New Market All-Time Highs: How Investors Can Stay Balanced

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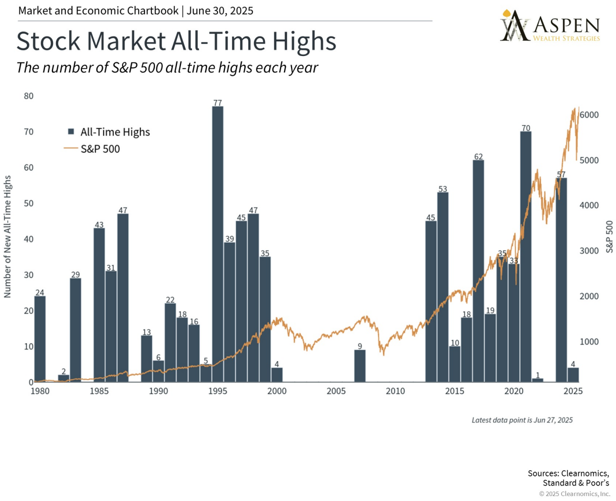
President Dwight Eisenhower is often quoted as saying “what is important is seldom urgent and what is urgent is seldom important.” This perfectly captures the challenges many investors face, since it often feels as if every breaking market and economic development is urgent and requires immediate action. That has certainly been the case this year with tariffs, geopolitical conflicts, economic worries, and more on investors’ minds.

And yet, the most important investment decisions are not the urgent ones, but those made with patience and a long-term perspective. The impactful factors for building wealth such as staying disciplined, saving steadily, contributing to your portfolio regularly, and benefiting from compound growth, require planning and commitment rather than sudden changes to portfolios.

Despite a challenging start to the year, the stock market has now reached new record levels, underscoring the need to focus on trends and not day-to-day market movements. The S&P 500 and the Nasdaq recently surpassed their previous peaks, with year-to-date returns of 5.1% and 5.0%, respectively, while the Dow is only 2.6% below its all-time high. This is the result of many parts of the market rebounding across styles, sectors, and asset classes.

While there are still market challenges ahead, this is a reminder that it has been more important to stick to long-term plans than react to every headline. In today's market environment, how can investors stay focused and invested?

The market has reached new all-time highs



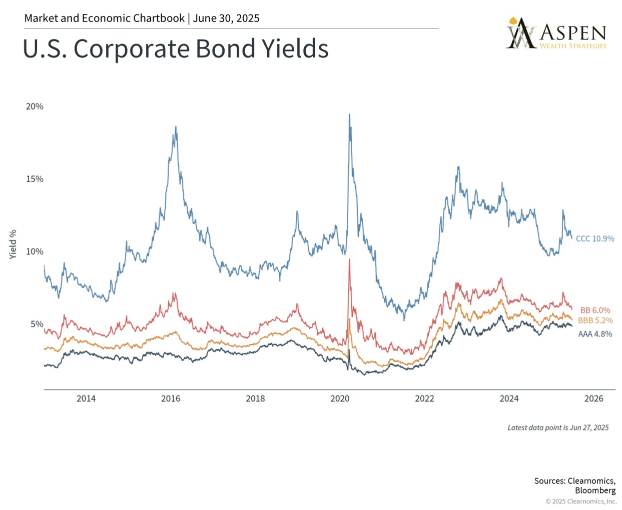
First, it's important to understand that it is not unusual for the market to reach new highs. Since markets trend upward over long periods, bull markets spend much of their time at record highs. Of course, this does not mean the market only moves up in a straight line. It does, however, mean that those who can see through short-term market swings are better positioned to benefit from market trends.

The accompanying chart shows how frequently new highs occur during market cycles. From 2013, when the S&P 500 recovered from the 2008 financial crisis, to 2024, the average year experienced 37 new all-time highs based on daily close prices. This amounts to about 15% of all trading days – a statistic some may find surprising. Years such as 2017 and 2021 experienced many more. Last year, there were 57 record closing days for the market, a significant number given the many concerns investors faced such as recession fears and the presidential election.

This pattern occurs due to the market and business cycle. When the economy is expanding, the stock market tends to rise alongside it. Since the mid-20th century, these cycles have grown longer, with bull markets far exceeding bear markets in duration and returns, a fact that has benefited those who stick to their financial plans. Thus, new all-time highs are not necessarily, on their own, reasons to worry or a signal that the market is about to reverse.

A question that some investors may naturally have after markets reach new record highs is whether they should "wait for a pullback." While periodic declines are inevitable, attempting to time these movements can be counterproductive. In fact, the opportunity cost of waiting for the perfect entry point is often higher than simply getting invested in the first place.

Corporate bonds have performed well since the tariff pause



The positive momentum in stocks has been accompanied by similar strength in the bond market, especially for corporate bonds. Bonds are categorized by their credit quality, which is a measure of how likely it is for investors to be repaid. The interest rates on these bonds have fallen recently, both in absolute terms and compared to Treasury yields. This is often described as credit spreads "tightening," which is positive for investors since it means the prices of these bonds are rising.

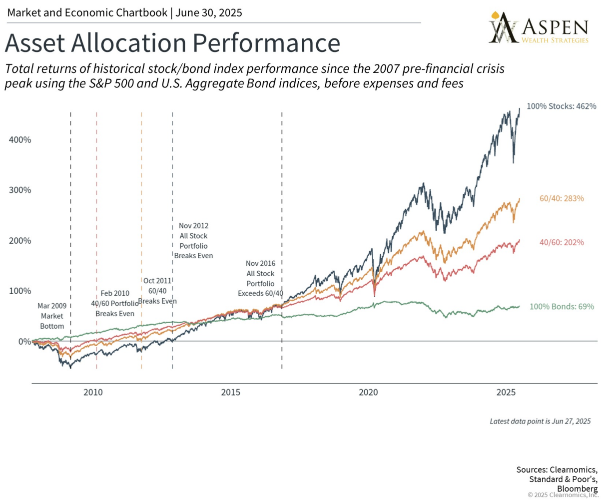
This occurs because when the economy is stable and the stock market is strong, there is greater confidence in the ability of companies to service their obligations. This is why there is often a positive correlation between the stock market and credit markets, since they mirror the same underlying drivers. When investors push stocks to record levels, corporate bond prices also tend to benefit from optimism about economic conditions and corporate health.

This has supported the Bloomberg U.S. Aggregate Bond Index, a diversified index of different U.S. bonds, with a 3.7% return so far this year. The corporate bond component of the index has also generated 3.7%, while high yield has outperformed with a 4.3% return.

Tightening credit spreads also suggest that the flight-to-safety that occurred earlier this year has largely faded for the time being. Lower credit spreads can also be positive for the underlying economy since they allow companies to raise funds, finance new projects, and roll over existing debt more easily.

For investors, this is a reminder that while the stock market receives the most attention, many other asset classes have supported portfolios this year as well. With the S&P 500 at record highs, it's a great time to review your asset allocation and ensure that your financial plan is set up for all phases of the market cycle.

Asset allocation remains important despite strong performance



While the strength in both stocks and bonds is encouraging for investors, it also underscores the importance of maintaining disciplined portfolio management. Building a portfolio is not just about investment returns. Instead, what matters is the balance of risk and returns, and how each asset class contributes to this overall balance. Doing so properly, with an eye toward long-term financial goals, can ideally lead to a portfolio that supports investors across changing market environments.

Recent years have provided clear examples of how different asset classes can perform in varying market conditions. The accompanying chart highlights how different asset allocations perform over both good and bad periods.

Those portfolios that are heavily invested in stocks may outperform when the market is expanding, but will also typically experience larger swings during downturns. Including bonds can make the ride smoother, which likely helps to ensure that financial goals are met. Which path makes the most sense depends on your particular risk tolerance and return objectives. Having a comprehensive view of your goals and financial needs allows you to tailor a portfolio to withstand the next period of volatility, when it inevitably occurs.

The bottom line? While the market has bounced back, investors should maintain disciplined portfolio management rather than chasing recent performance. History shows that staying invested through market cycles remains the best approach to achieving long-term financial goals.

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