Investing at all-time highs

Throughout the course of 2019, financial markets have been exceptionally strong and year-to-date, U.S. equity markets are up over 20%. As a result, the S&P 500 Index is hovering around all-time highs. In fact, the broad U.S. equity index has hit a new high more than 20 times since the start of the year.

With this backdrop in mind, investors may be questioning whether now is the right time to put new money to work. Further complicating matters is uncertainty around the current macroeconomic environment, fueling feelings of angst and uneasiness. In this regard, the financial media has been quick to alarm investors with stories regarding the perceived lateness of the business cycle, slowing economic growth, Brexit and protectionism. As a result, some investors may feel happier sitting on the sidelines.

In light of this, we wanted to explore the topic of all-time highs, beginning with some context related to what's supporting markets at present levels. Additionally, we'll explore the frequency at which markets establish new all-time highs and why these milestones shouldn't cloud the investment decisions of individuals with long-term horizons.

What's driving the new highs?

The recent leg-up in markets has been underpinned by advancements on several important fronts:

1. **Global trade.** The ongoing trade dispute between the U.S. and China has been a lingering headwind for investors. An agreement between the world's two largest economies has proven elusive, with both sides enacting a series of tit-for-tat tariffs. Recent news of a 'Phase 1' trade deal was met with a positive reaction from markets. While not yet solidified, the reported progress suggests at least some level of cooperation between the world's two largest economies and a commitment to avoiding punitive tariffs.
2. **Brexit.** In the time since the United Kingdom voted to withdraw its membership in the European Union, concerns have lingered regarding the associated economic and market implications. While the outcome is still uncertain, extension of the Brexit deadline to January 31, 2020 reduces the risks associated with the U.K. leaving the European Union without a trade deal. With Prime Minister Boris Johnson's deal with the EU approved (at least in theory), markets are looking to the December 12 U.K. election for clarity on his ability to secure the required support.
3. **Stabilizing growth.** Early signs of a rebound in global growth are starting to appear, perhaps as easing from central banks starts to take hold. Additionally, there is tentative evidence that Chinese stimulus efforts are beginning to have a positive effect on its domestic economy.

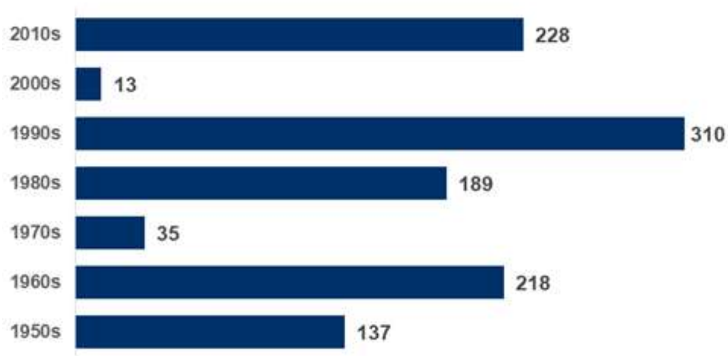
While uncertainty will forever be a lasting figure in financial markets, investors have welcomed the latest developments as evidence of a less challenging outlook than originally feared.

All-time highs are not unusual

With markets hovering around all-time highs, investors sitting on the sidelines face what some refer to as 'psychological barriers to entry.' Investing in the market at all-time highs means paying a price that no one before you has ever paid - creating a seemingly guaranteed recipe for regret.

To counter this perception, it's important to note how common all-time highs are. In fact, since 1950 the broad U.S. equity market has established 1,130 all-time highs along the path to its current level. That's an average of over 16 every year.

S&P 500 all-time highs by decade



Source: Bloomberg, RBC GAM. Data as of January 1, 1950 to November 14, 2019.

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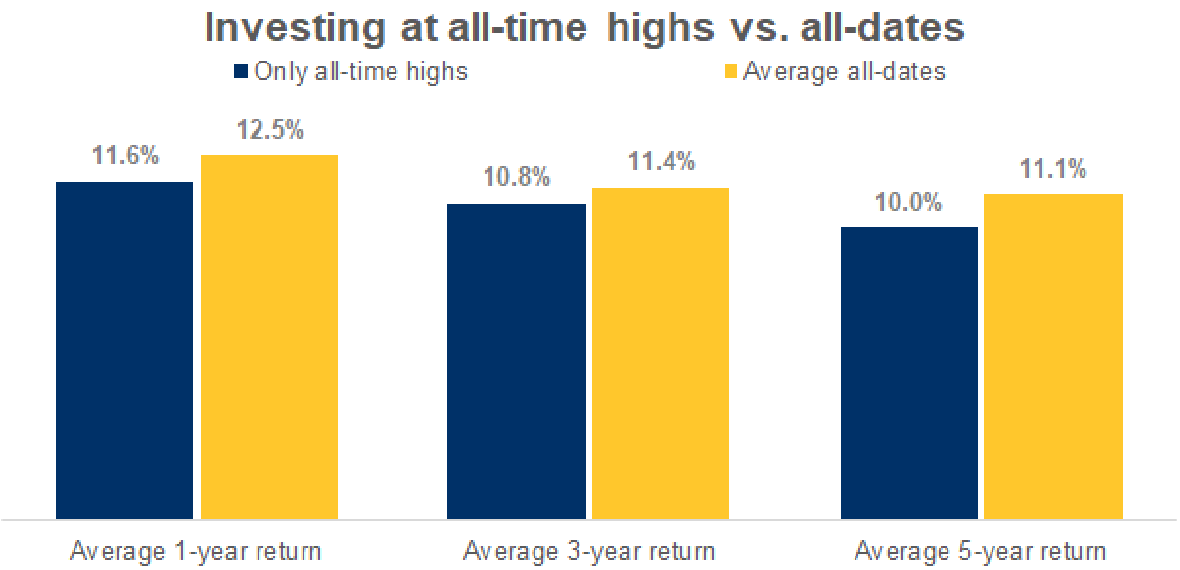
The topic of markets sitting at all-time highs certainly generates good headlines for the media. However, new highs are not as meaningful as some people may think. Much of this has to do with continued growth of the economy and corporate profits. While there are periods of time when the economy and markets slow down, over time, improvements in productivity and innovation have propelled markets towards new highs – generating strong long-term results for investors, regardless of their perceived luck regarding timing.

To get an understanding of this, let's take a look at how you would have done in the past had you only invested at all-time highs in the S&P 500 Index.



Source: Bloomberg, RBC GAM. Data as of January 1, 1950 to October 31, 2019 - all dates refers to rolling 1, 3 and 5-year returns starting from each trading date during this time. Returns in U.S. dollars. An investment cannot be made directly into an index. The graph does not reflect transaction costs, investment management fees or taxes. If such costs and fees were reflected, returns would be lower. Past performance is not a guarantee of future results.

As outlined above, even if you had invested only at all-time highs, on average you still would have earned strong results very close to the historical average returns from all dates in this time period. Remember, this includes some of the worst times in the stock market, including Black Monday (October 1987), the Tech Wreck of the early 2000s and of course the global financial crisis of 2008.

Understanding the psychological effect

For many investors, sitting on the sidelines during all-time highs, waiting for a market correction, provides a false sense of security. This is because over time, cash will continually lose value to inflation. By sitting on the sidelines too long, investors are essentially locking in this loss.

As history has shown again and again, watching from the sidelines has been more likely to result in genuine feelings of regret. For an investor, there's not much worse than watching high after high pass you by. So if you're feeling uneasy about investing in today's environment, remind yourself: all-time highs are common and should not be perceived as a precursor for an impending correction. Rather, they represent an excellent opportunity to ensure you have a financial plan in place so you are prepared for whatever lies ahead.

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