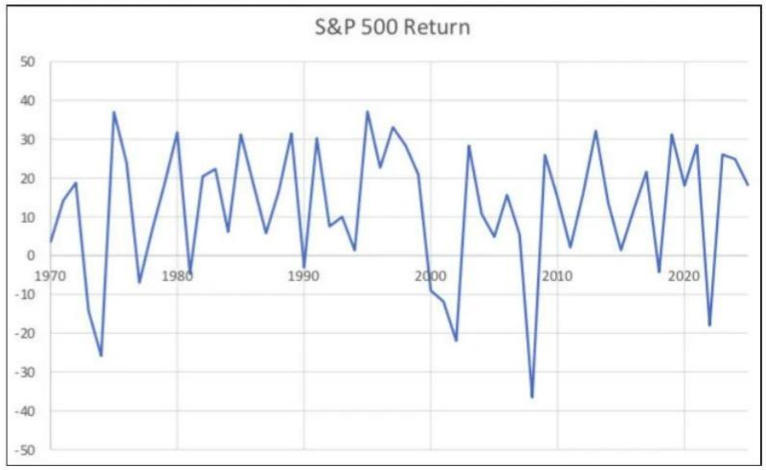
# Where is stock market going?

**Joe McGarrity**




Submitted graph

**The graph shows the S&P 500 Index's returns since 1970 (data is from NYU's Stern Business School).**

The stock market has done well over the last three years. The S&P 500 Index has increased by 26 percent in 2023, by 24 percent in 2024, and at the time I wrote this column it was up 18 percent this year. Now, of course, the S&P Index is only one measure of the stock market's performance. It only considers the returns of the 500 largest firms in our economy. But other measures of the stock market's performance, such as the Nasdaq Composite Index, have done even better.

I have seen the effect of the stock market's stellar performance. The Wall Street Journal recently published an article with the title, "401(k)s are Minting a Generation of Moderate Millionaires." Indeed, some of the older employees at my workplace have earned enough in their retirement accounts that they have started talking about retirement. On a more macro-level, people have earned enough in the stock market that they are confident enough about their financial wellbeing to make significant expenditures. I would contend that this confidence is one of the two main reasons our economy has avoided going into a recession despite President Trump's policies that could have hampered economic growth. Those policies are his tariff increases, and the uncertainty created by his often-changing positions on important policy questions. This uncertainty makes it less likely that companies will make investments; instead, when there is policy uncertainty, companies will wait to make investments until the policies are settled – and when consequently, they can more accurately estimate the expected costs and benefits of their investments. (I would argue that the other main reason the economy has avoided a recession is because of the huge amount of AI investment that has been occurring in recent years, but that is a story for another column.)

So what can we expect from the stock market in the next few years? Of course, no one knows for certain, but we can look to what happened in the past to give us guidance about what to expect. Since 1970, the average return of the S&P 500 index was about 11 percent. The median return was 15.7 percent (half the returns are higher than the median and half the returns are lower). Both of these measures of central tendencies provide a useful guess for what an investor can expect to earn in the stock market. By that logic, investors should expect lower returns than they enjoyed over the last three years.

The accompanying graph can give us additional guidance about what to expect. It shows the S&P 500 Index's returns since 1970 (data is from NYU's Stern Business School). One tendency jumps out. The returns do not hover for long around 20 percent, like they did for the last three years. In fact, since 1970 there were only two other long stretches of annual returns of around 20 percent. And in both of these cases, the high returns were followed by at least one year of negative returns. The first case was a four-year period from 1996 to 1999. It was followed by returns of -9 percent in 2000 and -11.8 percent in 2001. The second case was a three-year period from 2019 to 2021. It was followed by an -18 percent return in 2022.

Now I need to be careful here. Two episodes is a small sample to derive patterns from. However, if the past two periods of extended 20 percent or so S&P 500 returns are a useful guide, then we may be in for a year of negative returns – either in 2026 or 2027.

So what would I recommend? If you need money for expenses that are coming up and that money is in the stock market, you may want to sell enough stock to cover those expenses. On the other hand, if you do not need your money for several years, it might be a good idea to keep your money in the stock market. As you will notice on the graph, the negative returns usually do not last for long and are often followed by a year or more of high returns.

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