

What To Make Of DOW 30K

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After recovering from its COVID-driven decline just last week, the Dow Jones Industrial Average has another record to celebrate. The index reached a major milestone as it closed above the 30,000 level for the first time on record today—its ninth new record high this year. If the month ended today (month-to-date: +13.4%), it would be the best month for the Dow Jones Industrial Average since January 1987 (+13.8%) and the best November since 1928. A wonderful way to celebrate the Thanksgiving holiday!

But what does it mean? The short answer is that the Dow is now up over 5% year-to-date on a price return basis, and that it has rallied more than 60% from its March 23 lows to fully recover its losses and once again hit record highs. Not too shabby! While these 1,000 point milestones are always hyped in the news headlines, we like to put them into perspective. For example, it is important to recognize that it has been more than 300 days since the last 1,000 point milestone—more than double the average duration for the previous ten one-thousand point increments—and the annualized return of 4.1% is the fifth lowest of any 1,000 point milestone on record. Incidentally, this 1,000 point increment only represented a 3.4% increase as each milestone going forward gets increasingly smaller.

The slowness of this milestone momentum is unsurprising given the historic levels of volatility experienced since the Dow reached the 29,000 level in mid-January, which was just prior to the COVID-driven drawdown. While the current COVID surge remains a key risk, a multitude of effective vaccine candidates and decreased levels of political

uncertainty have overshadowed it. Nevertheless, the economic recovery from the COVID-induced recession has led to vast levels of dispersion beneath the Dow's surface. In accordance with our expectation for a K-shaped economic recovery, constituents in the tech and home improvement areas have contributed heavily in this last 1,000 point gain. More specifically, while the Dow is up ~4% since the last milestone, leaders such as Apple (+49%), Walmart (+31%), and Home Depot (+22%) have lifted the index while constituents in the Industrial and Energy sectors, such as Chevron (-18%) and Boeing (-34%), have detracted.

Is the Dow Jones expensive and should we adjust portfolios? Given the recent strong rally in the equity market, we have grown more cautious in the near term as valuations (24.4x LTM P/E) are the most expensive they have been since at least 2001. However, despite the potential for near-term volatility, our positive outlook for equities over the longer term is supported by fundamental factors such as our forecast for a bounce back in economic activity in 2021, expectations for a substantial earnings rebound in 2021, an accommodative Federal Reserve, and heightened levels of cash still on the sidelines. With our optimistic long-term outlook, we remind investors that timing the market is a difficult task, and we would not use psychological levels such as these to make portfolio changes.

Date of Milestone	Dow Jones Industrial Average Price	% Increase Between Milestones	Days to Eclipse Next Milestone	Annualized Return
11/14/1972	1003	--	--	--
1/8/1987	2002	99.6%	5168	5.0%
4/17/1991	3004	50.1%	1560	10.0%
2/23/1995	4003	33.2%	1408	7.7%
11/21/1995	5024	25.5%	271	35.8%
10/7/1996	6206	23.5%	321	27.2%
2/13/1997	7022	13.2%	129	41.9%
7/16/1997	8039	14.5%	153	38.1%
4/6/1998	9033	12.4%	264	17.5%
3/29/1999	10007	10.8%	357	11.0%
5/3/1999	11015	10.1%	35	172.0%
10/19/2006	12012	9.1%	2726	1.2%
4/25/2007	13090	9.0%	188	18.2%
7/19/2007	14000	7.0%	85	33.5%
5/7/2013	15056	7.5%	2119	1.3%
11/21/2013	16010	6.3%	198	12.0%
7/3/2014	17068	6.6%	224	11.0%
12/23/2014	18024	5.6%	173	12.2%
11/22/2016	19024	5.5%	700	2.9%
1/25/2017	20069	5.5%	64	35.6%
3/1/2017	21116	5.2%	35	70.0%
8/2/2017	22016	4.3%	154	10.4%
10/18/2017	23158	5.2%	77	27.1%
11/30/2017	24272	4.8%	43	49.0%
1/4/2018	25075	3.3%	35	40.4%
1/17/2018	26116	4.1%	13	213.2%
7/11/2019	27089	3.7%	540	2.5%
11/15/2019	28005	3.4%	127	10.0%
1/15/2020	29030	3.7%	61	24.0%
11/24/2020	30046	3.5%	314	4.1%

Source: FactSet, as of 11/24/2020

Company	Return Since 29,000 Milestone (1/15/20)
Apple Inc.	49%
salesforce.com, inc.	44%
Walmart Inc.	31%
NIKE, Inc. Class B	31%
Microsoft Corporation	31%
Home Depot, Inc.	22%
Caterpillar Inc.	21%
Honeywell International Inc.	15%
UnitedHealth Group Incorporated	14%
Dow, Inc.	10%
Procter & Gamble Company	10%
Visa Inc. Class A	6%
Walt Disney Company	5%
McDonald's Corporation	5%
Verizon Communications Inc.	3%
Travelers Companies, Inc.	-1%
3M Company	-2%
Johnson & Johnson	-2%
Goldman Sachs Group, Inc.	-3%
Coca-Cola Company	-6%
American Express Company	-7%
Amgen Inc.	-9%
International Business Machines Corporation	-9%
JPMorgan Chase & Co.	-10%
Cisco Systems, Inc.	-11%
Merck & Co., Inc.	-13%
Chevron Corporation	-18%
Intel Corporation	-20%
Walgreens Boots Alliance Inc	-29%
Boeing Company	-34%

Source: FactSet, Dow Jones is comprised of the stocks listed and performance is as of 11/24/20

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