Investors Beware: Bull Markets Don't Last Forever

New research uncovers the math behind stock returns and warns investors to prepare for a jolt.

Larry Swedroe • Nov 25, 2025

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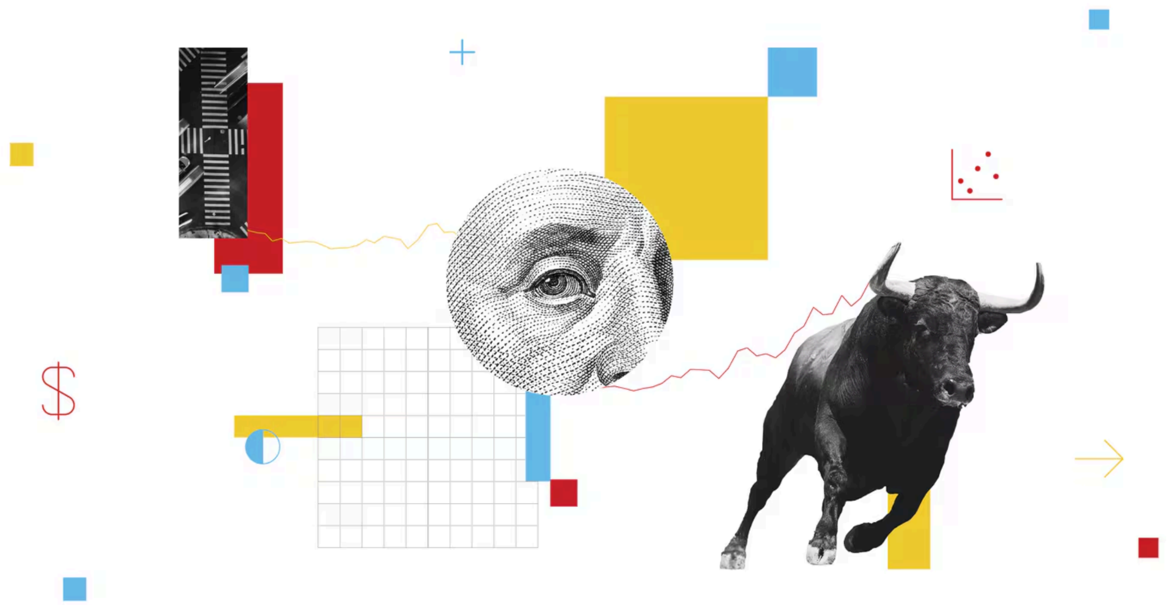

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AQR Style Prem... (QSPRX)

Javier Estrada's latest research, "Expected Stock Returns in Bullish Times," shines a spotlight on the mathematical drivers of stock returns—and why today's market exuberance should be met with caution. By analyzing more than 150 years (1872–2024) of US market data, Estrada decomposed annual returns into their primary sources: dividend yield, earnings growth, and price/earnings ratio moves. His findings reveal why the conditions for continued outsized gains rarely persist for long, especially after strong bull runs.

Lessons From History's Bull Market Runs

Estrada’s review shows that periods of rapid earnings growth rarely coincide with the simultaneous expansion of P/E multiples. In fact, these two have been negatively correlated over decadelong periods (negative 0.5 correlation)—meaning that when profits grow quickly, investors don’t also bid up valuations, and vice versa. This relationship becomes critical when markets reach extreme valuations, as seen in both the late 1990s and today’s environment.

His analysis highlights that the market’s current setup—high P/E ratios, low dividend yields, and optimism driven by recent returns—has some similarities with what occurred in 1999. Back then, the S&P 500 delivered impressive price appreciation, but valuations reached unsustainable levels. When mean reversion finally kicked in, returns over the following decade were disappointingly low (just 0.1% annualized before inflation).

Why High Returns Are Harder to Sustain

Estrada’s modeling demonstrates that expecting high future returns when markets are exuberant demands at least one of two things: extremely rapid earnings growth or a large expansion in P/E ratios, or both. History shows these conditions are rarely achieved together—expecting them now is increasingly unrealistic. When fundamentals like earnings and dividends revert toward long-term averages, forward returns plunge. Estrada estimates that if fundamentals normalize, the next decade could produce annualized returns near 0.4%.

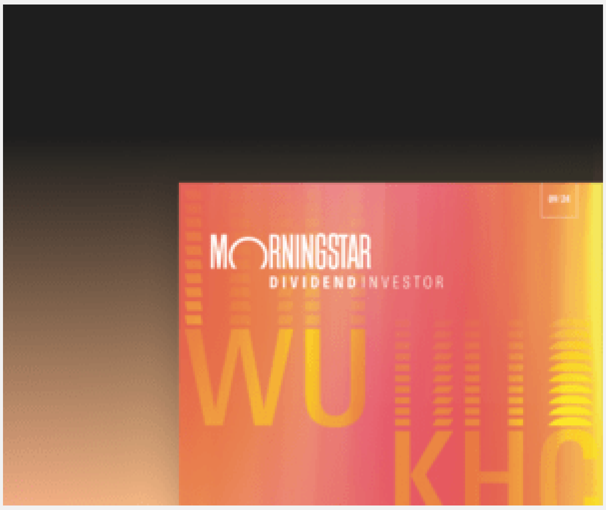
Investor Takeaways: Valuation Over Extrapolation

What's the actionable advice for retail investors? Estrada's work urges a reset in expectations:

- Prepare for lower stock market returns over the next decade, especially if mean reversion takes hold.
- Resist recency bias—the urge to believe recent strong performance will persist indefinitely.
- Prioritize fundamental valuations (dividend yield, earnings-growth rate, P/E ratios) over chasing performance.
- Consider more conservative allocations to equities, diversifying exposures to other risk assets such as reinsurance, private credit, infrastructure, real estate, and long-short market-neutral strategies, such as the one used by AQR Style Premia Alternative QSPRX.

Estrada's decomposition of stock returns over 150 years sends a clear message: The higher markets climb, the less plausible it becomes for all the forces driving returns to remain positive. The negative correlation between earnings growth and P/E expansion means both rarely propel returns at the same time over long periods. Today's market environment, with expensive stocks and low yields, sets a daunting bar for sustaining recent gains. Justifying bullish forecasts would require a perfect (and historically rare) combination of soaring earnings and multiplying valuations.

Rather than speculate on timing, Estrada recommends paying close attention to valuations and preparing portfolios for more muted returns. Mean reversion—the tendency for markets to drift back toward historical averages—is one of the stock market's most persistent features. Investors who heed these lessons are far better positioned to weather the eventual turn in the cycle.



For investors, the message is simple: Anchor expectations to history, not hope. Strong bull markets eventually give way to periods of modest or even negative returns—and preparing for that shift is a hallmark of discipline.

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