Renaissance®
Investment Management

September 15, 2022

Market Update

The Lost Decade, Revisited

The stock market weakness thus far this year has triggered memories of the so-called "Lost Decade for Stocks", and some predictions that another lost decade is ahead of us.

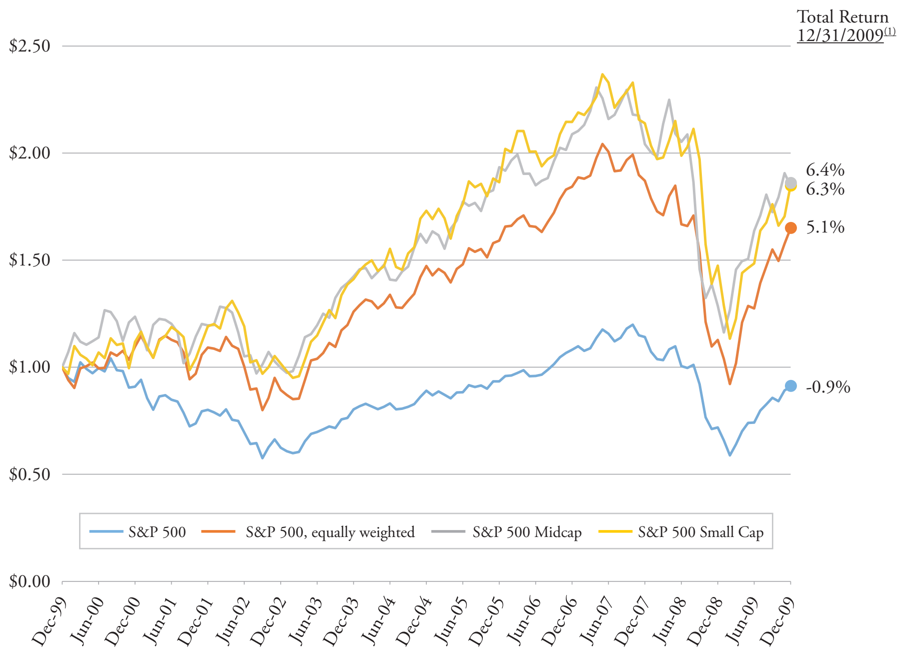
The term "Lost Decade for Stocks" refers to the ten-year period from 12/31/1999 through 12/31/2009, when the S&P 500 generated an annualized total return of -0.9% over the period. This was only the second time that the market actually had a negative total return over a decade period (the other period was the Great Depression decade of the 1930s).

The 1999-2009 period was marked by the collapse of the late 1990s dot-com bubble, the 9/11 terrorist attacks, the Iraq and Afghanistan wars, as well as two recessions, the deepest being the 2008-2009 Financial Crisis. Importantly, the trailing P/E multiple of the S&P 500 was over 29x at the end of 1999 (compared with only 19x today). With all of those headwinds, it isn't surprising that the S&P 500 struggled to post any gain.

However, a deeper look at the stock market over that period provides a better perspective on its rate of return. For example, the S&P 500 calculated on an equal-weighted basis posted an annualized total return of 5.1% over the period, 6.0% higher than the cap-weighted version of the Index. While a dollar invested in the cap-weighted S&P 500 at the end of 1999 declined to 91 cents by the end of 2009, a dollar invested in the equal-weighted index would have grown to $1.64 (+64.0%, unannualized). The stocks in each version of the index are identical, but the equal-weighted approach would have avoided some of the disappointing performance posted by very large cap stocks over the decade and invested more in medium-sized stocks in the S&P 500 Index that experienced better growth. Similarly, investing in mid-cap or small-cap stocks would have generated good total returns as well, resulting in end-of-period values twice the value of investing in the S&P 500.

A "lost decade", while historically rare and unlikely, is still very concerning to contemplate. However, diversification across various market capitalization ranges of U.S. stocks may provide additional possibilities for returns above that of simply the cap-weighted S&P 500.

Growth of $1 Invested From 12/31/1999–12/31/2009



[1] Annualized return.
Sources: Renaissance Research, FactSet

Total Returns: 12/31/1999 through 12/31/2009

	Annualized Return	Value of $1 invested on 12/31/1999 by the end of 12/31/2009
S&P 500	-0.9%	$0.91
S&P 500 (equal weighted)	5.1%	$1.64
S&P Midcap Index	6.3%	$1.85
S&P Small Cap Index	6.4%	$1.85

[1] Past performance is not indicative of future results. Performance for periods of one year or less is not annualized. All returns are shown in U.S. dollars.
Sources: Renaissance Research, FactSet

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REFERENCED INDEX

(Indices are unmanaged and are not available for direct investment.)

S&P 500 Index—The S&P 500 Stock Index is a market capitalization weighted index and consists of 500 stocks chosen for market size, liquidity and industry group representation.

S&P Midcap 400 Index—The S&P MidCap 400 Index, is a capitalization-weighted index that serves as a gauge for the U.S. mid-cap equities sector.

S&P Small Cap 600 Index—The S&P Small Cap 600 Index is a capitalization-weighted index that measures the performance of selected U.S. stocks with a small market capitalization.

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