TODAY'S MARKETS

S&P 500 Closes Above 2000 for First Time

Markets Continue to Move Up in Absence of Any Pronounced Negative Factors

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The S&P 500 index notched its first-ever close above 2000 on Tuesday, a new milestone in the stock market’s march higher.

Tuesday’s finish was the 30th record close this year for the index, which has gained 8.2% in 2014 through the end of trade on Tuesday. The Dow industrials hit an intraday record of 17153.80 on Tuesday but failed to hold a record through the close.

Throughout the year, stock investors have shrugged off worries about rising interest rates, military action throughout the Middle East and Ukraine and even occasional concerns about the lackluster economic recovery. On Tuesday, investors were focused on M&A activity and a report showing an increase in optimism among U.S. consumers, helping drive the S&P up 2.10 points to 2000.02.

It took 16 years for the S&P to gain 1000 points since breaking through 1000 for the first time in 1998.

Market analysts looking for signs that the S&P can keep rising have taken heart in the differences in investor sentiment, and stock valuations, between now and the heady days of the dot-com bubble.

Changing Times

The largest companies in the S&P 500, now and before the index first hit 1000 in February 1998, by market value (billions) and the top 10 total

Aug. 25, 2014: $3.48 trillion

Apple $640B
In February 1998, excitement about Internet stocks was building. eBay Inc. went public that year and Amazon.com Inc. had just made a raucous debut less than a year earlier. Meanwhile, day trading had become a phenomenon.

But the stock market today is marked by lukewarm investor sentiment. Many individual investors are still reluctant to dive into stocks after being burned by the financial crisis six years ago.

Some market observers say the overall lack of enchantment with the stock market could signal more gains ahead as many more buyers come forward.

In 1998, "We had a very, very rosy view of the economy...with new technologies being introduced, the optimism was extraordinary," says Jonathan Golub, chief market strategist at RBC Capital Markets. Investors "underestimated the risks in 1998, and perhaps today things are the exact opposite."

The growing euphoria in stocks 16 years ago was clear in stock-market valuations.

The stocks in the S&P 500 were trading at 23.1 times their expected 12-month earnings as of March 31, 1998, according to FactSet. As of Friday, the S&P was trading at a price/earnings ratio of 15.5, compared with the 10-year average of 13.9.

Back in March 1998, General Electric Co. was the largest company in the index by market value, and it had a forward price-to-earnings ratio of 30.9, according to FactSet. That ratio was 14.8 as of Friday.

The biggest stock in the S&P 500 today is Apple Inc., which had a forward P/E ratio of 14.7 as of Friday's close.

The S&P 500 rose nearly 27% in 1998, marking the fourth consecutive year the index gained more than 20%, according to FactSet. In 1999, the S&P rose 19.5%.
“Investors were feeling pretty good,” said Sam Stovall, a U.S. equity strategist at S&P Capital IQ.

But that optimism was soon dashed. In 2000, stocks turned, with the Nasdaq Composite Index reaching a peak it still hasn’t matched 14 years later and the S&P posting a yearly decline of 10%.

Then massive bear markets twice sent the S&P tumbling below 1000, first with the collapse of the technology-stock bubble and then with the financial crisis.

“Everybody lost money twice in the last 16 years and pretty painfully so,” said RBC’s Mr. Golub.

The rally through 2000 marks the S&P’s third major upswing since the late 1990s. The index first breached the 1000 mark on Feb. 2, 1998, and ran as high as 1527 in March of 2000 only to break back below 1000 briefly in September of 2001 and again in June of 2002.

The post tech-bubble bull market, which saw the S&P push above 1560 in October 2007, was halted by the onset of the financial crisis. That bear market knocked the index down through 1000 in October 2008 to a multiyear closing low of 676.53 on March 9, 2009.

The shadow of the global financial crisis lingered for years. Investors pulled money from U.S. stocks in 2008 for the first time in at least 16 years, according to Lipper. Some $155 billion poured out of domestic stock funds from 2008 to 2012 while $1.15 trillion roared into bond funds over the same time frame.

Only in 2013, four years into the bull-market rally, did investors find their appetite for stocks, putting in $170 billion.

**Head of the Pack**

S&P 500 subcategories with the largest total return, reflecting price gains and dividends, since Aug. 3, 2009, when the index hit 1000 for the first time following the financial crisis.

<table>
<thead>
<tr>
<th>Category</th>
<th>Total Return</th>
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<tbody>
<tr>
<td>Media</td>
<td>269%</td>
</tr>
<tr>
<td>Real estate</td>
<td>162%</td>
</tr>
<tr>
<td>Retailing</td>
<td>162%</td>
</tr>
<tr>
<td>Consumer durables and apparel</td>
<td>170%</td>
</tr>
<tr>
<td>Transportation</td>
<td>166%</td>
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<tr>
<td>Pharmaceuticals, biotechnology and life sciences</td>
<td>163%</td>
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<tr>
<td>Capital goods</td>
<td>146%</td>
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<tr>
<td>Consumer services</td>
<td>138%</td>
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<tr>
<td>Software and services</td>
<td>133%</td>
</tr>
<tr>
<td>Health-care equipment and services</td>
<td>129%</td>
</tr>
<tr>
<td>Food, beverage and tobacco</td>
<td>128%</td>
</tr>
<tr>
<td>Technology hardware and equipment</td>
<td>118%</td>
</tr>
<tr>
<td>Insurance</td>
<td>113%</td>
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</tbody>
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Today, "people really feel stuck and conflicted," said Seth Masters, chief investment officer at Bernstein Global Wealth Management that manages about $75 billion. "I've had conversations...with people who are holding on to more cash than they should, but feel really blocked about putting it to work."

With the latest milestone in the rearview mirror, some investors are wondering how much further stocks can go.

Low interest rates have added to the allure of stocks in recent years, helping fuel the S&P's push above 2000. But the Federal Reserve has indicated it plans to raise interest rates as soon as next year, and some investors are nervous about the market's ability to weather less support from the central bank.

Helping boost the market on Tuesday was a report showing an increase in optimism among U.S. consumers. Consumer confidence rose in August by more than expected, with the Conference Board's index rising to 92.4 from a revised 90.3 in July. That is the highest level since October 2007.

Investors also paid attention to deal news. Burger King Worldwide Inc. on Tuesday agreed to buy Tim Hortons Inc. for about $11 billion, confirming plans to move the combined company's headquarters to Canada. Shares of Burger King fell 4.3% and shares of Tim Hortons rose 8.5%.

Amazon.com Inc. on Monday agreed to buy Twitch Interactive Inc. for about $970 million in cash, marking the e-commerce giant's second-biggest deal. Amazon shares rose 2.3%.

Still, many investors have low expectations for the strength of the economy, especially when it comes to the potential for gains that would fuel stepped-up consumer and corporate spending.

Back in 1998, investors "talked about a new economy then, meaning everything was going to be better than it was going to be in the past," said Steven Wiething, global chief investment strategist at Citi Private Bank. "Now when they talk about the new normal, or new neutral...the idea is that everything is going to be worse."