1st Quarter 2019 Market Overview

Suddenly, the Superlatives Return

Investors poured money into the stock market in the first quarter. After the meltdown last year, descriptions such as TINA (There Is No Alternative), Goldilocks (symbolizing an economy that is just the right temperature for stocks), and FOMO (Fear of missing out) were used to describe the dramatic shift in market sentiment.

Q1 2019 was the best quarter in eight years for the S&P 500 and this paradoxically and symmetrically followed the fourth quarter of 2018, which was the worst quarter in ten years.

Source: FactSet Research Systems, Inc.

The graph of the S&P of seven months illustrates the steep drop last year and the sharp reversal in 2019. Historically, it is rare for the market to recover so quickly after undergoing such extensive damage. The surprising reversal leaves the S&P 500 only 4% below its all-time high from last September.

Last year, investors staged a protest because the Fed was disregarding pervasive signals of economic weakness. In an abrupt shift at year end, the Fed retracted this policy and became more accommodative to economic growth by indicating no further interest rate hikes in 2019. Investors were pleased. Faith in stocks was restored.

Worrisome factors still stand out. Economic weakness is existential in Europe. Financial stresses are also manifesting themselves in China and Japan. The overseas malaise is a sharp contrast to conditions here at home, however. The US consumer is strong and more people are working in our country than ever before.

Meanwhile, substantial hopes for stocks hinge on a resolution of the trade dispute with China. Our government indicates an agreement is imminent which is stoking the expectations of investors.

The benefits from an ultimate trade resolution are probably already baked into the market, in light of the strong advance so far. Any gains that could follow the announcement of an agreement could result in a momentary flurry and this would be a good time to take profits.

The turnaround in the market and the strong start to the year continues to fuel investor hopes. It is clear that our government wants the market to perform well, judging from its barrage of rhetoric. The superlatives of TINA, Goldilocks, and FOMO are firmly in place, for the time being.

The Near Term Outlook

It would be worrisome to see the ascent of the market steepen. Bubble-like proportions can be dangerous because they can precede uncomfortable volatility.

The S&P gained 7.9% for the single month of January and continued into April, although at a markedly slower pace. Historically, it would be constructive for stocks to digest some of their recent gains and spend some time moving sideways.

There does appear to be enough momentum to suggest Q2 will continue the positive general trend. Expectations surrounding interest rates differ vastly from last year and this is likely to support the market and to propel it higher.

Peregrine Portfolio

The rebound in the market sparked new construction in the context of client assets. A fresh list of companies has been implemented and is expected to produce strong returns. Leading performers in the S&P 500 such as Chipotle, General Mills, Netflix, Ulta Beauty, and Xilinx are examples of strong performers employed during the quarter.

Another area of focus is on companies with resilient characteristics from a slowing economy. This list can provide steady investment performance even if our economy slows in the months ahead.

New stock market investments yielded solid gains for clients. Accounts rose 5.71%, on average, for the quarter. It was the second best quarter recorded over the past five years and it ended with a healthy balance of cash on hand.

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