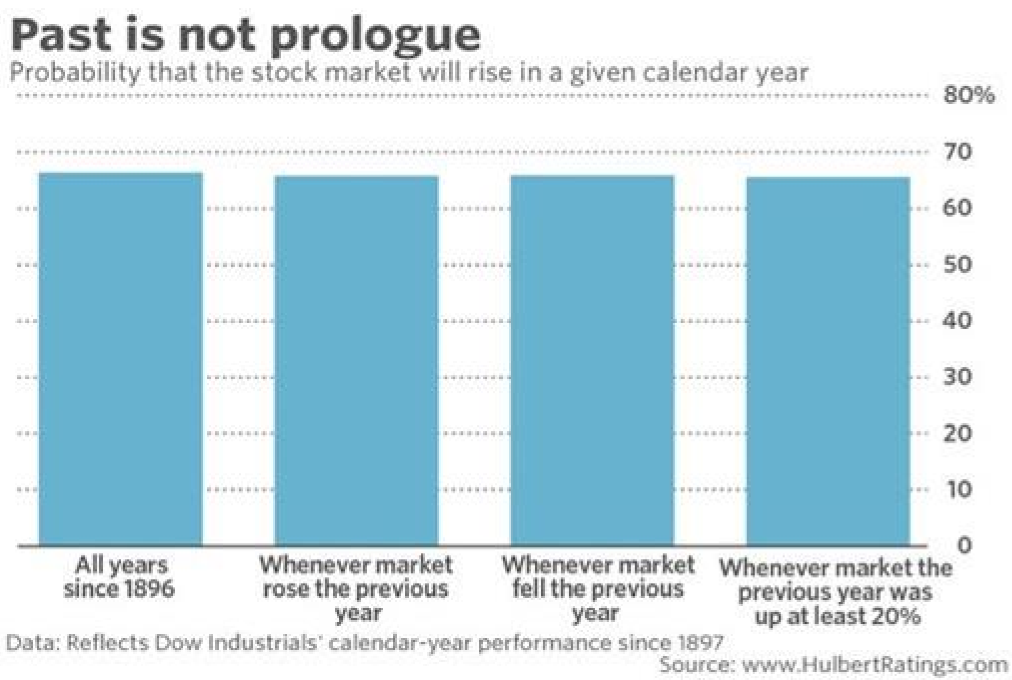
January 2018

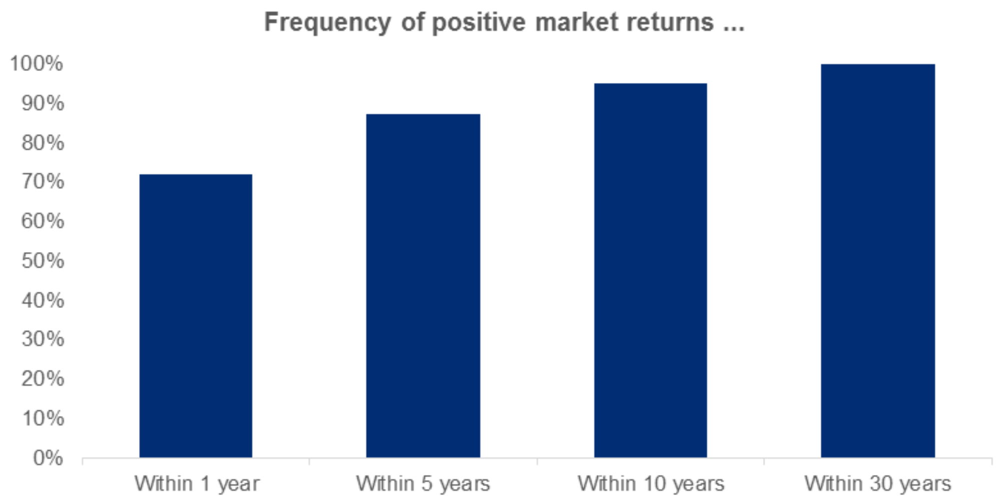
Will the market momentum continue? Looking to history for insight

Equity market returns in 2017 were very strong across the globe, driven by synchronized global economic growth and very strong earnings growth. As we move into 2018, the natural question is whether this strength will continue. While we can never answer with certainty, it's interesting to look at history as a guide for what might happen. This time, history is telling us a fairly compelling story.

As it turns out, the likelihood that the market will rise in any given year is completely independent of how it performed in the prior year. Not convinced? Let's look at the chart below. In any given year the market has about a 67% chance that it will be positive. Isolating this for performance following a positive year shows the chance of a rising market still sits at 67%, and it's the same number following a negative year. What about when markets are very strong? Interestingly, the chance of markets going up still sits around 67%.



What does this tell us? All else being equal, the likelihood that the market will rise in 2018 is 67%. But what if we take this one step further and look at the frequency of positive returns five years out, 10 years out, or even 30 years out? The results are even better.



Source: RBC GAM, Bloomberg. Based on yearly return data since 1928.

As the chart above shows, the likelihood that the market will rise over any given period rises to 87% over 5 years, 95% over 10 years, and 100% over 30 years. Of course, these probabilities are based on historical information, which can't predict future returns, but it's intriguing to see that since 1928 there has never been a 30-year calendar period where the market has experienced a negative return (or one less than 7.5% annualized).

If you're concerned about markets reaching new highs, charts like the one above should provide you with a different perspective, particularly in the context of a long-term investment horizon.

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