

# Student of the Market

October 2019

**BlackRock**<sup>®</sup>

# Student of the Market: October 2019

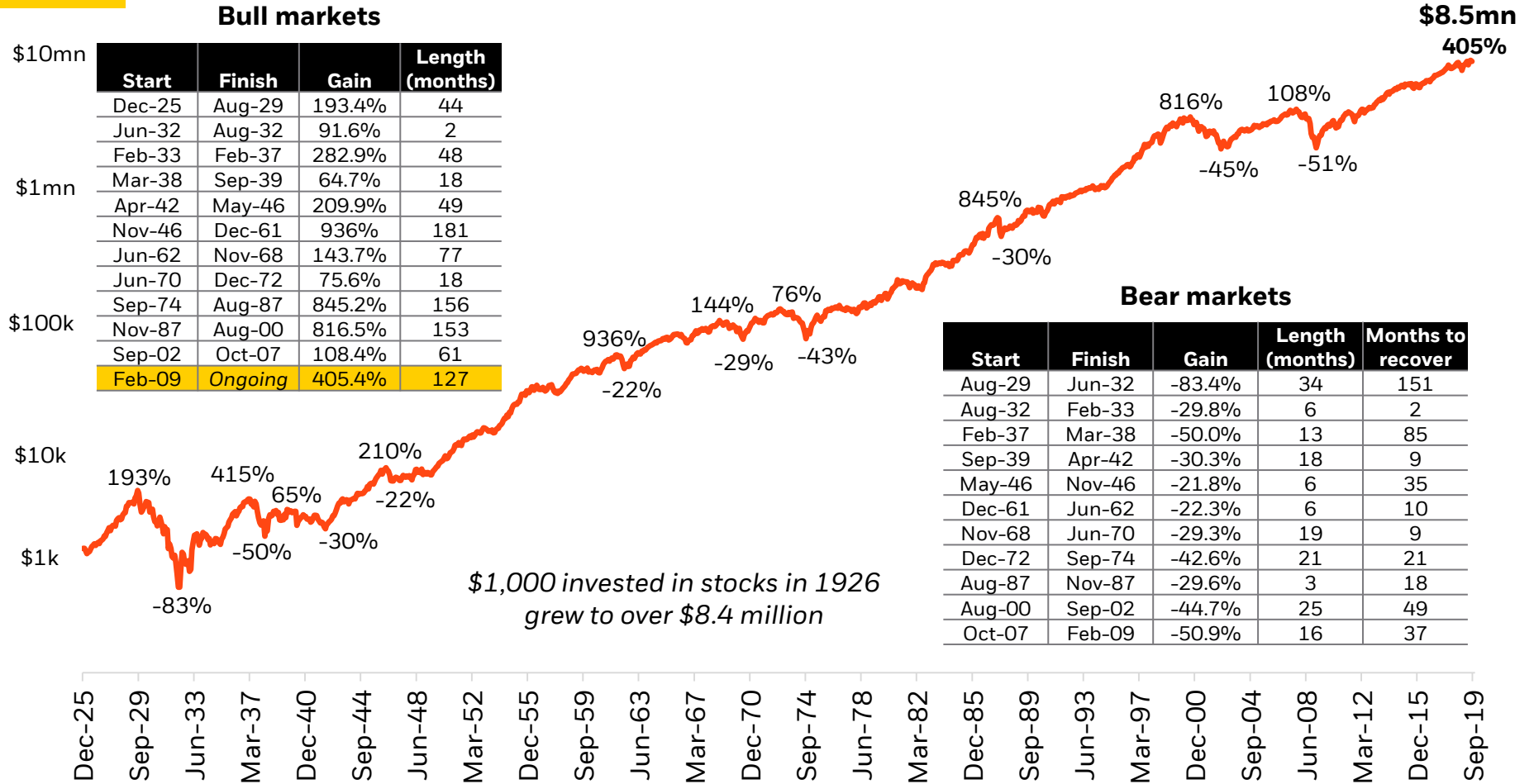
<p><b>1</b></p>	<p><b>Bulls and bears since 1926</b></p>	<p>Based on month-end returns, there have been 11 bear markets in the U.S. since 1926. Despite these volatile periods, there's been a strong positive trend over the long-term. In fact, \$1,000 invested in the S&amp;P 500 on January 1, 1926 would have grown to nearly \$8.5 million by September 30, 2019.</p>
<p><b>2</b></p>	<p><b>Less volatility outperformed since 1926</b></p>	<p>Since 1926, a portfolio that captured only 89% of all the S&amp;P 500 bull and bear markets since 1926 would have grown to nearly \$10 million dollars by September 30, 2019, beating the S&amp;P 500's growth by around \$1.3 million.</p>
<p><b>3</b></p>	<p><b>U.S. bonds have outperformed during bear markets</b></p>	<p>When smart investors are in the middle of a bull market, they start to prepare for when it ends. U.S. bonds have been the best performing asset class in down markets, averaging 9.2% across all bear markets (market drawdown of 20%+) since 1972. U.S. stocks, on the other hand, averaged -42.0% during the same time periods.</p>
<p><b>4</b></p>	<p><b>U.S. bonds have outperformed during recessions too</b></p>	<p>If they do well in a bear market, it probably makes sense that they'd do well in a recession too: U.S. bonds have been the best performing asset class during recessions, averaging 10.8% across all recessions since 1972.</p>
<p><b>5</b></p>	<p><b>Longest expansion in history</b></p>	<p>The U.S. economy is in its longest expansionary period ever at 123 months (assuming the 3<sup>rd</sup> quarter growth of 2019 was positive). Since 1926, the average U.S. economic expansion has lasted around 60 months.</p>
<p><b>6</b></p>	<p><b>Economic growth may be slowing</b></p>	<p>The average quarterly growth rate for the U.S. economy since 1947 is 3.2%. In Q2 2019 it grew below that average, at 2%. This supports most economists' viewpoint that we are currently in the "late stage" of the economic cycle.</p>
<p><b>7</b></p>	<p><b>Outflows may trigger capital gain distributions</b></p>	<p>Even if you didn't sell any investments this year, you may find yourself paying capital gains: 18% of the asset value of the average equity mutual fund is potential capital gains. This figure rises to 31% for the largest 100 of those funds. Taxes on these gains get passed through to investors if they become realized.</p>

Source: Morningstar as of 9/30/19. Past performance is no guarantee of future results. Index performance is shown for illustrative purposes only. You cannot invest directly in an index.

# 1

# Bulls and bears since 1926

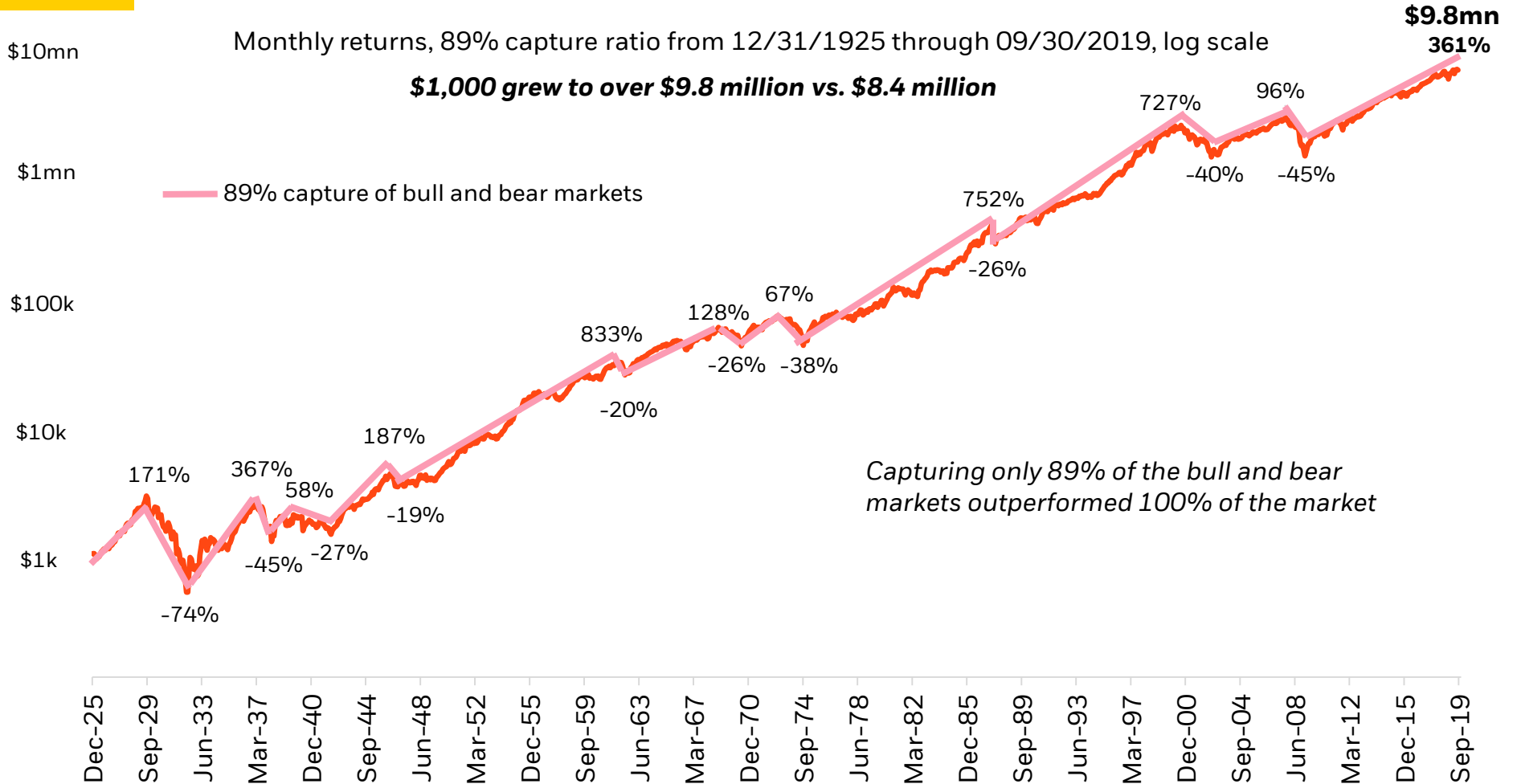
Monthly returns, 12/31/1925 through 09/30/2019, log scale



Source: Morningstar and BlackRock as of 9/30/19. U.S. stocks represented by the Ibbotson SBB1 U.S. Large Cap TR Index. This illustration assumes reinvestment of dividends and capital gains. Assumes investor stays fully invested over the full time period. Index performance is for illustrative purposes only. Past performance does not guarantee or indicate future results. It is not possible to invest in an index.

# 2

# Less volatility outperformed since 1926



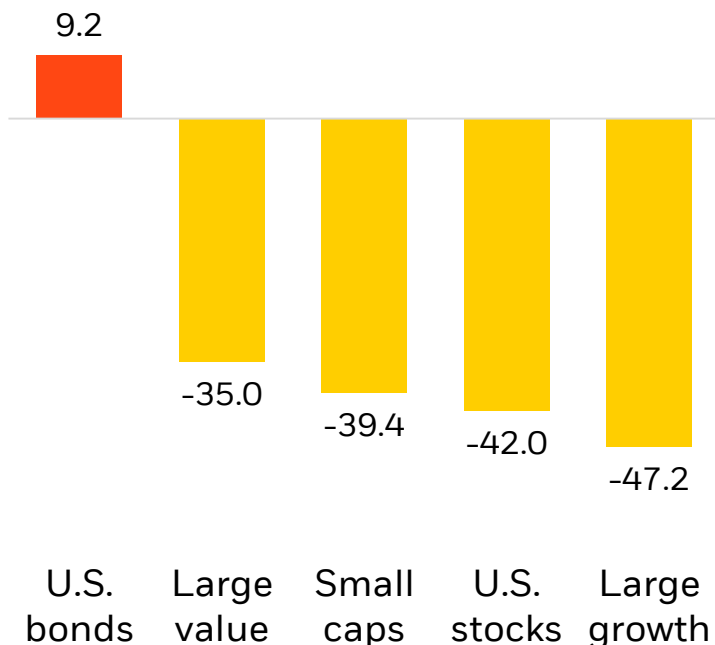
Source: Morningstar and BlackRock as of 9/30/19. U.S. stocks represented by the Ibbotson S&P 500 U.S. Large Cap TR Index. This illustration assumes reinvestment of dividends and capital gains. Assumes investor stays fully invested over the full time period. Index performance is for illustrative purposes only. Past performance does not guarantee or indicate future results. It is not possible to invest in an index.

MARKET INSIGHT

# 3 U.S. bonds have outperformed during bear markets

## Bear market performance since 1972

Cumulative return percentage



## Recent bear market performance since 1972

Cumulative return percentage

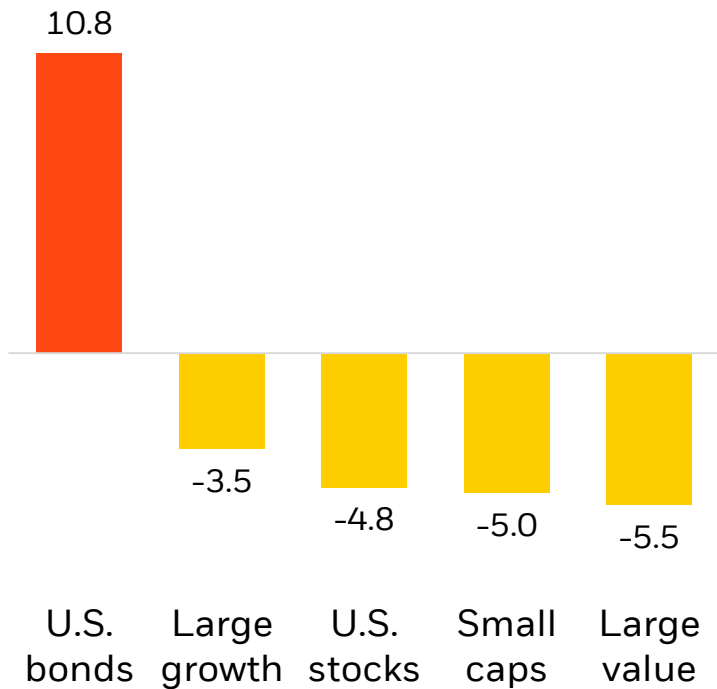
	Oct '07 to Feb '09	Aug '00 to Sept '02	Aug '87 to Nov '87	Dec '72 to Sept '74	Average
U.S. bonds	6.1	23.4	2.2	4.9	9.2
Municipals	2.6	19.6	-0.8	-	7.1
High yield	-25.6	-8.7	-3.6	-	-12.6
Dividend growth	-49.2	14.9	-	-	-17.1
High dividend	-50.3	-13.3	-21.1	-	-28.2
U.S. min vol	-41.6	-25.8	-	-	-33.7
Large value	-54.4	-23.7	-27.0	-	-35.0
U.S. quality	-41.0	-40.9	-29.8	-	-37.2
International	-56.7	-42.6	-14.5	-36.4	-37.5
Mid cap	-53.7	-30.3	-30.2	-	-38.1
Small cap	-52.0	-30.6	-35.5	-	-39.4
Momentum	-52.0	-37.0	-31.0	-	-40.0
U.S. stocks	-51.0	-44.7	-29.6	-42.6	-42.0
Emerging market stocks	-61.1	-29.5	-	-	-45.3
Large growth	-48.0	-61.9	-31.7	-	-47.2
Technology	-52.3	-81.9	-34.1	-51.5	-55.0

Source: Morningstar and BlackRock as of 9/30/19. U.S. stocks represented by the Ibbotson SBBI U.S. Large Cap TR Index and the S&P 500 Index, U.S. bonds by the IA SBBI U.S. IT Bond Index and the BbgBarc U.S. Agg Bond Index, Municipals by BbgBarc Municipal Bond Index, High yield by the BbgBarc U.S. Corporate High Yield Index, Dividend growth by the Russell 1000 Dividend Growth Index, High dividend by the MSCI USA High Dividend Payers Index, U.S. min vol by the MSCI USA Minimum Volatility Index, U.S. quality by the MSCI USA Quality Index, International by the MSCI EAFE Index, Mid cap by the Russell Mid Cap Index, Momentum by the MSCI USA Momentum Index, Emerging market stocks by the MSCI EM Index, Large growth by the Russell 1000 Growth Index and the Fama French Large Value Index, Large value by the Russell 1000 Value Index and the Fama French Large Value Index, Small cap by Fama French Small Cap Stock Index, Technology by the Morningstar Technology Fund category. Index performance is for illustrative purposes only. Past performance does not guarantee or indicate future results. It is not possible to invest in an index.

# 4 U.S. bonds have outperformed during recessions too

## Performance during recessions since 1972

Cumulative return percentage



## Performance during recessions since 1972

Cumulative return percentage

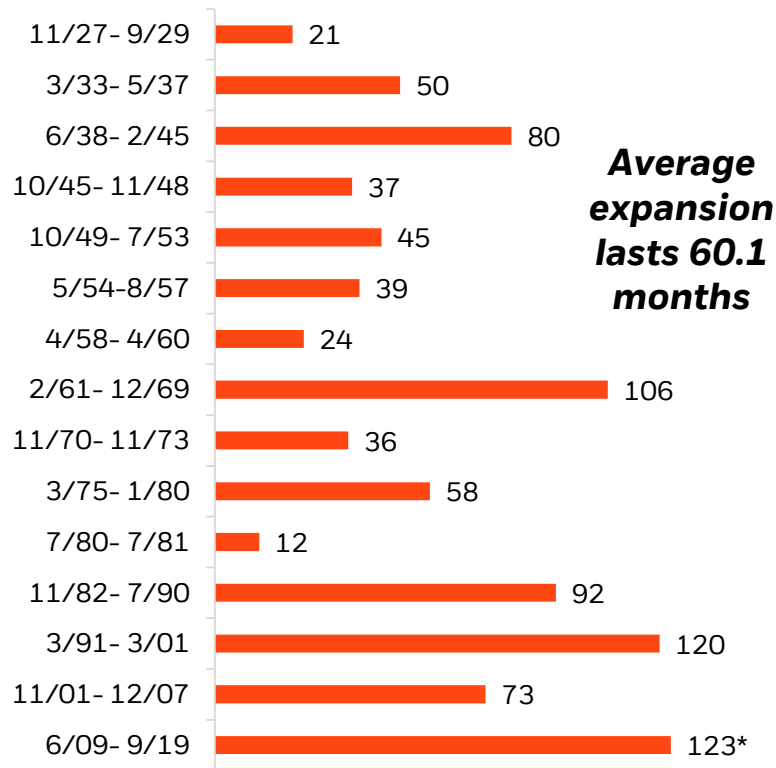
	Jan '08 to Jun '09	Mar '01 to Nov '01	Jul '90 to Mar '91	Aug '81 to Aug '82	Feb '80 to July '80	Dec '73 to Mar '75	Average
U.S. bonds	7.2	5.9	7.5	27.1	9.5	7.6	10.8
Municipals	3.8	3.8	5.2	18.9	-0.4	-	6.3
High Yield	-3.7	-0.6	3.7	-	-	-	-0.2
U.S. Quality	-24.8	4.1	10.8	-5.1	8.1	-	-1.4
Large Growth	-31.3	0.8	12.0	-8.0	9.4	-	-3.5
Mid Cap	-35.6	1.4	10.2	-5.9	10.7	-	-3.9
U.S. stocks	-35.0	-0.9	8.0	-2.8	9.6	-7.8	-4.8
Small Cap	-32.0	3.2	7.7	-11.4	7.5	-	-5.0
Technology	-30.7	-6.6	11.5	-0.7	7.4	-11.4	-5.0
Large Value	-38.7	-2.0	6.2	-1.3	8.5	-	-5.5
Dividend Growth	-29.5	8.8	-	-	-	-	-10.4
International stocks	-38.9	-9.5	-7.7	-13.2	7.1	-3.1	-10.9
Momentum	-42.2	-0.4	6.09	-	-	-	-12.2
Emerging Market stocks	-36.5	-4.5	-	-	-	-	-20.5

Source: Morningstar and BlackRock as of 9/30/19. U.S. stocks represented by the Ibbotson SBBI U.S. Large Cap TR Index and the S&P 500 Index, U.S. bonds by the IA SBBI U.S. IT Bond Index and the BbgBarc U.S. Agg Bond Index, Municipals by BbgBarc Municipal Bond Index, High yield by the BbgBarc U.S. Corporate High Yield Index, Dividend growth by the Russell 1000 Dividend Growth Index, High dividend by the MSCI USA High Dividend Payers Index, U.S. min vol by the MSCI USA Minimum Volatility Index, U.S. quality by the MSCI USA Quality Index, International by the MSCI EAFE Index, Mid cap by the Russell Mid Cap Index, Momentum by the MSCI USA Momentum Index, Emerging market stocks by the MSCI EM Index, Large growth by the Russell 1000 Growth Index and the Fama French Large Value Index, Large value by the Russell 1000 Value Index and the Fama French Large Value Index, Small cap by Fama French Small Cap Stock Index, Technology by the Morningstar Technology Fund category. Index performance is for illustrative purposes only. Past performance does not guarantee or indicate future results. It is not possible to invest in an index.

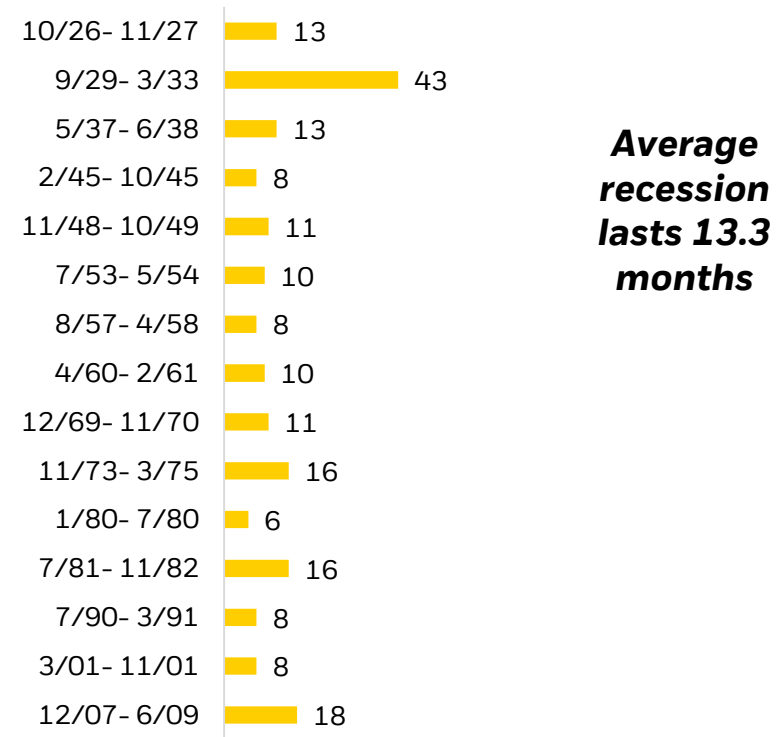
# 5

# Longest expansion in history

Length of U.S. economic expansion (months)



Length of U.S. economic recessions (months)



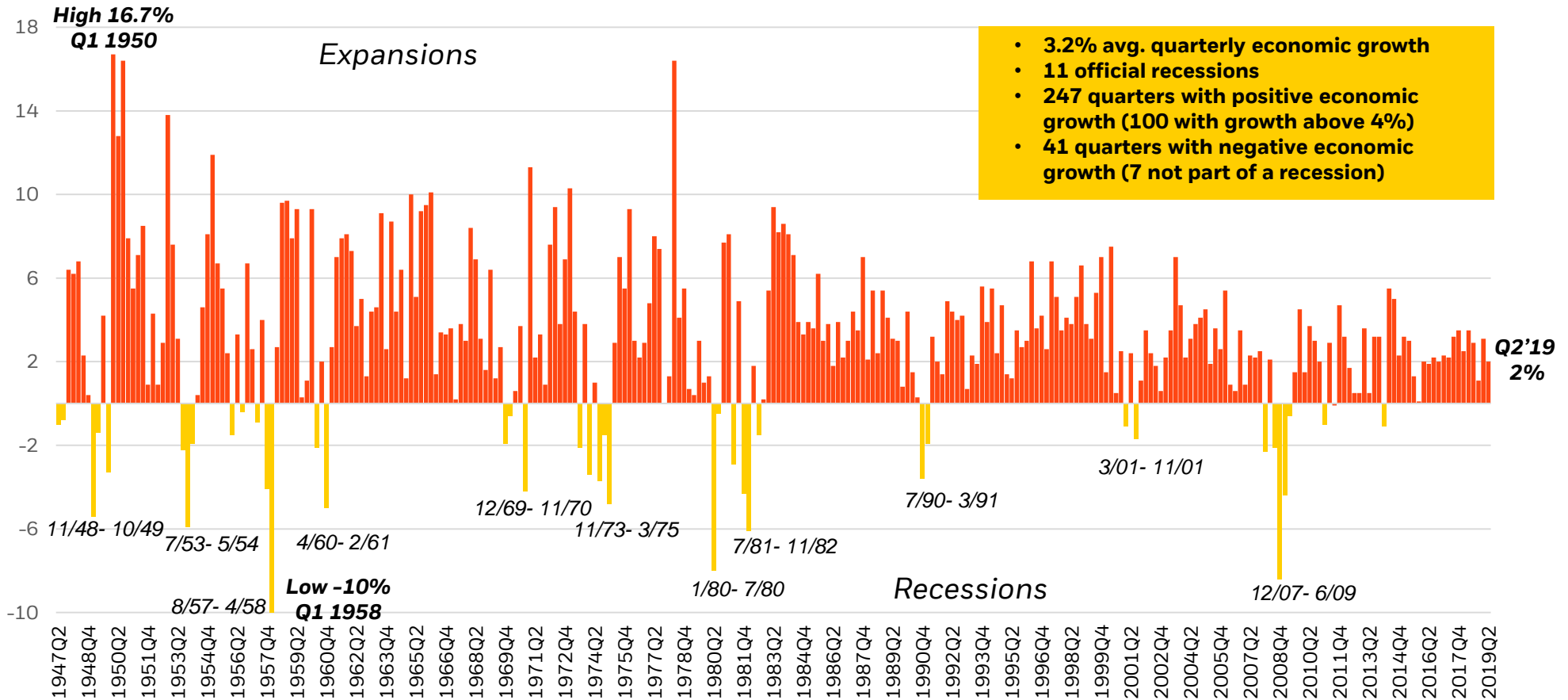
\* Positive Q3 2019 economic result is a projection.

Source: National Economic Bureau of Research and Morningstar as of 9/30/19. For illustrative purposes only.

# 6

# Economic growth may be slowing

U.S. Quarterly GDP Growth, Q2 1947 to Q2 2019

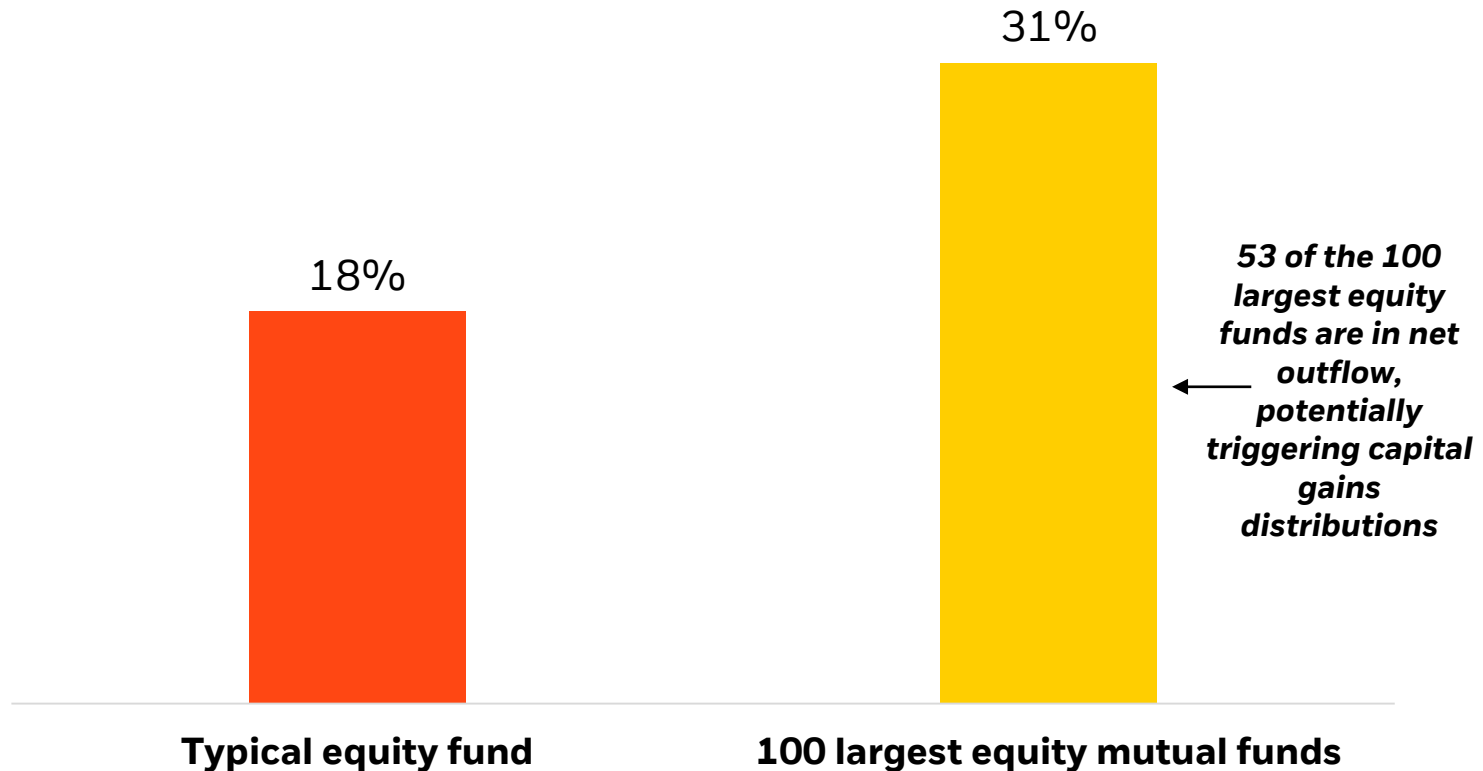


Source: Bureau of Economic Analysis, Commerce Department and BlackRock as of 9/30/19. Past performance does not guarantee or indicate future results. It is not possible to invest in an index.



7

# Outflows may trigger capital gain distributions



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Standardized Returns as of 9/30/2019	Total Ret 1 Year	Total Ret 5 Years	Total Ret 10 Years
S&P 500 TR USD	4.25	10.84	13.24
BBgBarc Municipal TR USD	8.55	3.66	4.16
BBgBarc US Agg Bond TR USD	10.30	3.38	3.75
BBgBarc US Corporate High Yield TR USD	6.36	5.37	7.94
IA SBBI US IT Govt TR USD	9.21	2.77	2.89
IA SBBI US Large Stock TR USD Ext	4.25	10.84	13.24
MSCI EAFE NR USD	-1.34	3.27	4.90
MSCI EM NR USD	-2.02	2.33	3.37
MSCI USA High Dividend Yield NR USD	5.64	9.62	12.82
MSCI USA Minimum Volatility (USD) NR USD	14.03	12.89	13.68
MSCI USA Momentum NR USD	1.61	14.11	15.62
MSCI USA Quality NR USD	7.12	12.59	14.19
Russell 1000 Dividend Growth TR USD	9.64	12.37	14.52
Russell 1000 Growth TR USD	3.71	13.39	14.94
Russell 1000 Value TR USD	4.00	7.79	11.46
Russell 2000 TR USD	-8.89	8.19	11.19
Russell Mid Cap TR USD	3.19	9.10	13.07
US Fund Technology	0.46	14.08	14.36

Source: Morningstar. Performance data quoted represents past performance and is no guarantee of future results. Current performance may be lower or higher than that shown.

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