First Citizens
Wealth Management

Markets at All-Time High: Is the S&P 500 Overbought? Where Do We Go From Here?

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While the weather here in North Carolina is beginning to change from beautifully comfortable fall to full-fledged winter, US stocks are really starting to heat up. The S&P 500 has seen an incredible run from its post-peak low on September 23rd through December 9th of +13.9%,[1] as well as November's whopping +11% monthly return[1] - which was the best November in the S&P 500's history![2]

As of December 4th, **93% of the S&P 500 stocks are above their 200-day moving average** (Figure 1).[3] Usually when stocks get this hot, they get categorized as "overbought" by market participants, leading some investors to lighten up on stocks, fearing a reversal of that momentum. In actuality, **the empirical data supports the complete opposite**.

Figure 2 highlights the percentage of stocks above their 200-day moving average on the horizontal axis- fewest to highest (left to right) versus the percentage of time the S&P 500 was positive 12-months post occurrence on the vertical axis.[3] <u>The bottom line: Historically, when stocks have been in the highest decile of "overbought" conditions – aka the 10th decile – the subsequent 12-month return for the S&P 500 was positive an astounding 94% of the time!</u>

Figure 1

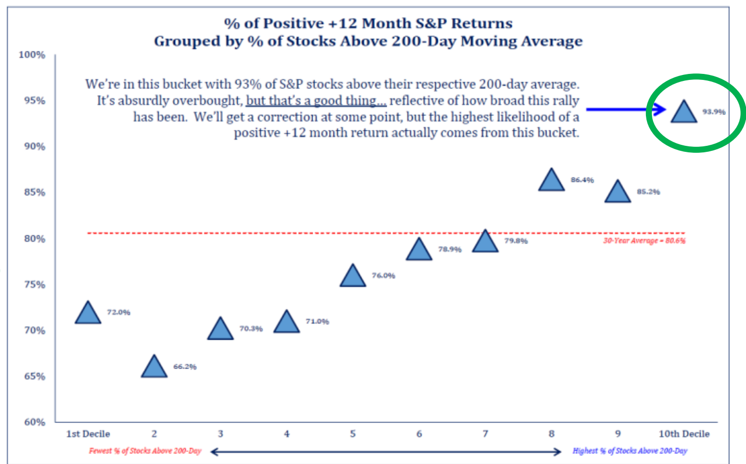

Figure 2

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It is not only the magnitude and breadth of momentum, but the spread. **The S&P 500 is over 16% above its 200-day moving average** (Figure 3) **which is the highest level since the 2009 recovery from the Great Financial Crisis**, putting it in the highest (10th) decile of historical observations.[3] Again, <u>the bottom line is that historically when we've seen this big of a price spread over the 200-day moving average, the subsequent 12-month return was a positive +11.2% on average, more than 75% of the time.</u>

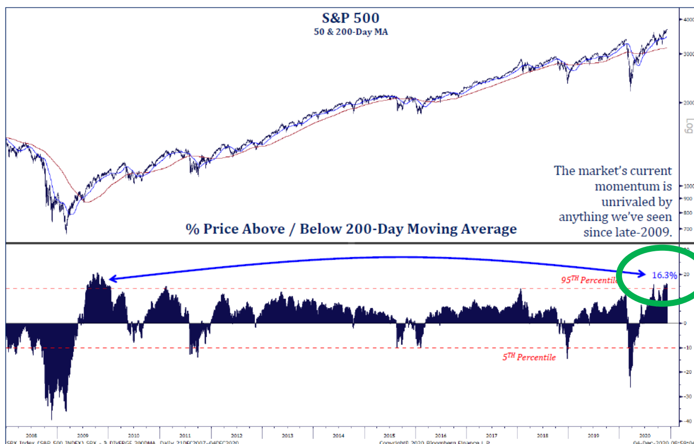

Figure 3

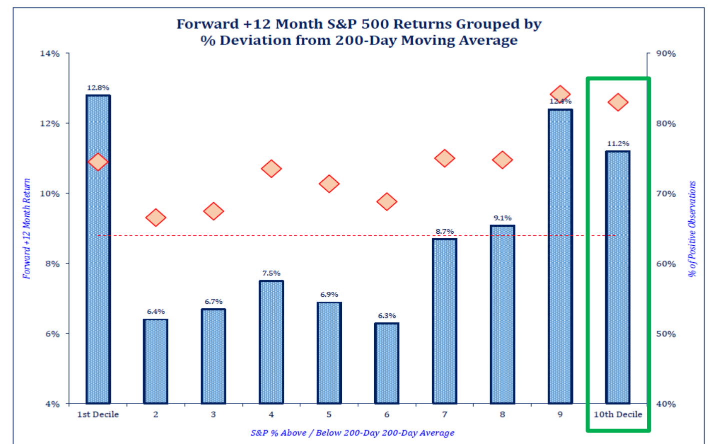

Figure 4

And since I brought up the 2009 recovery after the Great Financial Crisis, how has this bear market recovery tracked compared to that recovery? The answer is scarily close. If the current recovery were to continue on its current path, essentially repeating history (which is rare), we could be looking at another 15 to 20% cumulative gain over the next 12-14 months.

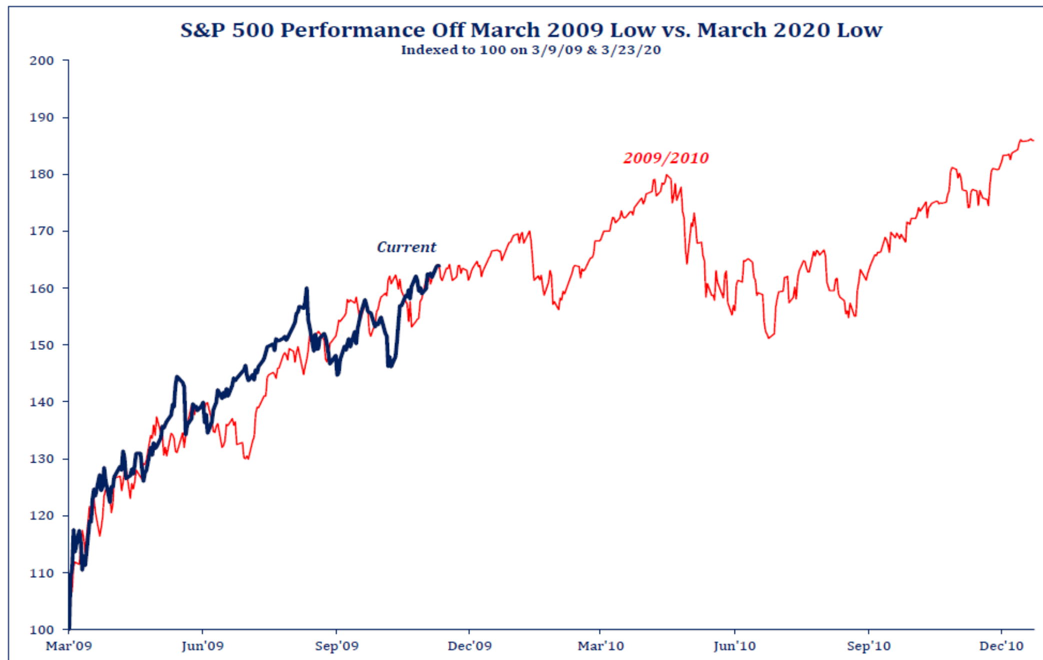

Figure 5

Please stay tuned for the release of our next write-up where Phil Neuhart and I will get deeper into the economic and market fundamentals of today, plus give you a refresh on our 2021 outlook.

[1]Bloomberg, Bloomberg data
[2]Strategas Research Partners

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