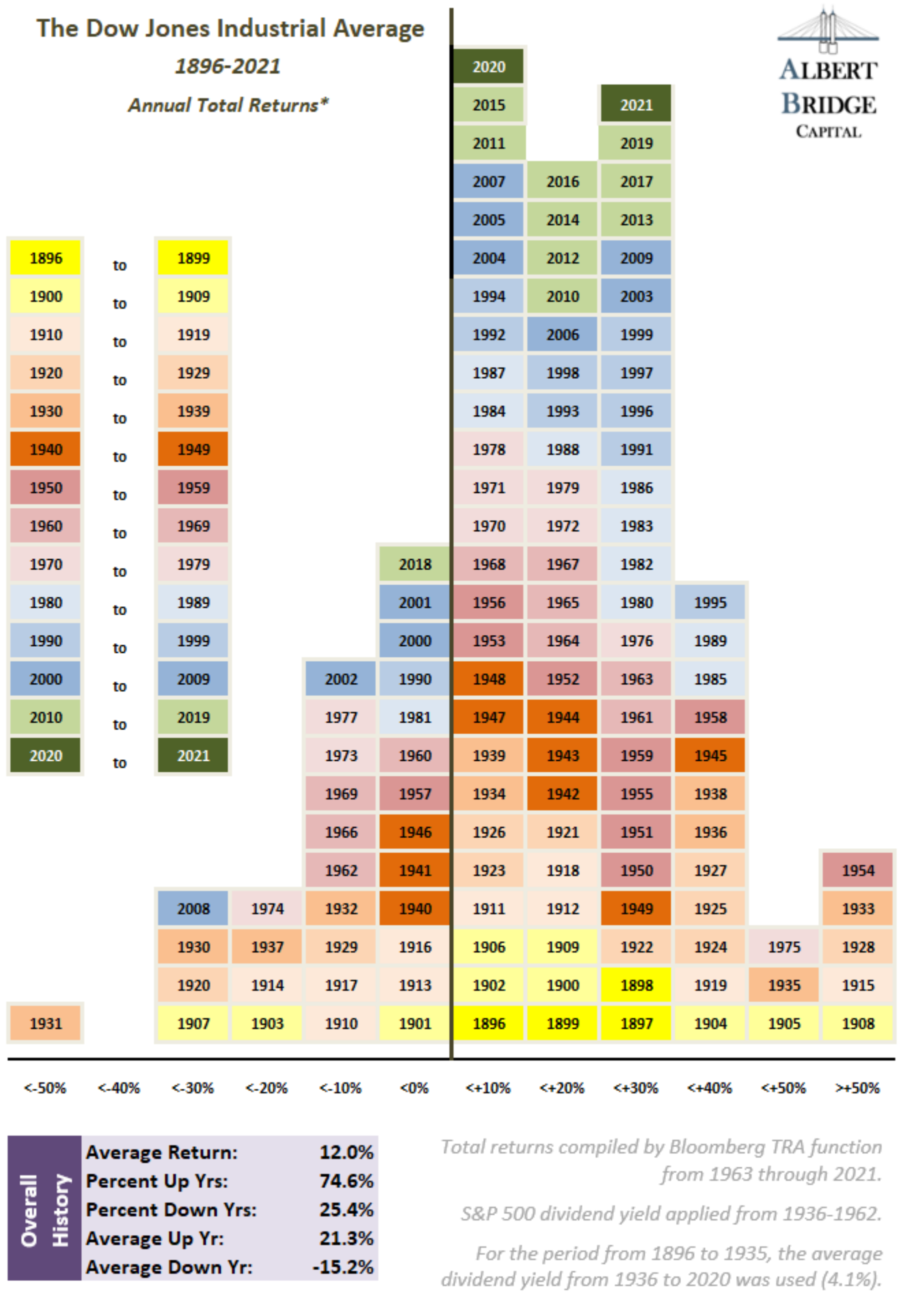
Stock Market History, Illuminated

I've been keeping a graphic of the long-term performance of the US stock market for many years now. In late 2017, I started blogging (and set up a twitter account), and at the end of each year since I've been sharing this information in the histogram below. I think it does a reasonable job of revealing how long-term returns are manufactured and the tilts over time. I've also color-chunked the data by decade to highlight decades of historical weakness as well as periods of strength.

This time around, I've also added additional tables and charts which I think are interesting, and in some cases, stunning. You can scroll down to follow along. But first, the histogram:



And before you raise hell about using the Dow instead of the S&P 500 in the histogram, there isn't really much difference here. I just wanted more years of data, so used the Dow (starting in 1896). I have total data for the S&P starting in 1936.

I also like the Dow. So call me a Boomer.

Since 1936	Dow	S&P 500
Average Annual Total Return	12.2%	12.5%
Up Years	67	66
Down Years	19	20
Average Up Year	18.8%	20.0%
Average Down Year	-11.2%	-12.2%

Looking at the data more recently, it reveals just how incredible the US stock market has been.

Since 1980, the market has been up for the year 83% of the time.

Since 1980	Dow	S&P 500
Average Annual Total Return	13.7%	13.6%
Up Years	35	35
Down Years	7	7
Average Up Year	18.3%	19.0%
Average Down Year	-9.2%	-13.2%

Since 2003 it is even more impressive.

Since 2003	Dow	S&P 500
Average Annual Return	11.8%	12.8%
Up Years	17	17
Down Years	2	2
Avg. Up Year	15.3%	16.8%
Avg. Down Year	-17.7%	-20.7%

And since 2009 it has been incredible. One down year, 12 up years. The lone down year was low single digits, while the 12 up years were high-teens.

Makes me wonder if anyone under 30 – through no fault of their own – thinks that this is the way markets always work.

Since 2009	Dow	S&P 500
Average Annual Return	14.8%	16.6%
Up Years	12	12
Down Years	1	1
Avg. Up Year	16.4%	18.3%
Avg. Down Year	-3.5%	-4.4%

And then here in 2021, when comparing to most major markets around the world (and using the S&P 500) the US has crushed it.

Performance Dec 31, 2020 - Dec 31, 2021			
Total USD Returns			vs
Index	Country	Returns	US
S&P 500	USA	29.0%	
TSX	Canada	26.1%	-2.9%
CAC 40	France	22.6%	-6.4%
Mexbol	Mexico	21.0%	-8.1%
FTSE 100	UK	17.4%	-11.6%
DAX	Germany	6.6%	-22.4%
CSI 300	China	-0.9%	-29.9%
Nikkei	Japan	-4.4%	-33.4%

And if we do a two-year lookback, including all of 2020, US outperformance is even more pronounced.

Performance Dec 31, 2019 - Dec 31, 2021			
Total USD Returns			vs
Index	Country	Returns	US
S&P 500	USA	52.7%	
CSI 300	China	37.3%	-15.4%
TSX	Canada	35.4%	-17.4%
CAC 40	France	26.9%	-25.9%
DAX	Germany	21.0%	-31.7%
Nikkei	Japan	19.2%	-33.5%
Mexbol	Mexico	18.1%	-34.6%
FTSE 100	UK	7.0%	-45.8%

And if we go back through the beginning of the last decade, the US stock market blew all other major markets out of the water.

Performance Dec 31, 2009 - Dec 31, 2021			
Total USD Returns			vs
Index	Country	Returns	US
S&P 500	USA	444.3%	
Nikkei	Japan	174.4%	-269.9%
TSX	Canada	114.5%	-329.8%
CAC 40	France	114.5%	-329.8%
DAX	Germany	110.4%	-333.9%
CSI 300	China	88.5%	-355.8%
FTSE 100	UK	79.2%	-365.1%
Mexbol	Mexico	31.0%	-413.4%

Of course, we all have different reasons why we think this happened, and we all have different views if this outperformance can continue. I don't have the answers, but at some point down the road, we will.

That answer will be that US outperformance was either driven by something fundamental or economic (interest rates, free money, tech stock dominance, sales growth, improving ROICs, earnings upgrades, etc), something less so (flows, narratives, memes, psychology, FOMO), or a combination of the two. It is also not impossible that US outperformance was driven by nothing (aka it just happened).

If there *is* an answer to what drove this historical outperformance, and we know the answer, then we probably are closer to understanding how sustainable it is.

Moreover, clues to the answer may be embedded in the comparative performance of growth and value stocks during the same period. To be clear, this doesn't mean that outperformance of one over the other was irrational, and it doesn't mean it wasn't; but comparing value and growth returns (and decomposing them into fundamentals and multiples) may help us to understand how much (if any) of the outperformance or underperformance was driven by fundamentals, economic policy, flows, narratives, or whatever.

And it has been one hell of a decade (plus two years) for US growth stocks.

Performance Dec 31, 2009 - Dec 31, 2021			
Total USD Returns			
Index	Country	Returns	Excess
Russell Value	USA	292.4%	
Russell Growth	USA	632.0%	339.6%
S&P Value	USA	298.1%	
S&P Growth	USA	602.0%	303.8%

Even during these first two years of *this* decade, growth has trounced value.

Performance Dec 31, 2019 - Dec 31, 2021			
Total USD Returns			
Index	Country	Returns	Excess
Russell Value	USA	28.6%	
Russell Growth	USA	76.7%	48.1%
S&P Value	USA	26.5%	
S&P Growth	USA	77.0%	50.5%

Here in 2021 specifically, the trend has continued, although it seemed to have slowed down a bit. That may be a temporary pause, or it may not.

Performance Dec 31, 2020 - Dec 31, 2021			
Total USD Returns			
Index	Country	Returns	Excess
Russell Value	USA	25.5%	
Russell Growth	USA	28.1%	2.6%
S&P Value	USA	24.8%	
S&P Growth	USA	32.7%	7.8%

For those interested in avoiding, adding, or revisiting, exposure in Europe; the same drivers seem to have affected things over the past year, although not to the same degree.

Performance Dec 31, 2020 - Dec 31, 2021			
Total USD Returns			
Index	**Country**	**Returns**	**Excess**
Russell Value	USA	25.5%	
Russell Growth	USA	28.1%	2.6%
S&P Value	USA	24.8%	
S&P Growth	USA	32.7%	7.8%
Eurostoxx Value	Europe	16.0%	
Eurostoxx Growth	Europe	17.4%	1.4%
MSCI Europe Value	Europe	13.8%	
MSCI Europe Growth	Europe	19.1%	5.3%

But over the past twelve years, whatever it is that is driving the outperformance of growth has been much more pronounced in the US than it has in Europe.

Performance Dec 31, 2009 - Dec 31, 2021			
Total USD Returns			
Index	**Country**	**Returns**	**Excess**
Russell Value	USA	292.4%	
Russell Growth	USA	632.0%	339.6%
S&P Value	USA	298.1%	
S&P Growth	USA	602.0%	303.8%
Eurostoxx Value	Europe	31.3%	
Eurostoxx Growth	Europe	171.0%	139.7%
MSCI Europe Value	Europe	59.1%	
MSCI Europe Growth	Europe	184.1%	125.0%

And reordering this same information, we can compare the performance of value in one region to value in the other, and the same for growth. We see here, interestingly, that value stocks in the US – even during this period of severe underperformance vs growth – crushed value stocks in Europe.

Similarly, we see that growth stocks in the US destroyed growth stocks in Europe.

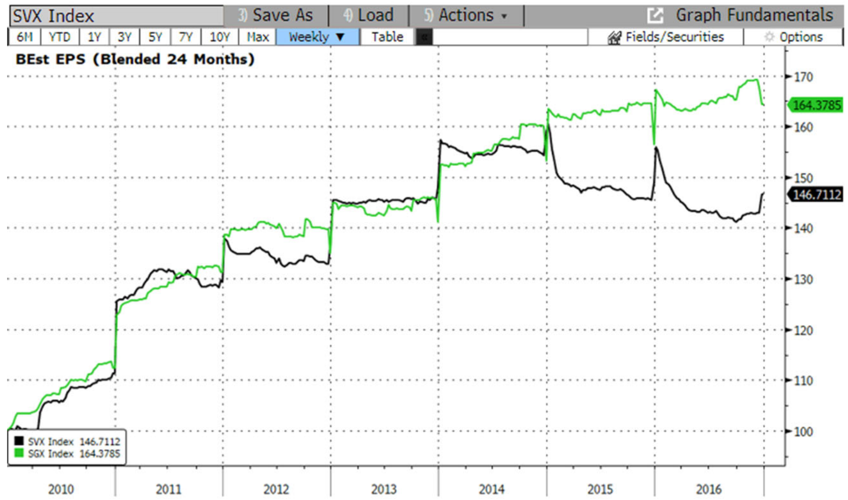
So, what does this all mean going forward?

Performance Dec 31, 2009 - Dec 31, 2021			
Total USD Returns			
Index	**Country**	**Returns**	**Excess**
Russell Value	USA	292.4%	261.1%
Eurostoxx Value	Europe	31.3%	
S&P Value	USA	298.1%	239.0%
MSCI Europe Value	Europe	59.1%	
Russell Growth	USA	632.0%	461.0%
Eurostoxx Growth	Europe	171.0%	
S&P Growth	USA	602.0%	417.8%
MSCI Europe Growth	Europe	184.1%	

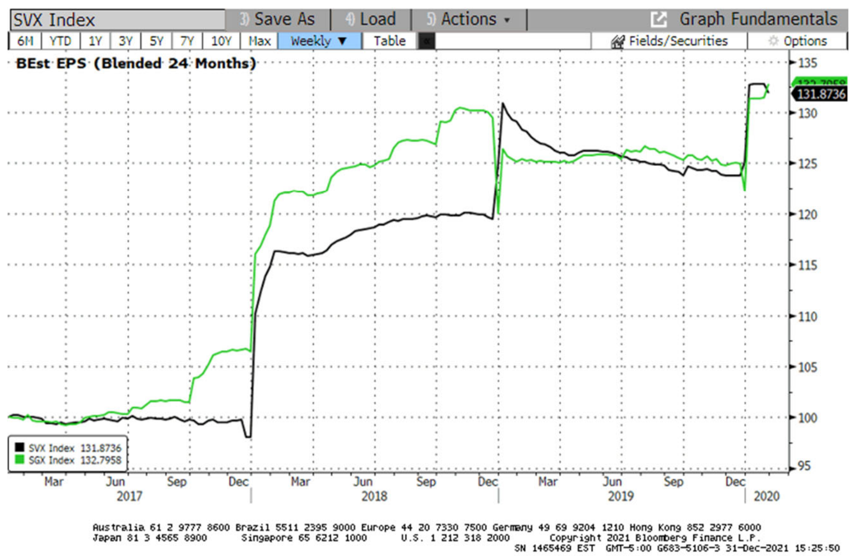
Well, let's get back to basics. Firstly, for much of the decade, particularly in the growth space, we saw significantly more fundamental improvement through 2016 in US growth stocks than in US value.

SVX is the S&P 500 Value Index

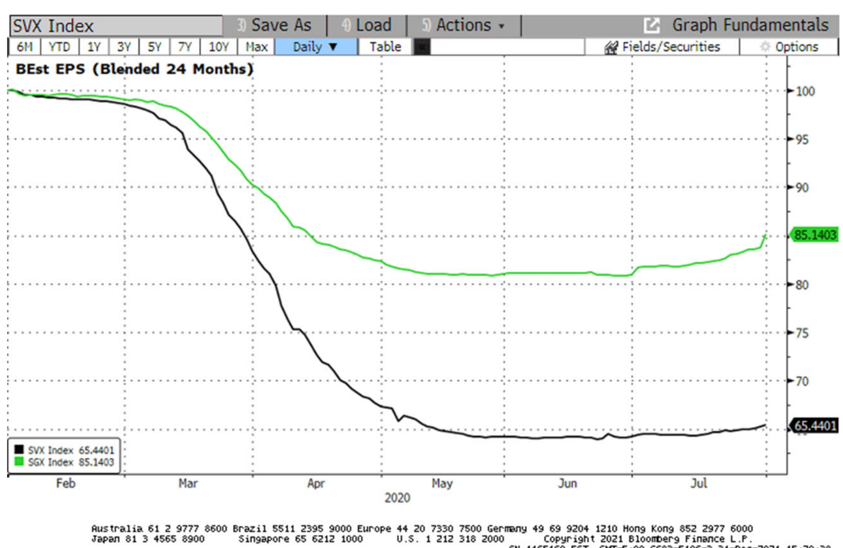
SGX is the S&P 500 Growth Index



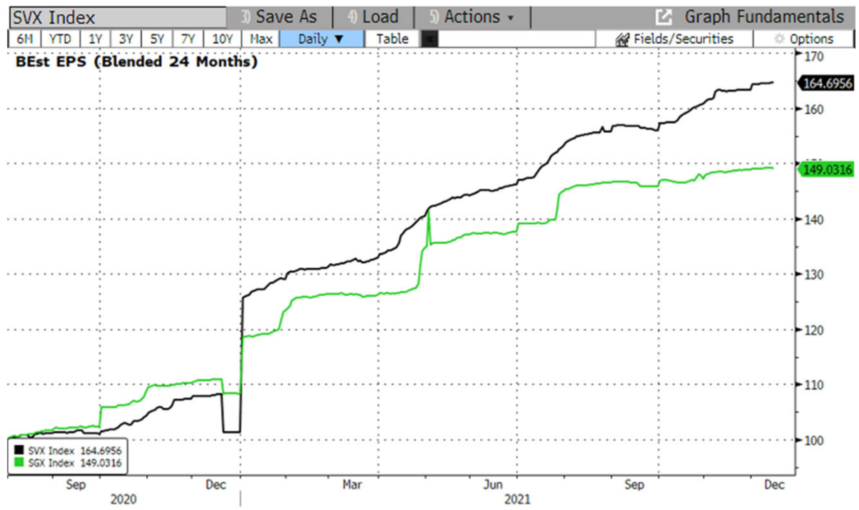
Since 2016, fundamental improvements (as measured by forward earnings expectations) were similar for value and growth into the onset of the COVID era.



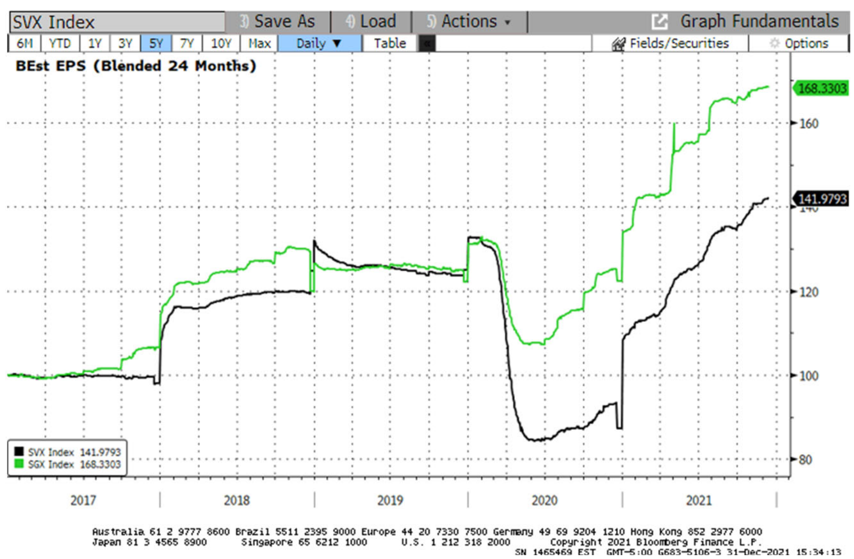
Then COVID hit, and fundamental expectations moved lower across the board, but much lower for value names than for growth.



But since then, we've seen fundamental expectations improve for both, with the improvement for value names slightly outpacing that for growth.



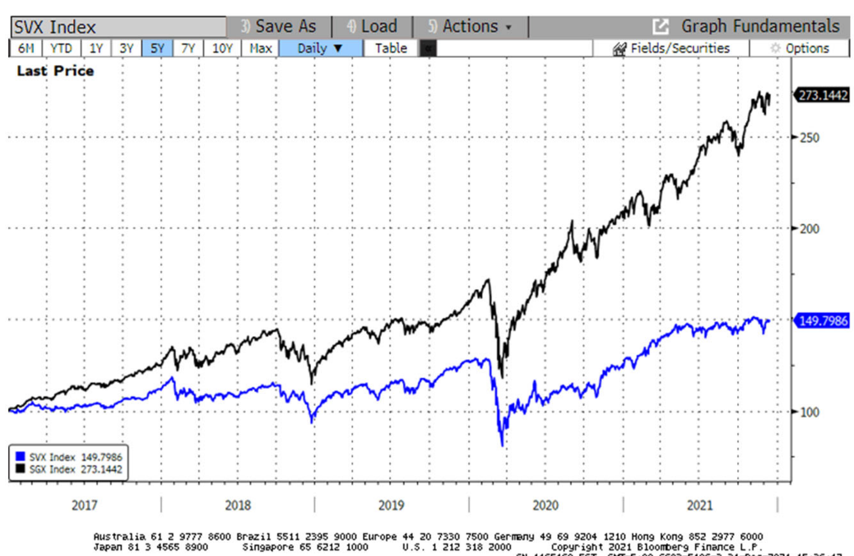
The net of all this is that since 2016, the fundamentals for US value stocks have improved by over 40%, while the fundamentals for US growth stocks have improved by nearly 70%.



And sure enough, to accompany the 42% improvement in fundamentals for value stocks, we saw a 50% increase in their value.

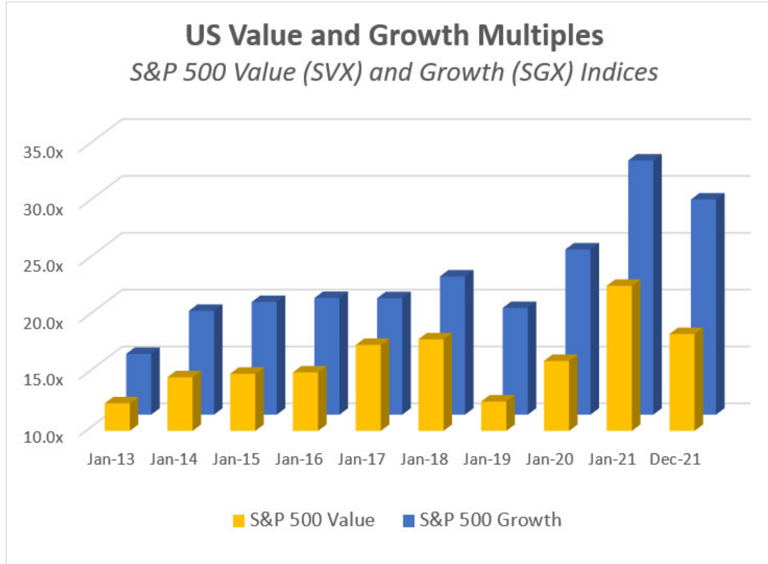
However, accompanying the 68% improvement in growth stock fundamentals, we saw a 173% move higher.

This is interesting.

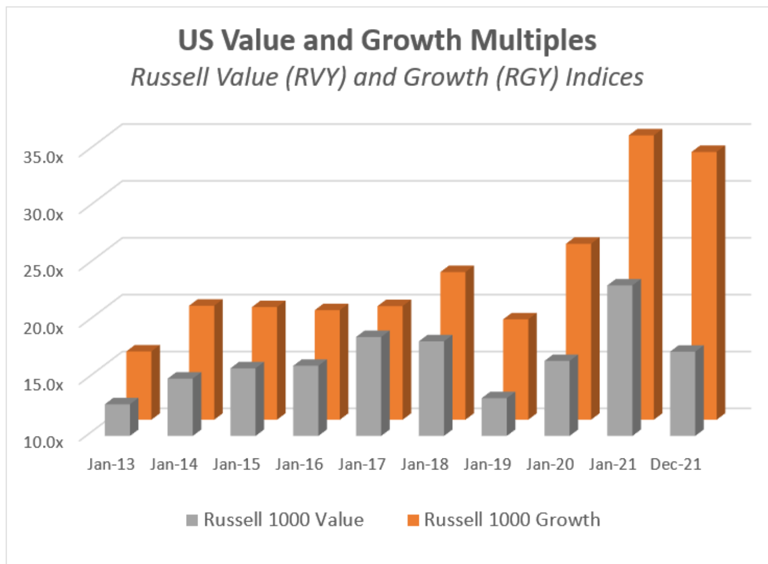


SVX is the S&P 500 Value Index
SGX is the S&P 500 Growth Index

This, of course, meant that we experienced multiple expansion for both value and growth stocks during this recent period, but particularly the latter.

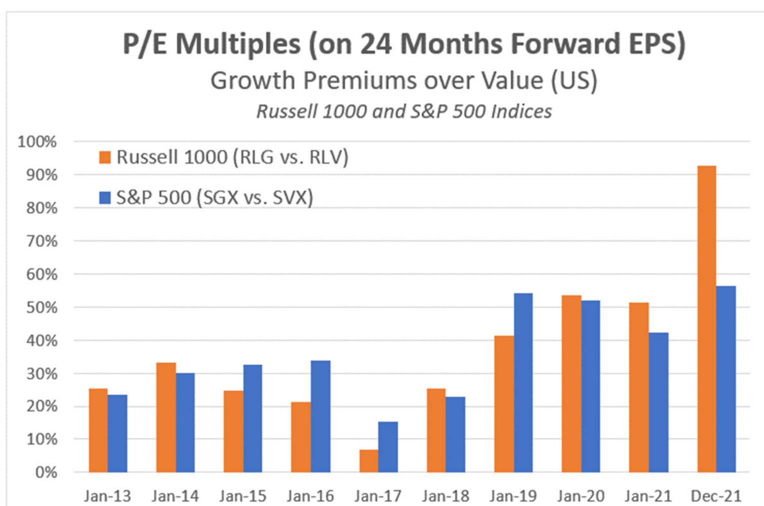


And it is a similar picture if we use the Russell Indices instead of the S&P.



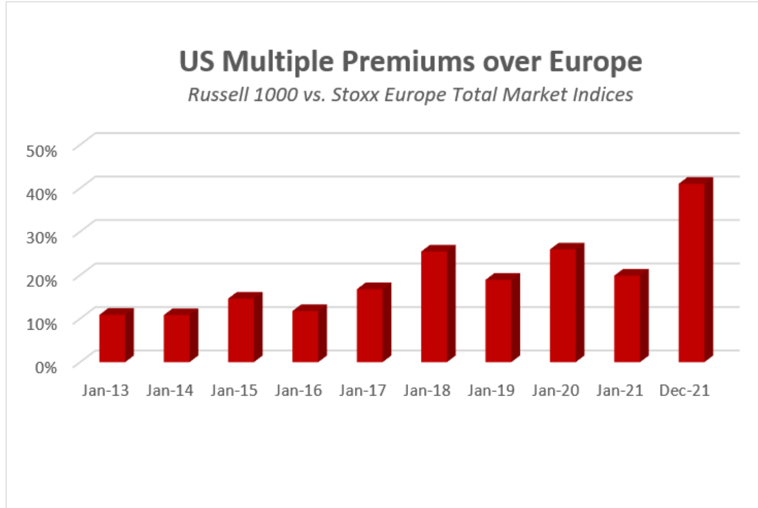
And if we combine each of these indices, we can not only see the multiple expansion, but the increase in multiple premium the market has decided to pay for growth stocks vs. value stocks (in the US).

In 2017, Mr. Market happily paid a 5-15% premium for names in the "growth" bucket. Today, he is paying a premium of 55-90%.



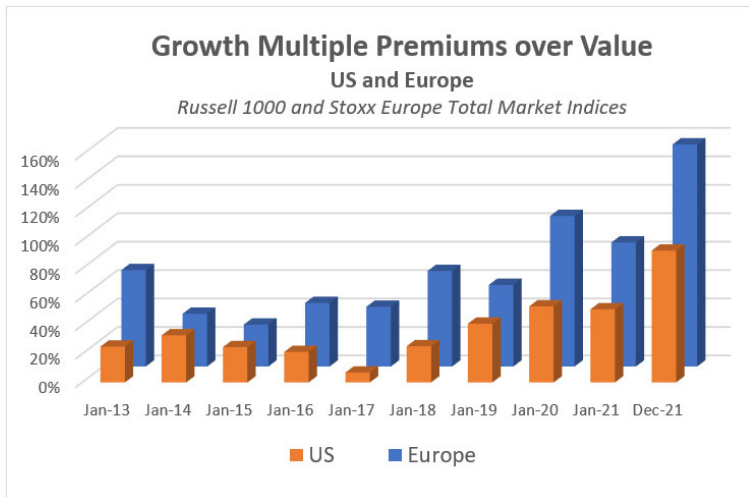
And how this has compared to what has been going on in Europe at the same time is quite interesting. Firstly, taking a step back, remember that we saw slightly more fundamental improvement in US growth stocks over the past five years, and even larger multiple expansion. This, naturally, means that the performance of growth stocks was far superior to that of value stocks. As this happened, the weights of growth stocks (the FAMANGs, most famously) became larger in the indices.

Consequently, the relative multiples in the US expanded vs. in Europe.



Now here comes the counterintuitive part, or least something that surprised me. When I broke this down to compare the premiums paid for growth stocks over value stocks, I expected the premium to be higher in the US.

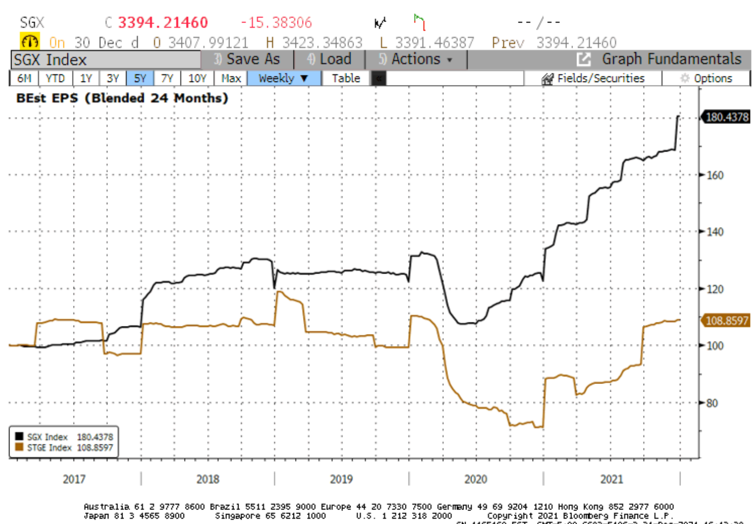
It wasn't.



Yup, there has been *even more* multiple expansion for growth names in Europe than in the US. But it hasn't meant that Europe has kept up with the US on performance, for two reasons:

One, is that the weights of growth inside indices like the S&P500 are much higher than in Europe (and the Eurostoxx or MSCI Europe).

And secondly, fundamentals for growth names in the US have outpaced those in Europe, and they have done so in grand fashion.



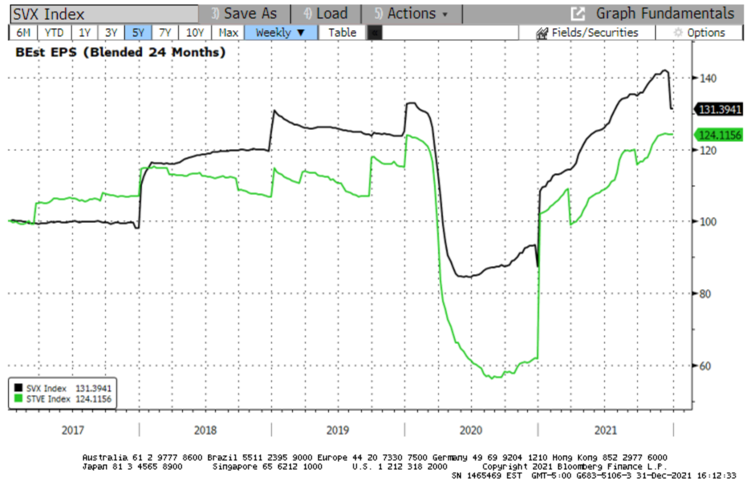
STGE is the Eurostoxx 600 Growth Index
SGX is the S&P 500 Growth Index

If I read that previous chart correctly, it shows that fundamentals for European growth companies have barely budged over the past five years (up just 8%) with the US growth companies up over 80%.

We do not see the same difference in the performance of value stocks.

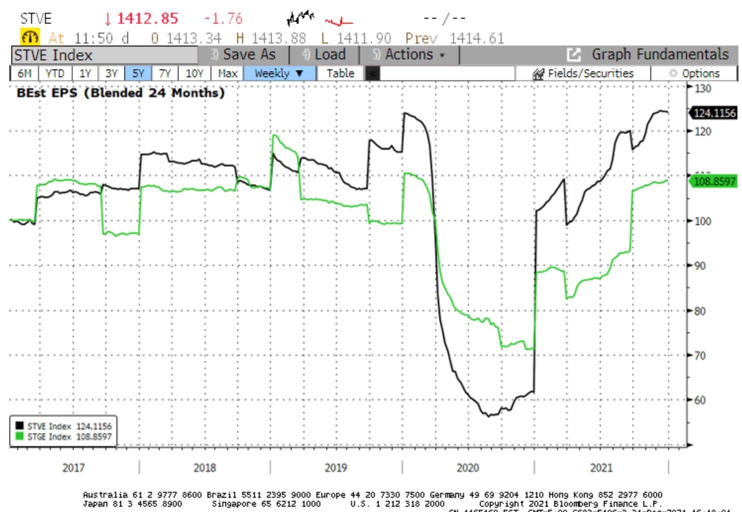
Yes, US value names have generated more fundamental expansion than in Europe over the past five years, but only by 7%.

STVE is the Eurostoxx 600 Growth Index
SVX is the S&P 500 Value Index



In fact, European value names have seen *more* fundamental improvement than European growth names.

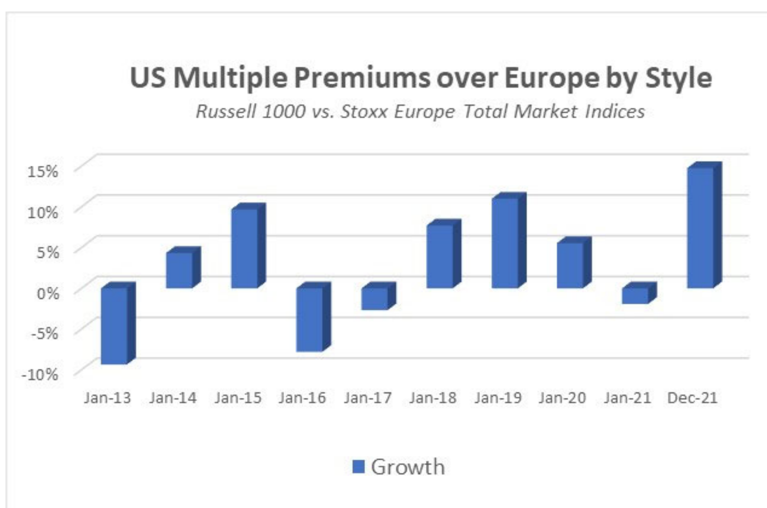
STGE is the Eurostoxx 600 Growth Index
STVE is the Eurostoxx 600 600 Value Index



So what does this all mean?

Well, surprisingly, it means that there is not a terribly significant multiple premium for US growth names over European growth names.

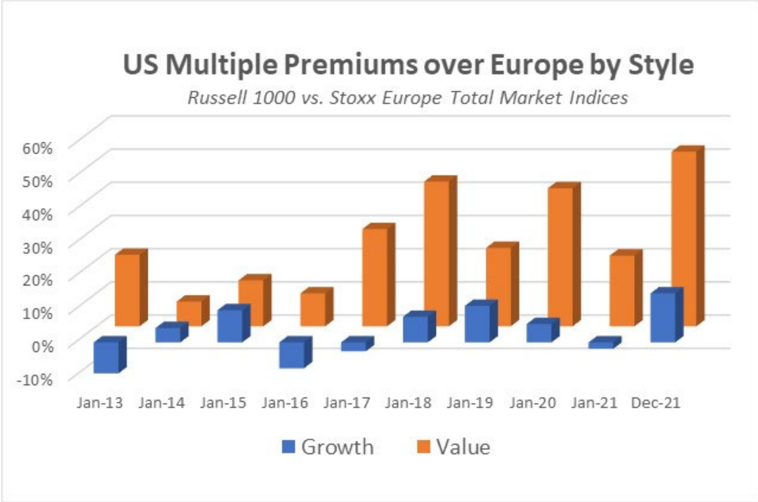
Given the relative improvement in fundamentals for US companies over European ones, a premium sort of makes sense.



But when we add the value names to the mix, it becomes much clearer that while the relative growth multiples may not necessarily be out of whack, it is the European value names, specifically, which are trading at the steepest discount to their US peers.

Unlike in the growth arena, this is particularly interesting given that the fundamental performance of European value names has been pretty close to that of US value names.

Things that make you go hmmm.



So, to bring this longer-than-expected chart storm to its much-needed close, what can we say? Well, you might have a different interpretation, but here is one take:

1. These last 12 years have been incredible for the US stock market from a historical perspective.
2. During this period, the performance of growth stocks over value stocks has been a dominant feature.
3. This was experienced in Europe too, but there was a much larger differential in the US.
4. Since 2016, overall, US value stocks – including the COVID period - have seen 42% growth in earnings expectations and the shares have risen by 50%.
5. During the same period, US growth stocks have experienced a 68% increase in earnings expectations and shares have risen by 173%.
6. Multiple expansion has thus been a significant contributor to growth stock performance.
7. It has not only driven the premium of growth over value, but a premium of the overall US market over Europe (due to growth's relative weighting in the indices).
8. Interestingly, European growth has underperformed US growth from a fundamental perspective, but kept up from a multiple perspective.
9. Consequently, the premium of growth in Europe is historically high vs value, which is potentially disconnected with the reality that fundamental earnings expectations for value have grown more than for growth over the past five years.
10. This also means that US growth is not necessarily "expensive" vs. European growth, but that European value has a decent chance – at least from a historical perspective – of being extremely inexpensive not only when compared to European growth, but also when compared to US value.

Disclaimer

The views and opinions expressed in this post are those of the post's author and do not necessarily reflect the views of Albert Bridge Capital, or its affiliates. This post has been provided solely for informational purposes and does not constitute an offer or solicitation of an offer or any advice or recommendation to purchase any securities or other financial instruments and may not be construed as such. The author makes no representations as to the accuracy or completeness of any information in this post or found by following any link in this post.