The Two Month Streak for the Market Could Mean More Gains Ahead for 2019

By Bob Deitrick
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What a difference 70 days makes. We were very concerned through the holidays about the correction occurring before Christmas as this had never happened before. However, we remained optimistic the market would rebound, and indeed it has. Stocks soared higher in the first two months of 2019, and if history is an accurate guide, and we believe it often is, equities will be volatile, but they are primed for further gains in 2019.

Historically, when we have experienced back-to-back gains in January and February, going back to 1950, the S&P 500 has appreciated in the final 10 months of the year the vast majority of the time. In fact, it has happened 25 of 27 times or 92.5% of the time! <u>Those gains over the remaining 10 months of the year have averaged 12.1%.</u> I am not a meteorologist (albeit I considered this as a career as Willard Scott was a family friend in McLean) but if Willard was predicting a 92.5% chance of rain, it was probably gonna rain. To start 2019, the S&P 500 is up 7.87% for January and 3.73% in February. This is the best start for the market since 1991! 28 years ago, the market went on to appreciate another 13.6% by December. See the chart below:

A GOOD START TO THE YEAR COULD HAVE BULLS SMILING

S&P 500 Index When Both January and February Are Green

Year	January Return	February Return	Final 10 Months
1950	1.5%	1.0%	18.6%
1951	6.0%	0.6%	9.0%
1954	5.1%	0.3%	37.6%
1955	1.8%	0.4%	23.7%
1961	6.3%	2.7%	12.8%
1964	2.7%	1.0%	8.9%
1967	7.8%	0.2%	11.2%
1971	4.2%	0.9%	5.4%
1972	2.0%	2.5%	10.8%
1975	12.3%	6.0%	10.5%
1983	3.3%	1.9%	11.4%
1985	7.4%	0.9%	16.6%
1986	0.2%	7.1%	6.7%
1987	13.2%	3.7%	-13.1%
1988	4.0%	4.2%	3.7%
1991	4.2%	6.7%	13.6%
1993	0.7%	1.0%	5.2%
1995	2.4%	3.6%	26.4%
1996	3.3%	0.7%	15.7%
1997	6.1%	0.6%	22.7%
1998	1.0%	7.0%	17.1%
2004	1.7%	1.2%	5.8%
2006	2.5%	0.0%	10.7%
2011	2.3%	3.2%	-5.2%
2012	4.4%	4.1%	4.4%
2013	5.0%	1.1%	22.0%
2017	1.8%	3.7%	13.1%
2019	7.9%	3.3%*	?
		Average	12.1%
		Median	11.2%
		% High	92.6%

Source: LPL Research, FactSet 02/26/19
*February return as of 02/26/19

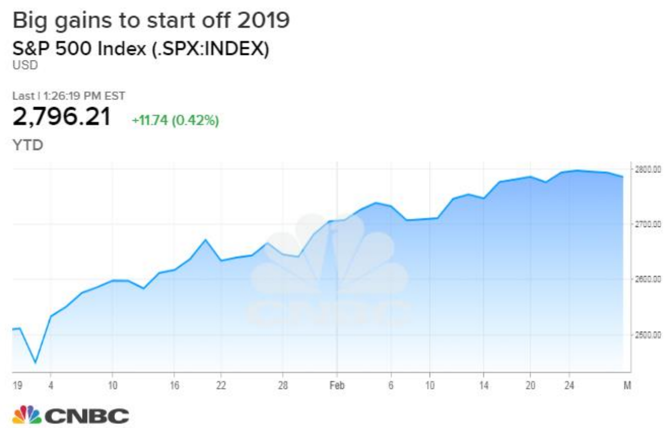
All indexes are unmanaged and cannot be invested into directly. Past performance is no guarantee of future results.

The modern design of the S&P 500 stock index was first launched in 1957. Performance back to 1950 incorporates the performance of the predecessor index, the S&P 90.

Most analysts panicked in December and cut their earnings and economic estimates for 2019. <u>Many predicted a recession for 2019. But where they foresaw apocalypse, we envisioned hope.</u> In fact, 2019 is the

best start to any new year in 28 years. Earnings haven't been overwhelming, but they haven't been bad and are better than the predictions of two months ago. Consumer confidence came in last week at 131.8 - higher than the expectation, retail sales were up, and new home sales were higher, so the macro-data has been favorable. To the extent we get a deal with China by the end of April, we could see the market improve noticeably.

The markets were crushed in December, leading the major indices to their worst decline in a decade. In fact, December was the worst December on record since 1931. You may have heard us say: "headlines took over the news cycle and the market." This is accurate. Fears of an economic slow-down, fueled by an aggressive Fed and the U.S.-China trade war drove markets lower. However, the Fed regained its sanity in January signaling it would be patient in raising rates as China and the U.S. appeared to be nearing a compromise. Meanwhile, corporate earnings for the 4th quarter were up 13.08%. So far in the first two months of the year, the S&P 500 is up 11.6%, the NASDAQ is up 13.9%, the Russell 2000 "small cap" index is up 17.2%, and the biotech sector (the BTK), one of our favorites, is up 22.8% to start 2019. Not too shabby as a start.



Source: CNBC News charts from March 2nd, 2019.

Moreover, there are some favorable seasonal factors to consider this Spring. March and April are historically two of the better months for the market. Since 1950, the S&P 500 has averaged gains of 1.2 percent in March and 1.4 percent in April as new IRA and Roth funds, as well as the warm weather, drive the market forward.

Technically, fundamentally, seasonally and anecdotally, we believe the U.S. economy remains strong. Eddie Merlot's of Columbus experienced its best New Year's Eve in their history with 800 covers that night. Politically for the Trump administration, there are several risks, China being the big one and the Mueller Report has yet to come out as well, but the Fed has hit "pause" on its TIVO, and that is beneficial for stocks.

History conveys that the market may rally to record highs this year - if the China situation is resolved. Having said that, 2019 will be a bumpier ride than 2017, so please be prepared. Strong markets climb walls of worry, and we believe this bull cycle is alive and well. Unemployment claims came in a bit higher last week, but they remain low at 225K – portending a strong labor market. The probability is that this market will grind higher, but the easy part is over. The next 10 months will be more volatile than the first two. Having said that, please focus on the end game, not each quarter or the failed drive that settles for a punt. The end game is what counts.

We have several seminars coming up this Spring which will be announced soon. Please feel free to contact us with any questions or to set a time for your next strategic planning and review session. Have a terrific week!