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Got to love these odds

April tends to be kind, not cruel, to stocks.

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As we sit on the verge of another earnings period, here in April, a month that Jefferies notes typically is one of the best for stocks, the bar is low. Earnings are expected to contract, with bottom-up 2019 estimates resting at about $168, having fallen steadily since the beginning of the year. S&P 500 revenue and earnings growth peaked in mid-2018 and, based on current estimates, likely bottomed in the just-completed quarter. Year-over-year (y/y) revenue growth is set to slow to 3.9% from 6% previously, with earnings projected to shrink across 10 of 11 sectors. *But*, the pace of downward earnings estimate revisions for the next 12 months (NTM) has been moderating, so much so that the constant maturity NTM estimate hit a low in mid-February and has been working higher since. Combined with evidence the economy—while slowing—is still growing, the underpinnings of stronger-than-expected results may be in the offing for the second and third quarters. Technical indicators are revealing good underlying breadth, with a steady series of higher highs in the New York Stock Exchange cumulative advance/decline line. This sets the stage for potential upside surprises, which shouldn't be all that surprising as April, far from being one of the cruelest, tends to be one of the kindest months for equities. Since 1998, the S&P has risen 1.7% on average and gained 75% of the time during the month. Good odds!

It helps that the market is entering this seasonally robust period with money market assets close to an 8-year high. This sideline cash provides support from the underinvested and a counterweight to slowing buyback activity and geopolitical variables that litter the path forward. Global equity markets have become increasingly synchronized, declining significantly in last year's fourth quarter and rebounding almost as much in this year's first quarter. This reversal has coincided with a dovish shift by the Fed and other central banks, as well as with improving prospects for a trade-war solution, the realization the market had priced in a worst-case scenario on Christmas Eve, and a flip by trading algorithms from bearish to bullish. The year's strong start is historically bullish. Since 1926, whenever the S&P has gained at least 10% in the first quarter (it was up 13.1% this year, its best start to a year since 1998), it has risen the last nine months of the year 85% of the time by a median of 7%. Excellent odds! The S&P's 6-day winning streak through Thursday was its first in over a year.

***However*, weekly momentum indicators are signaling** a pending consolidation and possible summer slowdown/pullback. While short-term sentiment is surprisingly skeptical, a contrary plus, Ned Davis says stocks appear overvalued relative to sales and book values, and that cyclical sentiment to valuation shows high risk. Strategas Research also observes the S&P's 65-day percent price change this week moved into the *99th percentile of all observations since 1950*. Historically, this rare event has been consistent with mixed near-term performance, albeit well-above-average forward returns six and 12 months out. You've got to like the sound of that! What might precipitate a pause? China trade talks that fail to conclude as soon as the markets expect, the Institutional Strategist (TIS) says. It thinks China may wait out the U.S. election cycle, giving up what it can for now to concentrate on reviving domestic consumption and boosting liquidity in its banking system. Wolfe Research expects an agreement to come sooner, likely in time for the Group of 20 meeting at the end of June. But it agrees talks are a moving target and the longer the delay, the longer the U.S. "soft patch" lasts. Another possible pullback catalyst: a crash-out Brexit. A snap election not only could disrupt the world's fifth-largest economy, further harming already struggling European economies (*see below*), it also could come at a delicate moment in world trade flows/agreements. If there's an accident in financial markets this year, TIS believes it will emanate from Europe. My biggest fundamental worry remains China. One month of slightly better news there (*see below*) isn't enough for me, especially when it comes just after Lunar New Year, which tends to create havoc with the data. Let's see what the next few months bring. Meanwhile, the bull would prefer a consolidation of gains any time now.

POSITIVES

- **U.S. soft landing watch** The Institute of Supply Management (ISM) monthly manufacturing gauge rose more than expected in March to a level consistent with strong economic growth. ISM's separate survey of nonmanufacturing activity slipped to a 1.5-year low, although it remained firmly expansionary and ahead of manufacturing's pace. A companion Markit gauge showed services activity accelerating the back half of the month. Elsewhere, bank loans accelerated, and both mortgage applications and public construction spending surged.
- **A confident consumer buys big-ticket items** Vehicle sales jumped in March, to a 17.5 million annual rate vs. 16.5 million in February, upgrading the outlook for first-quarter consumer spending on the heels of a disappointing February (*see below*). The Atlanta Fed's GDPNow growth forecast now sits at 2.1% after being as low as 0.27% early in Q1.
- **Global soft landing watch** The Chinese manufacturing PMI moved above 50 to a 6-month high (the expansion/contraction line of demarcation) , helping the global manufacturing PMI remain unchanged in March—the first time this leading indicator has not registered a down month since last April. There was broad-based improvement across China, but Europe remains a mess, as both Germany and Italy slashed their GDP growth forecasts for the year to 0.8% and 0.1%, respectively.

NEGATIVES

- **Mixed payroll report** At 196,000, March nonfarm jobs bounced off February's bad miss, beating expectations and indicating February may have been a one-off due to weather, the shutdown and other factors. Still, even with slight upward revisions to January and February, the pace of job growth appears to be slowing. The report's details show temporary employment fell, labor and household employment dropped, manufacturing employment dropped, retail trade dropped, labor force participation dropped and the median length of unemployment rose.

- **Shopping soft patch** February retail sales unexpectedly declined, although big upward revisions to January offset some of the impact. On a 3-month average basis, sales were off 0.4%, the most in four years, and y/y trend growth decelerated to its slowest pace since December 2015, signaling some loss of underlying consumer strength.
- **Less confident business leaders are holding the line on spending** Headline and core (non-defense capital goods ex-aircraft) durable goods orders declined in February, lowering the y/y trend for headline and core orders to 4.5% and 3%, respectively, their slowest paces since the first half of 2017. Elsewhere, private construction spending fell the most in eight years, and the Philly Fed said the number of states expecting their economies to expand fell to its lowest level since 2009.

WHAT ELSE

Capex watch While the unfolding deceleration in GDP and profit growth could weigh on capital expenditures (capex) over the next few quarters, Bernstein sees a silver lining: the still tight labor market. Indeed, initial jobless claims are hovering near 50-year lows, even as CEOs surveyed by the Conference Board continued to cite difficulties in finding workers. Historically, the link between companies struggling to find and retain workers has been causally and empirically consistent with stronger capital-labor substitution, which should help offset tepid capex since the Great Recession.

Echoes of 1999 More than two-thirds of IPO companies have negative earnings, nearly twice the rate seen during the past decade and matching the share at the dot.com peak. And this doesn't include Uber and newly public Lyft, which collectively lost as much as $3 billion last year, or $1.50 per ride shared. While revenue growth of 40% is robust, historically, only 20% of companies that had negative returns at the time of their IPO turned profitable three years later.

Not the best odds The March plunge in the present situations component of the Conference Board's consumer confidence index—it fell the most since 2008—is worrisome, Leuthold Group says. Over the past 50 years, when this component of the monthly survey has been high but falling (a rare condition that has existed in only 16% of all months since 1969), the S&P has experienced an annualized loss of nearly 7%.

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DISCLOSURES

Views are as of the date above and are subject to change based on market conditions and other factors. These views should not be construed as a recommendation for any specific security or sector.

Gross Domestic Product (GDP) is a broad measure of the economy that measures the retail value of goods and services produced in a country.

S&P 500 Index: An unmanaged capitalization-weighted index of 500 stocks designated to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. Indexes are unmanaged and investments cannot be made in an index.

The Conference Board's Consumer Confidence Index measures how optimistic or pessimistic consumers are about the economy.

The Global PMI is compiled by Markit Economics and is derived from surveys covering more than 11,000 purchasing executives in 26 countries.

The Institute of Supply Management (ISM) manufacturing index is a composite, forward-looking index derived from a monthly survey of U.S. businesses.

The Institute of Supply Management (ISM) nonmanufacturing index is a composite, forward-looking index derived from a monthly survey of U.S. businesses.

The Markit PMI is a gauge of manufacturing activity in a country.

The Markit Services PMI is a gauge of service-sector activity in a country.

The New York Stock Exchange (NYSE) advance/decline line measures the ratio of advancing stocks to declining stocks.

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