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Market Musings

A newsletter brought to you by Victoria Capital Management, Inc.

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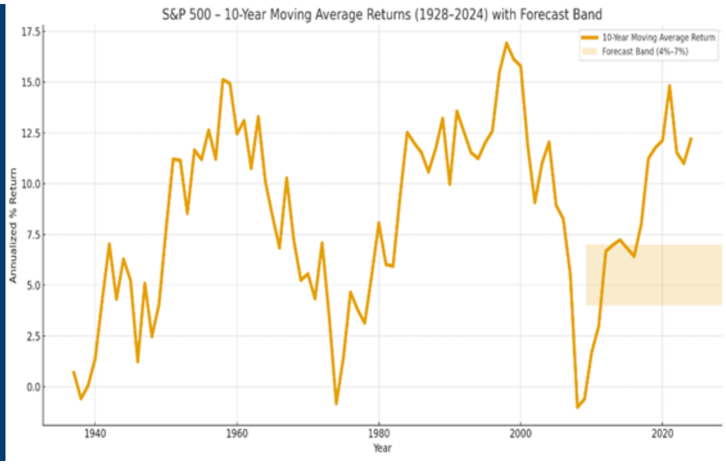
This exhibit shows the long-term returns of the S&P 500 and a band representing the forecasts of selected mutual fund companies over the next 10 years.



"When they call the roll in the Senate, the Senators do not know whether to answer 'Present' or 'Not Guilty'."

- Theodore Roosevelt

Over the Long Term

As we enter the second half of the 2020s decade, reflecting on the first half's equity returns and comparing them to both long-term equity returns and expectations for the next ten years reveals a distinct difference between our outlook and those of a few major professional investors. (We think the equity markets can achieve their average long-term return over the next ten years.) One good benchmark for forecasting equity returns over the next ten years is the forecasts of major mutual fund companies and their economic/strategy departments. Given that the stock market's long-term returns since 1950 are about 10% annually, forecasting deviations from that trend requires some explanation.

Among the major mutual fund companies, here are a few of their recent forecasts for equity returns. Over the next ten years: Vanguard, 3.3 to 5.3%, Invesco, 4.7%, BlackRock, 6.2%, Goldman Sachs, 6-6.5%, and J.P. Morgan, 6.7%. Looking at a broad range of such forecasts, they fall in the 5-6% range. Of interest is the fact that many of these fund companies expect foreign and emerging markets to outperform the U.S. market. If we look at the first half of this decade, 2020 through 2024, the return was roughly 10-12%--equaling the actual long-term return of equities in general. So far in 2025, the S&P 500 is up about 18%, well above its long-term trend. The question equity investors should be asking is: Why are these fund companies so bearish on expected returns for the balance of the 2020s, given that above-average performance has characterized the first half of the 2020s?

Five years ago, these companies were relatively bearish on equity market returns over the next 10 years: Vanguard: 3.5 to 5.5%; Invesco: 3.8 to 4.5%; BlackRock: 4 to 4.5%; J.P. Morgan: 5.6%; and Goldman Sachs: 5.6%. Given that the first half of the decade returned an average of 11%, these companies must either make drastic revisions to their forecasts or expect negative market returns over the next five years.

Market Commentary

Domestically, a prolonged government shutdown, concerns about elevated Big Tech valuations, and hawkish Fed sentiment initially rattled U.S. equity markets in November, sending consumer sentiment to its lowest level since 2022. Expectations for a December rate cut quickly turned stocks around, with the DJIA and S&P 500 indices closing higher for the month. The tech-heavy NASDAQ closed lower. Bonds also rallied on rate-cut hopes, with the 10-year Treasury falling below 4%. European stocks had a mixed month, posting a slight gain, while Pan-Asian equities took a breather after seven consecutive advances amid weakness in emerging markets. Latin American indices posted substantial gains and continue to lead global equity markets year to date. Both the U.S. dollar and gold were whipsawed during the month but finished with slight gains.

According to Bloomberg, 6.3% of Russell 2000 stocks (small caps) were down 50%+ from 52-week highs compared to just 2.2% of S&P 500 stocks.