

CHART OF THE MONTH

FEBRUARY 2019

The Dow Jones Industrial Average, which closed last Friday above 26,000 for the first time since early November, has now risen for nine consecutive weeks, the longest streak going back to 1995. Since Christmas Eve, the Dow has rebounded 19.4%, easing concerns that the plunge in stock prices during the fourth quarter was the beginning of a bear market.

The two catalysts for the reversal in fortune are a more accommodative stance by the Federal Reserve on interest rates and reduced trade tensions with China. On the heels of a series of discussions between Chinese and American officials in Washington last week, President Trump indicated that tariff increases slated to take effect March 1 will be delayed amid “substantial progress” on structural issues in trade talks. If the negotiations continue to advance, Trump and President Xi may meet next month to finalize an agreement.

While the stock market may be overbought in the short term, similar winning streaks since World War II have signaled continued strength in the months ahead. As shown in the table below, the average return for the DJIA has been 7.1% and 11.4% for the six months and year, respectively, following the previous eight periods of uninterrupted gains for nine weeks. In addition, the Dow has finished higher at least 75% of the time over the subsequent one, three, six, and twelve months.

The combination of an extreme reading in the Fear Index and bullish insider buying led us to conclude in [our most recent Chart of the Month](#), which was published on the first business day in January, that stock prices “may have hit a trough last week.” As it turned out, the market did indeed bottom and it has been climbing steadily higher ever since. Not surprisingly, the Fear Index, computed as the ratio of the VIX Index (a measure of volatility) and the 10-year Treasury yield, has fallen from 13.1 eight weeks ago to 5.3, suggesting that the nervousness that prevailed late last year has subsided.

Going forward, the risk is that a more complacent market coupled with any disappointing news (such as a breakdown in the trade talks and the imposition of new tariffs) could cause a material pullback in the major averages that are now within 3%-5% of their all-time highs. On the other hand, the indexes could exceed the peaks set five months ago later this year if the U.S. and China strike a deal that promotes freer and fairer trade and the Fed refrains from raising interest rates for the time being.

DOW JONES INDUSTRIAL AVERAGE
Since World War II
Winning Streaks of Nine Weeks or More Can Signal Continued Strength

Date	Dow	Ultimate Weekly Win Streak	Recession Within 2 Years?	Dow Returns After 9-Week Win Streaks			
				1-Month	3-Month	6-Month	12-Month
08/19/1949	181.16	9	Yes	0.6%	5.1%	12.1%	21.0%
12/31/1954	404.39	9	No	0.1%	2.6%	12.2%	20.8%
10/17/1958	546.36	9	Yes	3.4%	8.5%	14.2%	17.7%
05/03/1963	718.08	11	No	1.2%	-4.0%	5.0%	13.8%
02/14/1964	794.56	13	No	2.7%	4.3%	5.6%	11.8%
09/24/1965	929.54	14	No	2.5%	3.0%	0.0%	-14.9%
09/01/1989	2752.09	9	Yes	-2.2%	-2.8%	-3.3%	-5.0%
05/05/1995	4343.4	10	No	2.3%	8.6%	11.1%	26.1%
02/22/2019	26031.81	9*	?	?	?	?	?
Average				1.3%	3.2%	7.1%	11.4%
% Higher				87.5%	75.0%	87.5%	75.0%

Source: LPL Research, FactSet 02/22/19

* Indicates that the streak is still active.

All indexes are unmanaged and cannot be invested into directly. Past performance is no guarantee of future results.



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