Another Look at the "Roaring Twenties"

July 6, 2021

Since the bottom of the COVID-induced market decline in March of last year, the stock market rally is making history. When looking back in time to the 20th century, we find that both world wars were followed by an enormous gain in the stock market. After World War I and the plague of 1917, a recovery from the war and this epidemic ushered in the "Roaring Twenties" -- a period where economic growth was making records and the stock market returned more than 13% in annualized returns for the third decade of the century. And then the bad news: not until a global trade war and confiscatory tax rate increases did the stock market fall into a long-term bear market and the depression of the 1930s.

After World War II, a surge in consumer demand, not unlike our current environment, was accompanied by a short period of high inflation but also a period of unusual economic growth. The stock market during the 1950s roared ahead and produced annualized increases of more than 18% -- eclipsing the Roaring Twenties by almost 5% per year!

The second-best performing decade was the 1990s where the stock market produced annualized gains of nearly 18%. Whereas the Roaring Twenties occurred during the industrialization of America and strong economic growth was expected, the 1990s was hyped by the rapid expansion of technology – otherwise known as the Technology, Media, and Telecom (TMT) boom. These three "new" mediums produced an unusual surge in both economic and stock market growth, but more importantly, dramatically improved the standard of living of all consumers. Suddenly, we had the Information Superhighway (one of our most dominant themes since the 90s) and Productivity Enhancers (Ditto) that changed the way people worked and communicated. (By the way, these changes are still not fully factored into the economic metrics we rely on today). Advance these 90s breakthroughs to today and, as we have written about before, how do you measure increased productivity provided by Uber, Door Dash or Instacart? We have saved over 300 hours of our time by not having to go to the grocery store in the last year alone (not COVID related)!

Since beginning the third decade of the 2000s, the question that forecasters have been asked is "how well will the stock market do over the next 10 years? As our regular readers know, we do not make predictions about such movements, however our experience of investing for more than 88 years combined gives us a broad perspective. So far this year, we have gotten off to a stellar start with most indices gaining double-digits. Remembering that earnings are the "mother's milk" of the stock market; we are entering a positive phase in gestation with no hiccups in sight for the rest of this year unless an adverse fiscal policy is passed by the Congress. The most important economic metric to watch is consumer and corporate wealth – and both are at record highs. More and more baby boomers are transferring their wealth to heirs who love to spend thus leading to a continuation in a fast pace of economic growth. Maybe we are living in a better version of the "Roaring Twenties". Stay Tuned!

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