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NED DAVIS RESEARCH

APRIL 9, 2020

# Worst start on record

The S&P 500 plunged 20.0% in Q1, its worst ever start to the year. At 18 trading days, the decline was the fastest from a record high to an NDR-defined bear market on record.

The **table below** shows all quarters when the S&P 500 has fallen at least 15% and subsequent returns. The next quarter, the S&P 500 has climbed 67% of the time by a median of 5.8%. One year later, the median gain is 17.3%.

Post-war, the results are even stronger. The next quarter, the S&P has fallen once – Q1 2009. Two-to-eight quarters later, the market has been up every time at over twice the long-term average.

The table is one of many ways to show that the market is oversold. The takeaway is that unless the economy is entering a depression, the market has priced in a lot of bad news. We remain cautious on U.S. stocks until breath thrusts indicate the market is entering an uptrend.

The coronavirus panic impacted all asset classes in Q1. Treasury bonds soared – beating stocks by 40%, the second-widest spread since 1981. Reflecting the flight to safety, gold and the U.S. dollar rallied in Q1, although both were volatile. High yield bonds plunged nearly 13%, oil plunged over 50%, all sectors fell by at least 12%, and every country in the All Country World Index fell.

## After 15%+ drops, SPX gained 2x long-term mean for next 2 years, on avg

S&P 500 Performance After 15% Single-Quarter Drops

Date	Previous Quarter % Change	Subsequent Performance				
		1Q % Change	2Q % Change	3Q % Change	4Q % Change	8Q % Change
12/31/29	-28.9	17.2	-4.6	-13.3	-28.5	-62.1
6/30/30	-18.6	-9.1	-25.0	-18.4	-27.5	-78.4
12/31/30	-17.5	8.8	-3.3	-36.7	-47.1	-55.1
9/30/31	-34.5	-16.4	-24.7	-54.4	-16.8	1.2
12/31/31	-16.4	-10.0	-45.4	-0.5	-15.2	24.4
6/30/32	-39.4	82.4	55.5	32.1	146.3	121.4
3/31/33	-15.1	86.5	68.0	72.7	83.8	44.8
12/31/37	-23.3	-19.4	9.6	16.0	25.2	18.4
3/31/38	-19.4	36.0	44.0	55.4	29.2	44.1
3/31/39	-16.9	-1.1	18.6	13.8	11.6	-9.3
6/30/40	-18.5	6.8	6.0	-0.2	-1.3	-16.8
9/30/46	-18.8	2.3	1.4	1.7	1.0	3.5
6/30/62	-21.3	2.8	15.3	21.6	26.7	49.2
6/30/70	-18.9	15.8	26.7	37.9	37.1	47.3
9/30/74	-26.1	7.9	31.2	49.8	32.0	65.6
12/31/87	-23.2	4.8	10.7	10.1	12.4	43.0
9/30/02	-17.6	7.9	4.0	19.5	22.2	36.7
12/31/08	-22.6	-11.7	1.8	17.0	23.5	39.2
<b>All Cases</b>						
<b>Mean</b>	-22.1	11.7	10.5	12.4	17.5	17.6
<b>Median</b>	-19.2	5.8	7.8	14.9	17.3	30.5
<b>% Positive</b>	0.0	66.7	72.2	66.7	66.7	72.2
<b>All Periods Mean</b>	2.0	2.0	4.0	6.0	8.2	16.6
<b>Post WW II</b>						
<b>Mean</b>	-21.2	4.3	13.0	22.5	22.1	40.7
<b>Median</b>	-21.3	4.8	10.7	19.5	23.5	43.0
<b>% Positive</b>	0.0	85.7	100.0	100.0	100.0	100.0
<b>All Periods Mean</b>	2.0	2.0	4.2	6.4	8.7	18.0

Source: S&P Dow Jones Indices.

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