What Does a Strong First Quarter Say About the Remainder of the Year?

What a way to start the new year; the major world equity markets finished the first three months with strong returns. The tech heavy NASDAQ Composite Index led the way with a return of 16.49% for Q1 2019, followed by the S&P 500 at 13.07% and the Dow Jones Industrial Average came in with a gain of 11.15%. The rest of the world was not far behind, the MSCI All World Index ex US had a positive return of just over 9.5% and the MSCI Emerging Markets Index had a respectable 9.54% increase.

It was not too long ago that investors were asking if it was time to get defensive in their portfolios given the negative returns we had in Q4 of 2018. As painful as it may have seemed at the time, our message was consistent, it was not time to sell, but rather to invest. If investors had sold out in December, they would have missed the strong Q1 returns.

Since we have experienced a strong first quarter, it begs the question if the returns will be given back later in the year. To answer that question, the Surevest Investment Committee analyzed what has happened in the past when the markets have been positive the first three months of the year.

Since 1950, the S&P 500 has had 19 years in which the first quarter witnessed a positive January, February and March. In those years the S&P averaged an additional increase of 8.65% for the remaining 9 months. Therefore, looking back at history, a strong start to the year has, on average, led to an even stronger yearly return.

S&P 500 Statistics 1950-2019 with Positive First Three Months of the Year	
Average Return for Q1 with all Months Positive	10.0%
Average Return for remainder of the year	8.6%
Average Return for those Years	19.2%

Worst Year if Positive Q1	2.0%	1987
Best Year if Positive Q1	45.0%	1954
Worst Remainder of Year if Positive Q1	-15.3%	1987
Best Remainder of Year if Positive Q1	33.6%	1954
Best Returning Q1	21.6%	1975
Worst Returning Q1	3.0%	1950
Average Prior Q4 Return*	6.3%	
Best Prior Q4 Return	16.8%	Q4 1982 Going into 1983
Worst Prior Q4 Return	-1.0%	Q4 2012 Going into 2013

*Excluded 1950 as there was no prior year based on the data set

In the data set, there was only one year in which the previous Q4 was negative and that produced a subsequent 9 month return of 17.79%.

Currently, the S&P is at a price level of 2,879. Based on that average return over the next 9 months of 8.65%, that takes us to a price of 3,128. On $185 next year's earnings, that would have us trading at a price-to-earning of 17 times, which makes 3,128 a reasonable year-end target. So, just because we had a great Q1 doesn't mean the party is over.

Robert Luna, Surevest CEO & Chief Investment Strategist, will be on his Friday spot with Charles Payne on Fox Business's Making Money to discuss the latest market news. Tune in during the 11:00a PST hour to listen to Robert's insights.