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U.S. Stocks Can’t Get Rally Going With Longest Drought Since ’94

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(Bloomberg) -- Stringing together gains in the American stock market has become next to impossible.

Knocked down 1.5 percent Wednesday, the Standard & Poor’s 500 Index has now gone 26 days without posting gains in back-to-back sessions, the longest stretch since 1994, data compiled by Bloomberg show. Losses in biotechnology and chip companies dragged U.S. stocks to a third day of declines, interrupting another run at a record for the Nasdaq Composite Index as investors sold the year’s best-performing equities.

“You have markets that are pretty gun-shy,” Michael Ball, who oversees about $800 million as president of Weatherstone Capital Management Inc. in Denver. “Whatever the news story of the day, it seems to counteract a lot of what we saw the prior day.”

The S&P 500 slipped 1.5 percent to 2,061.05 on Wednesday. The gauge hasn’t increased for two straight days since Feb. 17, including a three-day
retreat of 2.2 percent since closing within 10 points from a record high on Friday.

Flat for the year, the benchmark U.S. equity index sits at a level it first reached on Nov. 21. Since then, stocks in the gauge rose as much as 2.6 percent to an all-time peak of 2,117.39 before sliding back to the current price.

Investors never came close to a streak like this one last year. The longest stretch without back-to-back gains in 2014 was 11 days, data compiled by Bloomberg show.

**Sector Declines**

Wednesday's losses, the worst for the Nasdaq since April, were spurred by selloffs in semiconductor and biotechnology companies. The Philadelphia Stock Exchange Semiconductor Index dropped 4.6 percent, the most since October amid decreases of more than 2.9 percent in Nvidia Corp., Micron Technology Inc., Broadcom Corp. and Intel Corp.

The first quarter's best performing stocks are the ones falling the most now. Biogen Inc. and First Solar Inc., which surged more than 35 percent in 2015 through last Friday's trading, slipped more than 3.8 percent. The iShares Nasdaq Biotechnology ETF, which increased 21 percent year-to-date through Friday, fell 4.1 percent.

“We’re seeing a loss of momentum from last week,” Bruce Bittles, chief investment strategist at Milwaukee-based RW Baird & Co., which oversees $110 billion, said in a phone interview. “The market is priced for perfection in terms of valuations. Perhaps it has to go through some kind of consolidation period to get through this next earnings period.”

**Lofty Valuations**

The S&P 500 trades at 18.36 times earnings, compared with a trailing five-year average of 15.64 times, according to data compiled by Bloomberg. Wednesday's biggest decliners are also marked by historically elevated valuations, with both the Philadelphia Semiconductor and Nasdaq Biotechnology Indexes trading above their five-year profit multiples.

Companies will start to report first-quarter earnings next month, and profits are forecast to decline for the first time since 2009. S&P 500 results will see a contraction of 5.6 percent for the three-month period, according to economist estimates compiled by Bloomberg. Earnings growth forecasts for the quarter were positive as recently as January, the data show.
Stocks are also entering a stretch of the year when companies customarily suspend share repurchases before reporting quarterly results, according to Goldman Sachs Group Inc. While the data isn’t conclusive, owning stocks during those periods has generated a return that trails the market average over the past two years, according to data compiled by Bloomberg.

**Share Repurchases**

Technology stocks could have the most to lose in the absence of buybacks. Computer and software makers repurchased more shares than any other industry in 2014 at $122 billion, according to data compiled by Barclays.

Orders for durable goods unexpectedly dropped in February, according to data released at 8:30 a.m. on Wednesday, a sign the slowdown in global growth may be weighing on American manufacturers. Still, the S&P 500 fluctuated around little changed after the market opened until around 11:30 a.m., when it began its decline.

“This market has less to do with data dependence and a lot to do with asset prices and volatility,” Michael Block, chief equity strategist at Rhino Trading Partners LLC in New York, said in a phone interview. “Earnings season is going to be important.”

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