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MARKETS

Calendar Flipping to April Typically Bodes Well for Stocks

Before some investors 'sell in May and go away,' April usually performs well

The S&P 500, which has averaged a gain of 2.2% in April since 2006, has only declined once since then in 2012. PHOTO: VICTOR J. BLUE/BLOOMBERG NEWS

By Jessica Menton

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History bodes well for stocks in April, a bullish sign for investors as major averages inch toward record highs.

The S&P 500, which through Tuesday is off to its best start to a year since 1998, has shaken off recent market jitters over a looming U.S. recession and slowing global growth.

A cautious Federal Reserve and thawing U.S.-China trade relations have helped propel stocks in 2019 following a rocky fourth-quarter selloff, putting both the broad index and the Dow Jones Industrial Average back within 2.2% and 2.4%, respectively, of their all-time highs.

As investors continue to plow more money into U.S. stocks, the optimism comes just in time for the start of a new month that typically delivers robust returns. The S&P 500, which has averaged a gain of 2.2% in April since 2006, has only declined once since then, in 2012, according to Dow Jones Market Data. Meanwhile, the Dow industrials have advanced every April since 2006, averaging a gain of 2.3% for the month in that span, the data showed.

Some analysts attribute typical April gains to the adage of "sell in May and go away," which refers to a six-month period that historically has been a weaker time to own stocks amid the summer doldrums.

"April is among the best months for investors, which could theoretically mean that some investors emphasize the 'sell in May' effect," said Jeroen Blokland, a multiasset portfolio manager at Dutch asset manager Robeco.

April is the final month of a six-month period starting in November where investors tend to hold more cyclical stocks linked to the domestic economy that are more sensitive to changing conditions, some analysts said.

Cyclical sectors have powered the S&P 500 higher in April over the past three decades. Energy, materials, industrials and financials are four of the top five best-performing sectors in April and have each posted average monthly gains of at least 1.9% going back to 1990, according to data from CFRA Research.

From May to September, some investors rotate to more defensive sectors such as health care and consumer staples that can weather uncertainty, they said.

Some of April's gains are also driven by capital inflows from Americans filing during tax season.

"If you have an IRA, you have to fund it by April 15, and if you're getting money back, you can file early and put more money to work," said Sam Stovall, chief investment strategist at CFRA Research. "If you get a bonus that tends to get paid by the end of February or March, a lot of that then goes towards the market and also helps to maximize your 401(k)."

Another reason why April outperforms: Portfolio managers rebalancing at the end of the first quarter often sell poor-performing stocks, which sets up more buying opportunities in April, Mr. Stovall said.

"Investors could be heaving a sigh of relief after a typically volatile first quarter, managers could be squaring up portfolios at the start of a new quarter, or the advent of spring and warmer weather could just lighten up everybody's moods," Ryan Detrick, senior market strategist at LPL Financial, said in a note.

Since 1950, April has tallied gains 15 of 19 years when January, February, and March were all positive, and the average gain in April for those 15 years was 2.6%, according to LPL Financial.

“I’m not too worried about a pending recession,” said Eric Gritter, financial adviser and portfolio strategist at Strategic Financial Group. “If the Fed is no longer a headwind and it becomes more of a tailwind, that’s going to be a positive force for stocks moving forward for the rest of the year.”

Meanwhile, stocks face a projected contraction in first-quarter corporate earnings. Earnings at S&P 500 companies are expected to fall 4.1% from a year earlier, according to FactSet, which would mark the first year-over-year profit decline for major U.S. companies since the second quarter of 2016.

Many investors anticipate a slowdown in earnings growth as the effects of the 2017 tax cuts abate.

“Are things just slowing down, or are we going into recession mode?” Mr. Blokland said. “This will be the most important factor as we enter earnings season.”

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