It's Been a Big Market Rally. What's Next?

The S&P 500 has risen in 14 of the 15 weeks since October 27, 2023. From the end of October 2023 through the end of January of this year, the index has posted a price gain of 15.5%. What's been the historical pattern of returns after such a significant increase in stock prices over such a short period?

Surprisingly, a sharp move up in stocks over a three-month period has often been followed by further gains. The table below uses monthly data from the end of 1959 through the end of January 2024, with the first column showing typical price changes for the S&P 500 over ***all*** 12-month periods. The second column shows price change data ***after*** a gain in the S&P of more than 15% over the preceding three-month period. As the table illustrates, the average and median 12-month returns following a strong 3-month period are above the average for all periods, as is the probability of a positive return.

	S&P 500 PRICE CHANGE[1]		
	All Periods Monthly Data, 12/31/1959–Present	**After** a 3-Month Gain of 15%+	**After** a 3-Month Gain of 15%+ **And** a 3-Month Drop in Bond Yields
Average Change Over 12 Months	8.4%	11.7%	19.2%
Median Change Over 12 Months	10.1%	17.4%	18.4%
Best Gain Over 12 Months	53.7%	38.6%	38.6%
Worst Gain (Loss) Over 12 Months	-44.8%	-11.2%	7.9%
Percentage of Time Positive Over 12 Months	73.8%	90.9%	100.0%

Data from 12/31/1959–1/31/2024
[1] Past performance is not indicative of future results.
Source: Bloomberg

The rally that began last October was accompanied by a strong rally in bonds as well, as 10-year Treasury bond yields tumbled. The third column in the table above shows what happened to stocks ***after*** a gain of more than 15% over a three-month period ***and*** a decline in bond yields over the same period. As the table shows, the average and median returns for stocks going forward have been even stronger, and the market has never experienced a decline in price over the next 12 months under such conditions.

A number of caveats are in order. The periods when the stock market gained 15%+ ***and*** bond yields declined over the same period account for only about 2% of the months since 1960, therefore the statistical significance of this data is not robust. In addition, there has been short-term volatility in stock market prices over the short term that can't be ignored during many of these periods, even when overall 12-month returns have been favorable. Finally, a significant increase in bond yields or geopolitical risks may present meaningful headwinds for the stock market. Nevertheless, history suggests that the sharp move in stock prices that we've experienced over the past three months isn't necessarily a precursor of future price weakness but may rather be supportive of further gains.

DISCLOSURES

Continued

PERFORMANCE

If Renaissance or benchmark performance is shown, it represents historically achieved results, and is no guarantee of future performance. Future investments may be made under materially different economic conditions, in different securities and using different investment strategies and these differences may have a significant effect on the results portrayed. Each of these material market or economic conditions may or may not be repeated. Therefore, there may be sharp differences between the benchmark or Renaissance performance shown and the actual performance results achieved by any particular client. Benchmark results are shown for comparison purposes only. The benchmark presented represents unmanaged portfolios whose characteristics differ from the composite portfolios; however, they tend to represent the investment environment existing during the time periods shown. The benchmark cannot be invested in directly. The returns of the benchmark do not include any transaction costs, management fees or other costs. The holdings of the client portfolios in our composites may differ significantly from the securities that comprise the benchmark shown. The benchmark has been selected to represent what Renaissance believes is an appropriate benchmark with which to compare the composite performance.

The value of an investment may fall as well as rise. Please note that different types of investments involve varying degrees of risk and there can be no assurance that any specific investment will either be appropriate or profitable for a client or prospective client's investment portfolio. Investor principal is not guaranteed and investors may not receive the full amount of their investment at the time of sale if asset values have fallen. No assurance can be given that an investor will not lose invested capital. Consultants supplied with these performance results are advised to use this data in accordance with SEC guidelines. The actual performance achieved by a client portfolio may be affected by a variety of factors, including the initial balance of the account, the timing and amount of any additions to or withdrawals from the portfolio, changes made to the account to reflect the specific investment needs or preferences of the client, durations and timing of participation as a RIM client, and a client portfolio's risk tolerance, investment objectives, and investment time horizon. All investments carry a certain degree of risk, including the loss of principal and are not guaranteed by the U.S. government.

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 DATA

Renaissance Investment Management
800.837.3863 ■ 513.723.4500 ■ Fax: 513.723.4512 ■ www.reninv.com