Is the Stock Market "Expensive?"

February 12, 2024

Last week the S&P 500 rose above 5,000 for the first time. The Dow Jones Industrial Average achieved that feat on November 21st, 1995 -- a little over 28 years ago. Today that average is approaching 39,000! Some interesting measures might give us an idea of how the broad market can continue its upward track. The S&P 500 was up 1.59% in January, and according to research firm Bespoke,

> *"In the 40 years since WWII when the S&P 500 was up at least 1.5% in January, its median performance for the remainder of the year was a gain of 13.4% with positive returns 82.5% of the time. In all other years, the index's median gain was 5.7% with positive returns 66.7% of the time."*

Data that also may have significance according to Bloomberg is that, on January 24th, "the utilities sector saw its weighting in the S&P 500 drop to a multi-decade low of 2.17%. Since 1990, the only time the utilities sector's weighting dipped below that level was in late March 2000 at the peak of the Dot-Com bubble."

Is the utility sector's historical relationship in this example something to worry about since a major bear market started in March of 2000? We don't think so. Let's go back and drill down on the factors preceding that bursting to see if there are any fundamental similarities to markets today.

During the late Nineties, equity markets enjoyed double-digit returns from 1995 through 1999 primarily due to the continued evolution of technology and telecommunications. However, as the end of the century approached there were fears that computers couldn't handle the changeover to the twenty-first century. The crisis, labeled Y2K, forced businesses to reconfigure their technology platforms to transition to a new century. Many companies were created to resolve the crisis and new computer equipment became the beneficiaries of this crisis and such companies surged in value at the end of the twentieth century. The crisis shifted the consumption of technology from the new century to the old century. As a result, there was a collapse in demand for technology products and services related to the Y2K phenomenon putting many companies out of business.

Enter the booming artificial intelligence craze that was re-ignited in 2023 with the release of first-quarter earnings from the world leader in advanced chip design, Nvidia. From that point forward, chip stocks dominated the narrow stock market rally. Not until October did we begin to see signs that the rest of the stock market, specifically small and mid-cap stocks, would begin to rally as well. At the beginning of 2024, large-cap tech stocks were again at the forefront leading the market higher to a record high for the S&P 500. The difference today is that there is no endpoint such as a Y2K event that will truncate the rally and put companies out of business. Expectations continue for trillions of dollars of spending on AI projects across multiple industries. In other words, we could be in for a long period of growth stock dominance - a style that characterizes our investment approach.