Bear Beginning Date	Bear Beginning S&P 500	Bear Ending Date	Bear Ending S&P 500	Calendar Days	S&P 500 %Loss	Price Returns After Bottom +60 Days	+90 Days	+1 year
5/29/1946	19	5/17/1947	14	353	-28.8%	14.0%	11.6%	19.0%
6/15/1948	17	6/13/1949	14	363	-20.6%	13.1%	13.7%	42.1%
4/6/1956	49	10/22/1957	39	564	-20.2%	1.3%	6.1%	31.0%
12/13/1961	73	6/26/1962	52	195	-27.9%	13.9%	8.2%	32.7%
2/9/1966	94	10/7/1966	73	240	-22.2%	10.4%	11.5%	32.9%
12/3/1968	108	5/26/1970	69	539	-35.9%	12.3%	16.9%	43.7%
1/11/1973	120	12/6/1974	65	694	-45.9%	19.4%	28.7%	33.6%
9/21/1976	108	2/28/1978	87	525	-19.3%	11.3%	11.0%	10.6%
4/27/1981	135	8/12/1982	102	472	-24.4%	31.3%	37.8%	58.3%
8/25/1987	337	10/19/1987	225	55	-33.2%	10.8%	12.1%	27.9%
7/16/1990	369	10/11/1990	295	87	-19.9%	11.3%	5.4%	29.1%
7/17/1998	1,187	8/31/1998	957	45	-19.3%	14.8%	24.6%	37.9%
1/14/2000	1,465	10/9/2002	777	999	-47.0%	17.4%	18.8%	33.7%
10/9/2007	1,565	3/9/2009	677	517	-56.8%	37.4%	39.0%	68.6%
4/29/2011	1,364	10/3/2011	1,099	157	-19.4%	13.2%	14.4%	32.0%
9/20/2018	2,931	12/24/2018	2,351	95	-19.8%	18.8%	?	?
Mean (No Recession)		7		224	-24.3%	12.6%	13.3%	27.6%
Mean (All)		15		387	-29.4%	15.5%	17.3%	35.5%
Mean (Recessions)		8		529	-33.8%	17.9%	20.8%	42.5%

Source: Bloomberg, NBER, Avalon Advisors, LLC as of February 25, 2019.

Chart of the Week: Last Friday marked sixty days from the recent S&P 500 low on December 24, 2018. Our analysis looks at how this rally off the lows stacks up against the other post-World War II declines of roughly 20% or more and what it might imply for future returns. In addition, the data was separated by occurrences accompanied by a recession (shaded) and not. Through Friday, the S&P 500 has risen almost 19% off the low in the first sixty days which places it ahead of the average rebound of almost 16% but even further ahead of rebounds from non-recession lows which average almost 13%. In fact, this rebound ranks as the strongest non-recession rebound in the first sixty days. It seems likely that stocks may be a bit ahead of themselves and the data would certainly argue that investors should be prepared for some consolidation. But the future is not necessarily bleak since even the average returns one year out of almost 36% or 28% for non-recession periods from previous similar lows still offer an attractive upside for stocks. Rising expectations of 1) a trade deal between the U.S. and China and 2) the Federal Reserve remaining financial market-friendly, certainly leaves room for possible disappointment which could lead to some stock volatility. Avalon remains constructive on stocks due to their relative valuation versus bonds so we would expect to take advantage of the market taking a breather from its torrid pace.

WEEK IN PREVIEW

- Geopolitical: Markets should be cheered as President Trump, noting "substantial progress", extended the deadline for additional U.S. tariffs on $200 billion in Chinese goods past March 1. President Trump holds a second summit with N. Korea's Kim Jung Un. The U.K. Parliament is scheduled to vote again on the Brexit agreement with the deadline of March 29 approaching quickly.
- U.S.: December housing starts and permits should decline while pending home sales rise for January. February ISM Manufacturing PMI is expected to decline slightly to 55.6, well above the 50.0 line of demarcation between signaling growth or contraction. 4Q GDP should slow to a 2.4% rate down from 3.4%. The latest 4Q GDP estimates from the Atlanta and NY Fed are 1.42% and 2.35%, respectively. Eight speeches by Federal Reserve members are scheduled with the highlights being Chair Powell and Vice Chair Clarida. Powell also gives his semi-annual testimony to the Senate and House.
- 4Q S&P 500 Earnings: 89% have reported with 69% and 61% beating earnings and sales estimates respectively. Blended earnings estimates held steady at 13.1% year-over-year (Y/Y). Sales fell to 6.6% Y/Y primarily due to a cut in sales estimates for Berkshire Hathaway. Thirty-nine S&P 500 companies report earnings comprising of quite a few retailers including AZO, M, HD, LOW, BBY and TJX.
- Europe: Eurozone January unemployment is expected to hold steady at 7.9% while February consumer inflation should be reported at 1.5% Y/Y. German January retail sales could improve to 1.2% Y/Y. U.K. February Markit Manufacturing PMI should reflect the economic slowdown when it is reported at 52.0, down from 52.8.
- Asia: China's February manufacturing and non-manufacturing PMI expected at 49.5 and 54.5 respectively. The Caixin China Manufacturing PMI is forecast to improve to 48.7. Japan reports January data which should continue to reflect a tight job market with 2.4% unemployment.
- Central Banks: The central banks of Israel, Hungary, Botswana, South Korea, Bulgaria and The Dominican Republic meet with no expected changes in monetary policy rates.

WEEK IN REVIEW

- The S&P 500 posted a 0.6% gain for the week. Utilities, materials and technology were leading sectors. Both WTI and Brent oil prices were higher but energy stocks and MLPs fell. Small cap stocks outperformed with the Russell 2000 up 1.3%. The 10-year U.S. Treasury yield fell to 2.65% and high yield credit spreads improved.
- Developed and emerging international stocks indexes outperformed the S&P 500 in both U.S. dollar and hedged-currency terms. On a hedged-currency basis, developed market stocks were +1.1% with Japan particularly strong. The U.S. dollar was weaker against both developed and emerging market currencies which increased their non-hedged stock returns to 1.6% for MSCI EAFE and 2.7% for MSCI Emerging Markets. Chinese stocks were very strong with shares rising 5.4%.
- The 10-2 yield curve widened and ended at 15.4 basis points. Another curve measure of three-month yield six quarters forward – three-month yield narrowed to 1.4 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 at most one net hike 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 expect perhaps only one hike from the Federal Reserve later 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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