RBC Global Asset Management

Worried about investing near all-time highs?

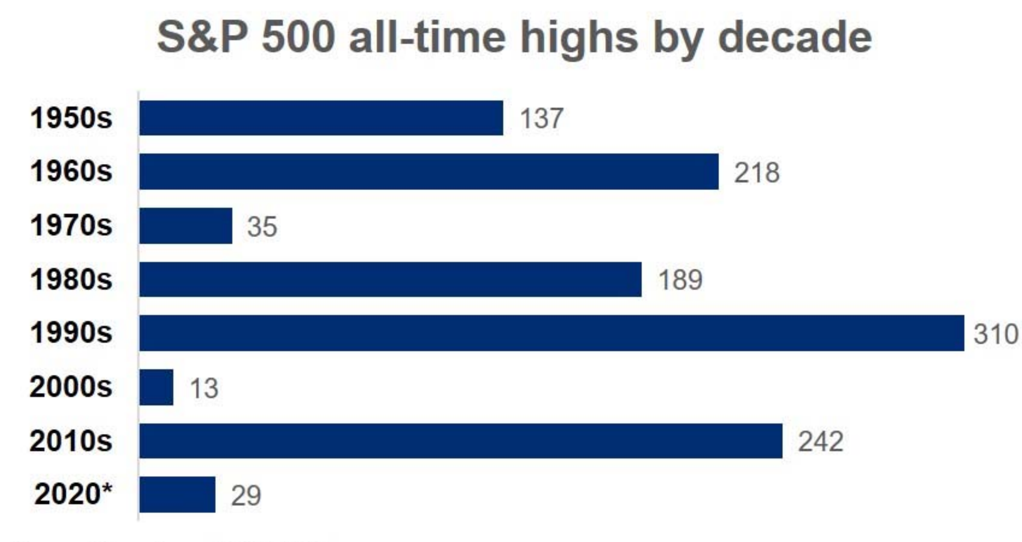
Financial markets have experienced an exceptionally strong recovery since COVID-19 rattled investors earlier this year. The S&P 500 Index is now up over 65% since its lows in March and over 15% year-to-date, reaching new all-time highs in recent days. With this backdrop in mind, investors may be questioning whether now is the right time to put new money to work.

In light of this, today we wanted to explore the topic of all-time highs. We'll look at the frequency at which markets establish new all-time highs and why these milestones shouldn't cloud the investment decisions of investors with long-term horizons.

All-time highs are not unusual

With several markets hovering around all-time highs, investors are currently facing 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 1,173 all-time highs along the path to its current level. That's an average of over 16 every year. In 2020 alone there's already been 29 separate days where the S&P 500 Index closed at a new all-time high, with 16 of those days happening after the COVID-19 market crash in February and March.

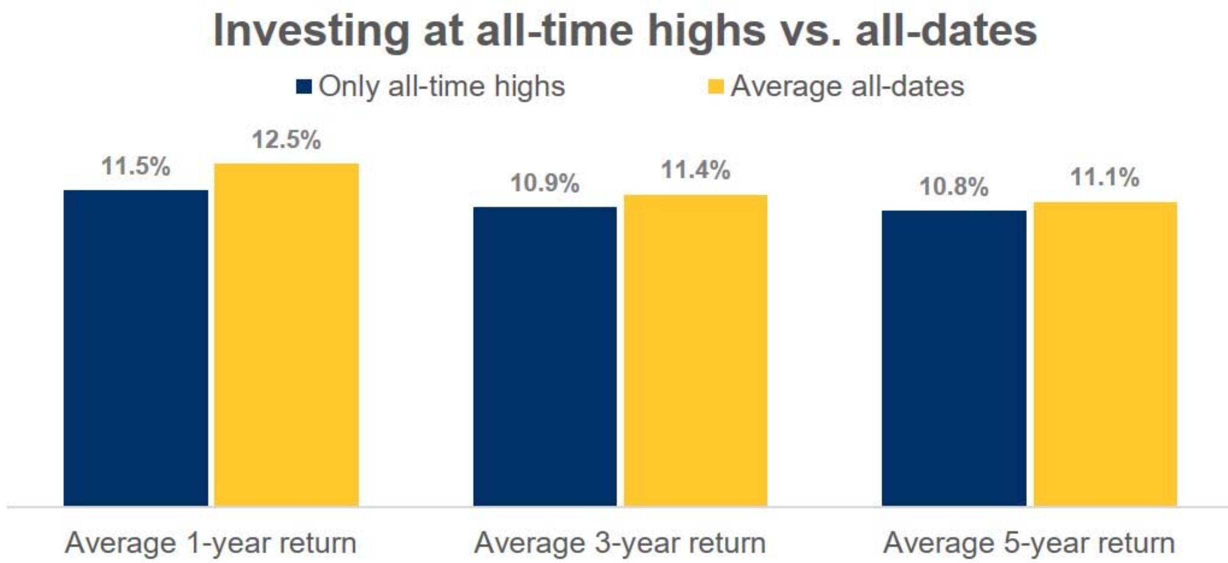


Source: Bloomberg, RBC GAM.
*Data as of January 1, 1950 to December 7, 2020.

Investing at all-time highs

New market 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, such as earlier this year, 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 from 1950-2020:



Source: Bloomberg, RBC GAM. Data as of January 1, 1950 to December 7, 2020 - 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 shown 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.

Reasons to be optimistic going forward

While uncertainties remain in the current environment, there are also a variety of factors that can offer continued support to markets going forward. These include:

- **The rollout of a successful vaccine.** Positive vaccine developments and the eventual rollout of a vaccine should continue to support markets into 2021.
- **Policymakers maintaining an accommodative stance.** In addition to central banks remaining accommodative, we recently saw further government stimulus announcements in Canada. In the U.S., a key priority of President-elect Joe Biden's platform is to provide further support to the consumer.
- **Pent-up demand.** Household savings have increased drastically during COVID-19 due to exceptionally large government stimulus and reduced discretionary spending. A return to "normal" is expected to unlock stifled demand from consumers.

A plan for investors that are feeling uneasy

If you are still feeling uneasy about putting new money to work in today's environment, a dollar-cost averaging (DCA) strategy may be the best approach. It's often the most suitable strategy for hesitant investors who have the cash, but are not sure how to deploy.

Most importantly, we should recognize that all-time highs are common. They 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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