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Market Ethos

The latest market insights from Richardson Wealth

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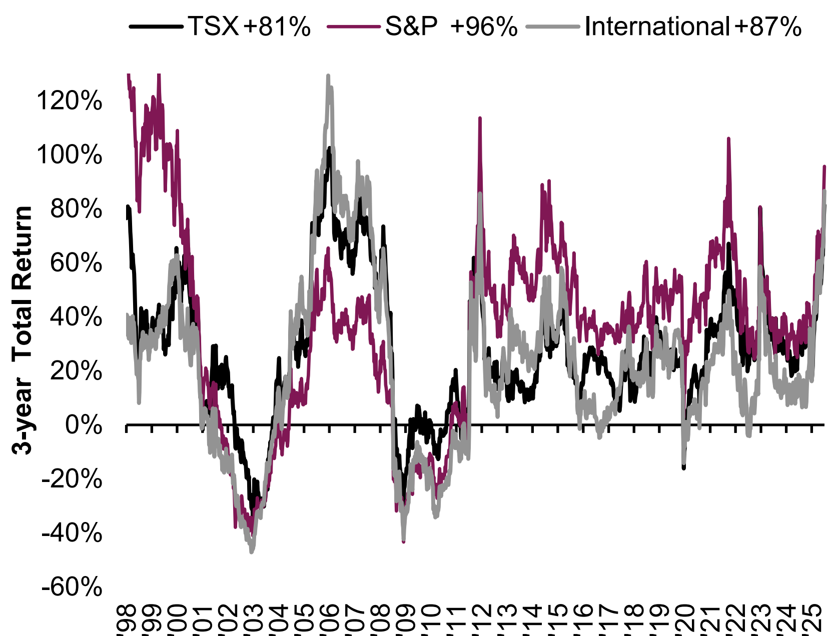
RICHARDSON Wealth

Avoiding strikeouts

What a year!! TSX is near the top of the global market leader board, up +25%, and the Jays are into the American League Championship Series. If you can get over the tariffs, economy near stall speed, macro uncertainty and general grumpiness that seems to be impacting most populaces, it is a great year otherwise. As discussed, perhaps the most frequently asked question we get is: How are markets up so much and, more importantly, can this keep going? This may be an opportune time to let the Blue Jays provide some guidance.

Just because something goes up, doesn't mean it has to come back down. However, when markets move in a big way, there is a gravitational pull or reversion to the mean that would cool future return expectations. The chart below captures the issue, looking at the 3-year trailing total return of major equity markets. A 3-year gain of +81% for the TSX, +96% for the S&P and +87% for international markets is remarkable. As you can see, there have been returns higher than this, but **never in the past 25 years have all three simultaneously been over 80%.**

What do you do now?

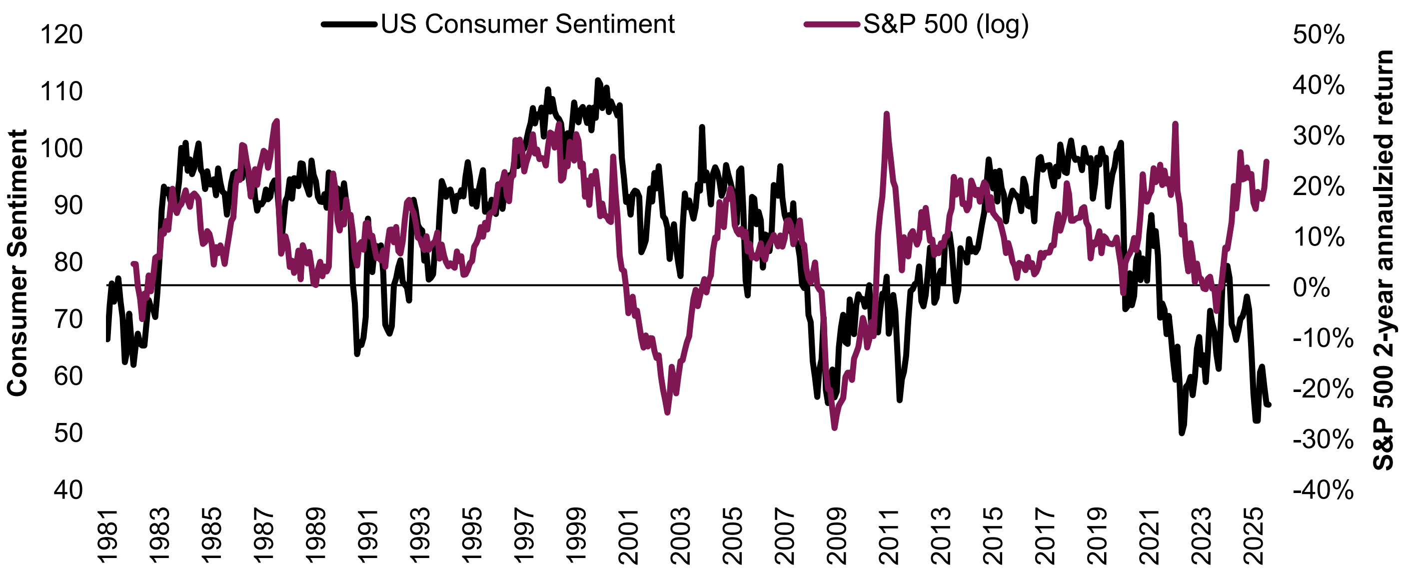


Source: Bloomberg, Purpose Investments

Just because the market is up a lot doesn't mean it can't keep going, but we are in somewhat uncharted territory. As we highlighted in a recent *Ethos* (Not too hot, not too cold 29 Sept 2025), there are some solid macro fundamental drivers or supporters of this market advance and resilience. Improving economic data, inflation not accelerating allowing bond yields to come down, helping multiple expansion. Earnings revisions have also ticked higher as we head into earnings season, with the last two seasons having a higher proportion of positive surprises compared to the norm. Still, this advance is pretty extreme at this point.

Perhaps even more puzzling, nobody is happy. There was a time when strong equity markets made people happy, but that doesn't seem to be the norm anymore. The University of Michigan Consumer Sentiment captures consumer attitudes towards personal finances, general business conditions and market conditions. This survey has historically tracked well directionally with the S&P 500. The puzzling aspect is with markets up so much, why is consumer sentiment worse than during the depths of the financial crisis?

Sentiment is lower today than during the financial crisis



Source: Bloomberg, University of Michigan, Purpose Investments

Not saying the world is perfect, but it isn't as dire as sentiment would imply. Rising markets just don't make people as happy as they used to. This is a cautionary signal for markets.

Final thoughts

Back to baseball. The Jays had the lowest strike out rate this year (6.8/game) and we believe this is the kind of strategy investors should tilt towards after such strong gains. This isn't the time to try and swing for a homer or even a double — the goal should be to avoid striking out. Give me a single or a walk. So, what does that mean for portfolios? Well, we all want markets to continue moving higher and that may happen. However, if history holds, the risks have turned up.
Not because the news has necessarily gotten worse, but simply because the gains have been so strong. Tilt more to strategies that will deliver a nice single on top of already-realized gains if this rally does continue. Those more defensive strategies should have a lower risk of striking out or giving back too much of the gains in case market gravity kicks in.

Source: Charts are sourced to Bloomberg L.P., Purpose Investments Inc., and Richardson Wealth unless otherwise noted.

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*This report is authored by Craig Basinger, Chief Market Strategist at Purpose Investments Inc. Effective September 1, 2021, Craig Basinger has transitioned to Purpose Investments Inc.