S&P 500 Performance Following New 52-Week High in More Than 6 Months Since 1950				
	+20 Days	+65 Days	+125 Days	+250 Days
Average Return:	1.2%	2.5%	6.8%	13.1%
# of Observations:	25	24	25	24
% Positive Returns:	68.0%	68.0%	88.0%	95.8%

S&P 500 Historical Performance Since 1950				
	+20 Days	+65 Days	+125 Days	+250 Days
Average Return:	0.7%	2.2%	4.3%	8.8%
# of Observations:	17,420	17,375	17,315	17,190
% Positive Returns:	61.1%	65.8%	69.9%	73.6%

Source: Strategas, Avalon Investment & Advisory as of April 24, 2019

Chart of the Week: The S&P 500 reached an all-time high last week, eclipsing the previous high from last September in 145 trading days. It took 80 trading days to recover the almost -20% decline in 4Q 2018. Interestingly while this is a fast recovery of the losses, the rebounds in 1982 and 1998 were quicker despite even sharper initial losses. But does reaching new highs have any implications for future returns? Strategas Research Partners looked at the historical returns for the S&P 500 following new highs reached after more than six months (see chart). The good news is that stocks have tended to outperform following these instances both in magnitude of returns and percentage of time with positive returns. According to Avalon's analysis, this S&P 500 rebound off the Christmas Eve lows has been significantly stronger than the average rally after 20% declines since 1945. In addition, this rebound has outperformed all rebounds not associated with a recession except the 1998 period. The 1982 and 2009 recession-related rebounds were more rapid than the current period as well. Avalon's view is that investors should remain optimistic but be prepared for more volatility as stocks seem to be extended and sentiment is ebullient. In any case the pace of gains seems likely to slow. Stocks are back to pricing in better economic news but there is less room for error with the market at highs. Rebalancing allocations back to risk targets should be considered.

WEEK IN PREVIEW

- Geopolitical: Rumors out of China that a deal could be signed in June, but markets continue to monitor the progress of the trade negotiations between the U.S. and China with U.S. representatives headed to Beijing on Tuesday. May Day holiday will close many international markets on the first.
- U.S.: Packed calendar with the Federal Reserve (Fed) meeting and monthly employment data as highlights. There is little doubt of no change in policy rate, but markets will look for clues as to future policy both from the press conference and a boatload of Fedspeak to end the week. Job growth is expected to moderate slightly but remain robust. April ISM PMI should continue to support the view of a solid U.S. economy. 2Q GDP estimates from the NY Fed stands at 2.08%.
- 1Q S&P 500 Earnings: 46% of companies have now reported and 77% and 59% have beaten earnings and sales expectations respectively. Earnings are expected to decline -2.3% year-over-year (Y/Y) versus -3.9% last week, while sales expectations improved to 5.1% growth from 5.0%. The improvements were driven primarily by consumer discretionary (AMZN & F) and technology (MSFT). This week is the peak pace of earnings for 1Q with 164 S&P 500 companies reporting including AAPL, GOOG, GE, PFE, MRK, LLY, AMGN, MA and MCD.
- Europe: Eurozone 1Q GDP is expected to remain at a 1.1% Y/Y pace. With the October 31 Brexit deadline looming and no concrete path to an agreement, the Bank of England (BoE) is almost certain to leave monetary policy unchanged. April manufacturing and services PMI provides a look at the current state of the U.K. economy.
- Asia: Japan's markets are closed for Golden Week and Crown Prince Naruhito becoming emperor to usher in the "Reiwa" imperial era, translated as auspicious calm. Markets are sure to be monitoring China's April PMI data as the rebound in economic growth there has calmed concerns about global growth.
- Central Banks: In addition to the Fed and BoE, the central banks of Hungary, Bulgaria, Georgia, Czech Republic and Belarus meet with only Czech Republic expected to change to monetary policy rate with a hike.

WEEK IN REVIEW

- The S&P 500 posted a gain of 1.2%. Sector returns were again very bifurcated with healthcare, communication services and consumer discretionary posting nice gains, but industrials, materials and energy all down over 1%. WTI and Brent oil prices were down on the week. Small cap stocks outperformed with the Russell 2000 up almost 1.7%. U.S 1Q GDP was much better than expected at 3.2% but the details were less impressive with inventories and trade distorting the headline. The 10-year U.S. Treasury yield fell to 2.5% and high yield credit spreads reflecting decreased risk tolerance by widening.
- Developed international stock indexes underperformed the S&P 500 in U.S. dollar terms. On a hedged-currency basis, developed market stocks were up 0.33%. The U.S. dollar was stronger against developed and emerging market currencies. The non-hedged stock returns were -0.27% for MSCI EAFE and -1.32% for MSCI Emerging Markets.
- The 10-2 yield curve widened and ended at 21.4 basis points. Another curve measure of three-month yield six quarters forward – three-month yield continues to be inverted at -23.3 basis points. The yield curve has historically provided an accurate forecast of future recessions when the difference in these measures turns negative, also known as inversion. Yield curves are one of the major indicators that we monitor to judge recession risk, but these inversions typically happen a year or more in advance of an economic recession. In addition, stocks have historically had significant advances post-inversion. The three-month yield six quarters forward yield is now reflecting that the market expects a cut in short-term rates over the next year and a half. Our view remains that the odds of a recession in 2019 remain low and Avalon expects no rate hikes from the Federal Reserve in 2019. Avalon continues to monitor the data closely. Please see our **Avalon Perspectives** publication, *The Yield Curve and Equity Returns*, from April 26, 2018, for more details.

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DISCLOSURES