First Trust
Monday Morning OUTLOOK
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All Hail the Bull Market

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Today marks the fifth anniversary of the bull market that started back in March 2009, and total returns over the period have exceeded 200%. It was on March 10, 2009 that equities jumped 6% and never again returned to the panic lows set the day before.

Hitting this milestone has many investors wondering how much more time the bull has to run. But instead of thinking in terms of time, we prefer to think about the "kinds of events" that bring the bull to an end, or worse, turn a bull market into a bear market. Right now, the coast is clear.

One way the bull market could end would be a recession. Obviously, at some point, some sort of recession is inevitable. Every other economic expansion in history has come to an end, and this one will, too. But recessions don't just come completely out of the blue, and none of the typical causes looks ready to strike.

One of the most frequent causes of recessions is tight monetary policy. As our readers know, we do not think QE helped the economy, and therefore we don't think tapering will hurt it. What the Federal Reserve could do is raise rates to a point where policy became recessionary, but it's highly unlikely the Fed starts to raise short-term interest rates until 2015. And even when it finally starts to raise rates, monetary policy will not be tight until the funds rate moves to at least 3%, or much higher.

Tax hikes could also cause a recession, but it looks unlikely that any more tax hikes will be enacted in the US until at least 2017. Tax reform is making news, but not tax hikes unless you want to talk about Japan.

Trade protectionism, like the Smoot-Hawley Tariff Act, can cause recessions. Right now the Senate is holding up some free trade deals from passage, but the agreements we already have aren't going away.

Nor do those who think debt itself can cause a recession have reason to fear. Household financial obligations (the share of income needed to make monthly recurring payments on mortgages, leases, autos, student loans, credit cards,…etc.) is the smallest share of income since the early 1980s. And, the corporate debt-to-equity ratio remains low.

Some fret about a spike in oil prices, but US petroleum imports are now only about twice exports, as opposed to ten times exports, like in prior decades. The US is much less vulnerable to higher oil prices because it earns so much more from producing energy.

Another financial panic that spreads to the economy could obviously end the bull market. But overly strict mark-to-market accounting rules were neutered five years ago, and started this bull market. With sane mark-to-market rules in place today and bank capital ratios much higher, another panic is not in the cards.

Finally, a huge expansion in government could end the bull, like in the late 1960s. No recession, no financial panic, but the Great Society expansion of government after a long and strong extended bull market pushed stocks into a 17-year funk. In a way, that is what happened over the past 14 years. But government spending is now declining as a share of GDP, President Obama looks like a lame duck, and the political winds are blowing in a different direction.

Overvaluation isn't a problem either, with equities still cheap relative to fundamentals. Even if 10-year Treasury yields were to rise to 4.5% (from their current level of 2.8%), our capitalized profits model still says the S&P 500 is 28% undervalued, and that's even if we assume zero growth in profits during 2014.

So, while the bull market is no spring chicken, age itself is no reason to fret. From both a valuation and a "threat" point of view, it still has a way to run. All hail the bull market. It's great friends with the Plow Horse Economy.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
3-13 /7:30 am	Initial Claims – Mar 8	330K	**332K**		323K
7:30 am	Retail Sales – Feb	+0.2%	**+0.2%**		-0.4%
7:30 am	Retail Sales Ex-Auto – Feb	+0.1%	**+0.2%**		0.0%
7:30 am	Import Prices – Feb	+0.5%	**+0.7%**		+0.1%
7:30 am	Export Prices – Feb	+0.2%	**+0.2%**		+0.2%
9:00 am	Business Inventories – Jan	+0.4%	**+0.3%**		+0.5%
3-14 / 7:30 am	PPI – Feb	+0.2%	**+0.1%**		+0.2%
7:30 am	"Core" PPI – Feb	+0.1%	**+0.2%**		+0.2%
8:55 am	U. Mich Consumer Sentiment- Mar	82.0	**82.0**		81.6