

In the Markets Now

The reason to own stocks

We believe in the old saying: a picture is worth a thousand words. Here, we aim to recap recent market action and provide some perspective to investors.

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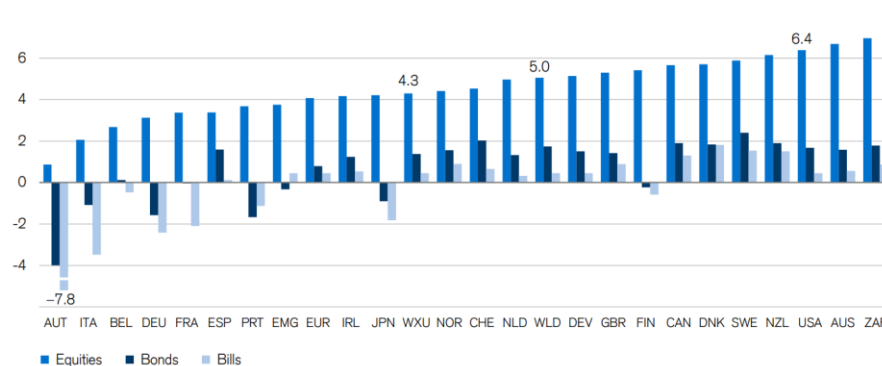
WHY THE MARKET HAS AN UPWARD BIAS OVER TIME

It has seemed popular of late to assign blame for, rather than celebrate, stock market gains. That every strong month or year in the market can be attributed to some short-lived (and somehow unworthy) factor: exorbitant fiscal policy, overly generous central bankers, exuberant retail investors, etc.; always a bubble waiting to pop rather than a reflection of underlying fundamentals. **And while it's true that these factors can have short-term implications for markets, they are not the long-term driver of returns.** So, at time of what feels like unprecedented upheaval, it's worth remembering why we invest in stocks and what the long run track record of the market actually looks like.

Pretty simply, long-term equity returns are driven by the long-term growth in corporate earnings. **Investing in a stock provides the opportunity to own a share of a business's profits and to accumulate wealth as the earnings grow.** It is taking part in a capitalist economy where the incentives all point towards "solve a problem and get paid for it." And importantly, that incentive structure doesn't go away just because interest rates move, geopolitical tensions rise, or a policy decision is made. [As writer Sam Ro notes](#), "Think about all the changes businesses made during the pandemic...when customers couldn't come into stores, businesses expanded curbside pickup. When a team couldn't meet in the office, they met on Zoom...corporate America doesn't rollover when confronted by challenges. It figures things out, improves processes, and grows. This is at the heart of why stocks usually go up over time." [And as my colleague Michael Antonelli noted](#), some of our most iconic firms were founded during recessions. Stock markets have an upward bias over long periods because people generally want to improve things (and to be paid for doing so), leading to innovation, new products, and profit growth.

We can see this bias in the [latest Credit Suisse Annual Yearbook](#) (where our chart comes from). **Across the globe, stocks have provided a long-term return above inflation for over one hundred years.** Punctuated by periods of volatility and underperformance, to be sure, but still resoundingly positive. And while the U.S. has been one of the leaders over the last 122 years, the positive (real) returns displayed by every country in the dataset would seem to confirm the thesis above: stocks have a long-term upward bias – not because of any short-term or easily shifted catalyst – but because earnings do, as well.

Figure 11: Real annualized returns (%) on equities versus bonds and bills internationally, 1900–2022



[Famed investor Peter Lynch put it like this \(in 1994!\):](#) "Markets will continue to have ups and downs (but) basic corporate profits have grown about 8% a year historically. So, profits double about every 9 years. The stock market ought to double about every 9 years. So, I think — the Dow is about 3,800 today — I'm pretty convinced the next 3,800 points will be up; it won't be down. The next 500 or 600 points — I don't know which way they'll go. So, the market ought to double in the next 8-9 years. They'll double again in 8 or 9 years after that. Because profits go up 8% a year, and stocks will follow. That's all there is to it." **Volatility will always persist, and the news will often prove concerning, but the reason we invest in stocks is simple: to own a share of corporate profits and benefit from the long-term market gains they drive.**

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