If you’ve ever vacationed in the mountains, you’ve probably seen various signs warning that bears are present, they are dangerous, and they feed on our panic. It seems odd that national parks would be posting investment advice at their campsites, but we can always be grateful for sage wisdom wherever we find it.

*Ursa dowjonesius* – the common stock market bear found in all 50 states – is known for hibernating for long periods of time, and then awakening with surprising vigor. This species feeds on panic and volatility; like other bears, it is usually quiet until provoked. In recent weeks, provocation has been abundant: The world’s stock markets have been unusually volatile, with prices jumping sharply in September and November but swooning in October and December. Intraday movement has likewise been explosive; just last Friday and again on Monday, the indexes lost over 2% early and then stormed back to close nearly unchanged; yesterday the reverse happened, as a strong start melted into a weak closing.

Is *Ursa dowjonesius* emerging from its nine-year hibernation? It’s possible, of course; stocks are already down about 11% from their all-time high (set last September), so they are more than halfway to the traditional bear market definition of a 20% decline. Some key market indicators suggest that more pain lies ahead, but most of the economic data tell a more optimistic story.

For bears to rampage, they need both *food* and *opportunity* – substantive economic deterioration and a fearful market psychology. Chart 1 (next page) provides a quick summary of economic and market conditions as we saw them a year ago and as we see them today; this chart is, in effect, a crude bear warning index: For each of a dozen indicators, we assess whether the current climate is supportive, neutral, or threatening to longer-term market valuations.
A year ago, nearly all of the economic indicators were strongly supportive of continued economic growth, and the investment climate was still comfortably bullish. The prevailing mantra among professional investors was “synchronized global growth,” as 2017 was the first year since the 1961 formation of the OECD that all 36 member nations reported positive economic growth. At the margins, we were mildly concerned a year ago that the housing market was slowing, as higher mortgage interest rates were beginning to cut into demand for new homes; we believed that an incipient trade war could derail exports and create inflationary conditions at home; we thought that the Federal Reserve was at risk of overshooting the mark with its steady march of higher interest rates; and we were aware that the stock market was trading a bit expensively compared to its long-run average valuation multiples.

Much has changed in the intervening months, as is evident in Chart 1. The housing market has worsened, as the bite of higher mortgage rates was compounded by the punitive effect that tax reform has had on high-end homebuyers. Similarly, the imposition of high tariffs across a wide range of imports has caused major disruptions in global supply chains, and economists fear the problems will be magnified in the coming months if China and the U.S. can’t reach a durable agreement before the Trump administration imposes a 25% tariff on nearly all Chinese imports.

Other factors have also changed in the course of the past year, but not as significantly. Two big bugaboos have been accelerating wage growth and fear of a yield curve inversion (in which shorter-term rates become higher than longer-term rates). Both of these narratives have advanced in the past several months, but not nearly to the degree that some people had feared: Wage growth of 3.1% is hardly upsetting, and the yield curve still has a slight positive slope except where it’s essentially flat between 2-year and 5-year maturities.

There are even some ways in which the situation is better now than it was a year ago: Most notably, inflation is tame (albeit partly because of lower oil prices) and the Fed has tilted toward a more dovish stance than was the case when Chair Jerome Powell took office earlier this year. Interest rate futures contracts now imply that investors think the Fed will raise rates only once in 2019, not three times as previously anticipated. The stock market is considerably cheaper, as prices have held flat (after a lot of volatility) while earnings have grown by more than 20% this year. A market trading at 15x EPS is considerably more attractive than one trading at 19x.
As to the other items on this checklist, the situation is just as good today as it was a year ago. The index of leading indicators is still strongly in positive territory. Business investment remains healthy, although it’s fair to worry that higher tariffs may chill future investment. Credit quality remains outstanding, with no discernible uptick in downgrades or defaults. (Bond investors, however, are beginning to worry that credit quality may deteriorate; credit spreads have widened noticeably in the past few weeks; hence the yellow label in Chart 1.) Earnings quality is likewise very strong, as companies are hitting their targets thanks to robust sales growth rather than cost reduction, tax cuts, or other factors. Simply put, a recession just isn’t in the cards.

Putting all the pieces together, it’s too difficult to make the case for a deep or prolonged downturn in the stock market. The bears just don’t have enough food to last for long. They can prowl around the housing slowdown or China or many other topics, but the arguments for a nasty collapse in corporate earnings just don’t hold water now. They might in the future, so we remain vigilant; but for now, the burden of proof clearly rests with the bears, and they don’t have much of a case.

What *Ursa dowjonesius* does have, however, is the opportunity. Investors are clearly nervous; it’s human nature. A sudden wave of panic selling can bring out the bears in a hurry, smelling blood as investors trip over each other stampeding to escape. That kind of selling pressure can result in steep price declines since so few buyers have the courage of their convictions; but the sellers typically exhaust themselves fairly quickly. Bears with opportunity but no food can cause real damage, but markets usually heal in short order.

It’s human nature to worry when markets seem to lose their bearings. The Moody Blues felt the same emotional stress in 1968, pleading to get out of the way of that era’s turmoil:

\[
\begin{align*}
Ride my see-saw, take my place, have my seat, it’s for free \\
I’ve worked like a slave for years \\
Sweat so hard just to end my fears \\
Not to end my life a poor man \\
But by now I know I should have run.
\end{align*}
\]

The easy way is to run, but giving in to fear just gives *Ursa dowjonesius* its opportunity to rampage. The harder and healthier way – as the sign on page 1 says – is to keep calm and don’t feed the bears.