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‘Fear of Missing Out’ Pushes Investors Toward Stocks

As major indexes continue to rise toward last year’s records, investors say they are increasingly wary of missing further gains

Investor optimism about trade talks and Federal Reserve policy pushed the S&P 500 to its best quarter in a decade. **PHOTO:** MICHAEL NAGLE/BLOOMBERG NEWS

By Amrith Ramkumar

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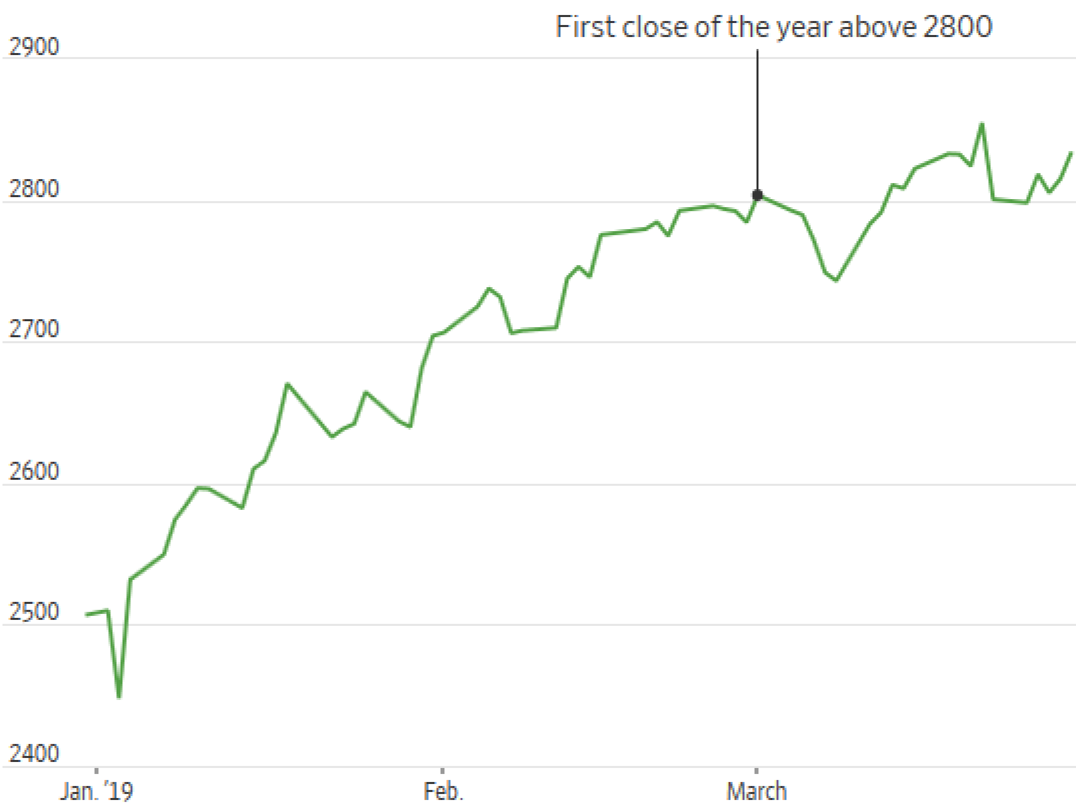
Investors are putting more money into U.S. stocks as 2019’s rebound continues, a shift that some analysts expect to drive markets higher despite the recent rally in government bonds and an expected slowdown in economic growth.

Optimism about trade talks and the Federal Reserve's signaled halt to interest-rate increases propelled the S&P 500 to its best quarter since September 2009, even as investors wrestle with issues ranging from slowing global growth to uncertainties surrounding Brexit. As the rally has continued, powering major indexes toward last year's records, investors say they are increasingly wary of missing out on further gains.

Stocks quickly stabilized last week after longer-term Treasury yields fell below those on shorter-term debt, a development known as an inverted yield curve that often presages a recession. The shift rattled markets briefly earlier in the month, but the Dow Jones Industrial Average ended the quarter with a 1.7% weekly advance. One reason for the recovery: investors' wagers that a U.S.-China trade agreement will stabilize the world economy, boosting corporate earnings.

Sustained Rise

The S&P 500 has climbed steadily to start 2019, a trend some say is drawing more investors back into the market.



Source: FactSet

Ed Leventhal, a 58-year-old who manages a family investment office in New York, said he has been buying shares of some companies hurt by trade tensions such as Ford Motor Co.

“There’s no question we’re going to get some resolution to this,” Mr. Leventhal said. “There’s reason to believe that the U.S. economy will continue to do well.”

Investors this week expect to monitor trade discussions that could further swing markets, with U.S. and Chinese officials meeting in Washington. Manufacturing data and retail sales figures could also shift expectations for U.S. growth.

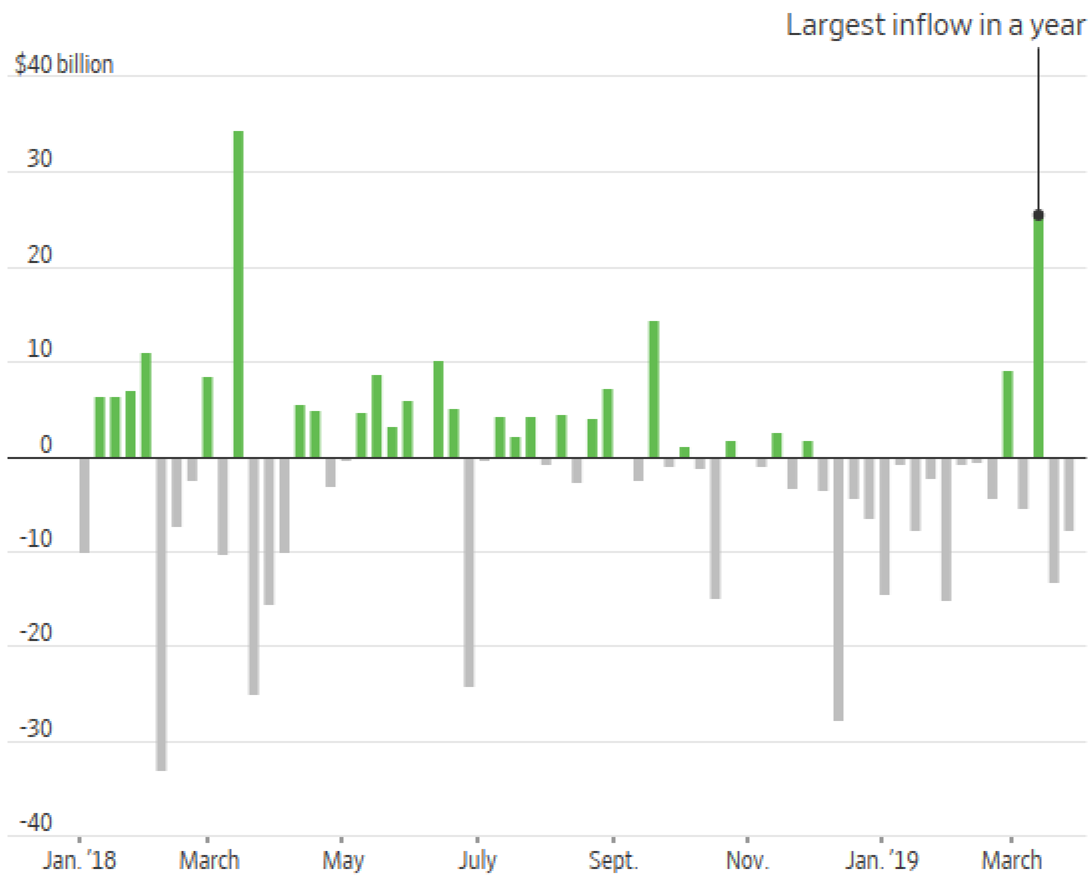
Many are also looking ahead to earnings season, which begins in earnest at the end of next week with reports from JPMorgan Chase & Co. and Wells Fargo & Co. S&P 500 companies are expected to report their first decline in quarterly profits from a year earlier since 2016.

Despite downbeat earnings projections for the January-March quarter, some investors have already grown increasingly optimistic following the Fed’s cautious shift. After investors pulled money from U.S. stock mutual and exchange-traded funds at the start of the year, more than $25 billion flowed in during the week ended March 13, the largest weekly inflow in a year, according to EPFR Global.

Investors withdrew money from such funds again during the weeks ended March 20 and 27, but they still increased their allocation to both stock funds and stocks in February, according to an American Association of Individual Investors survey. More than 80% of active traders say it is a good time to invest in U.S. stocks, a Charles Schwab survey found.

Reversal

Money has flowed into U.S. stock funds in some recent weeks after several weeks of outflows to start the year.



Source: EPFR Global

Some analysts say greater investor demand for stocks could join robust corporate buybacks in supporting major indexes. S&P 500 share repurchases in the fourth quarter rose to a record $223 billion, a 63% increase from a year earlier, according to S&P Dow Jones Indices.

Buybacks make corporate profits appear stronger by lowering the number of shares outstanding, buoying per-share earnings beyond strong profit growth.

Some analysts remain confident stocks will rise even though the Fed recently lowered its economic growth projections for 2019. In response to the slowdown, the central bank signaled it likely won't raise interest rates this year. Treasury yields, which fall when bond prices rise, have slumped to their lowest level in 15 months following the Fed statement.

At the same time, several said growth is slowing but sturdy, and a pause in interest-rate increases could still lift major indexes.

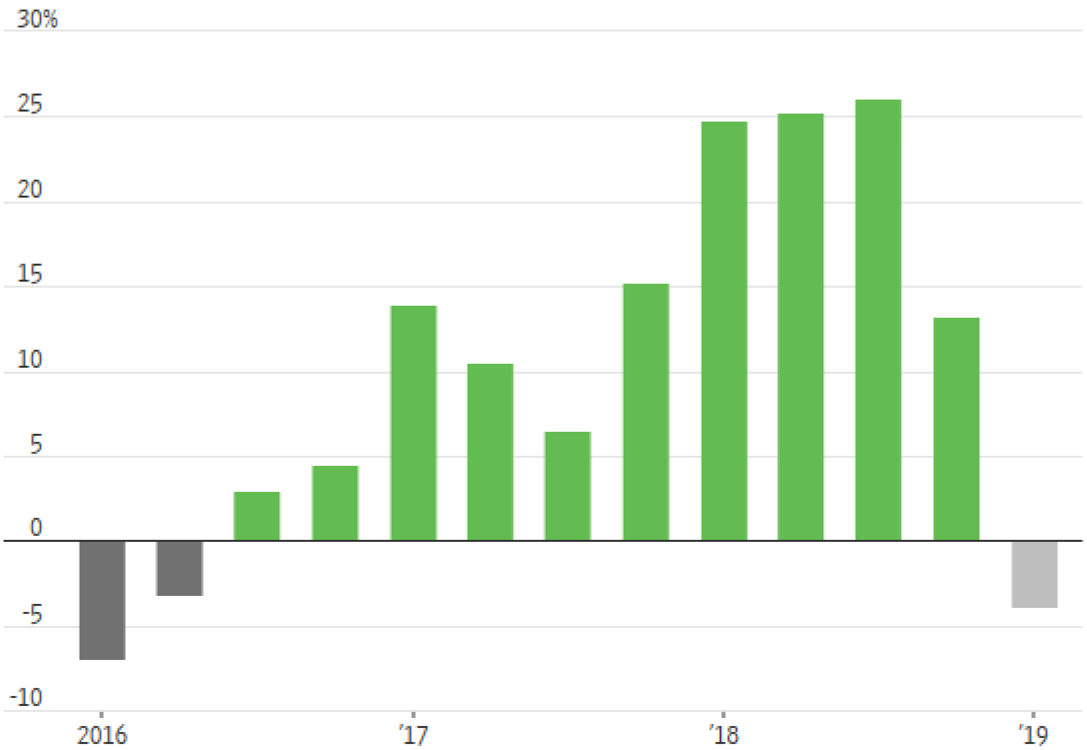
"There is that fear of missing out, which along with a tempered Fed creates the belief that we're not going to be retesting those December lows," said Leslie Thompson, managing principal at Spectrum Management Group.

Ms. Thompson said she has been buying shares of companies that pay higher dividends such as Darden Restaurants Inc., as well as technology stocks like Apple Inc.

After another weekly advance, the S&P 500 is up 13% for the year and sits just 3.3% below last September's all-time high. Some analysts have been caught off guard by the durability of the early-year rally because S&P 500 companies are expected to report a nearly 4% drop in first-quarter earnings from a year earlier, according to FactSet.

Looming Large

Some analysts are wary that a drop in first-quarter earnings from a year earlier will derail the stock-market recovery.



Note: Figures for first quarter of 2019 are an estimate.
Source: FactSet

Sectors that have led the market, such as technology, are expected to report double-digit percentage earnings declines. Even cyclical stocks tied to the health of the economy such as industrial and energy shares continue to power markets higher as growth slows, an illustration of the conflicting signals being sent by stock and bond markets.

Craig Hodges, portfolio manager for Hodges Funds, said he has been buying shares of faster-growing technology companies such as Twilio Inc., in addition to beaten-down materials firms including Commercial Metals Co.

“To me the backdrop is still pretty good,” Mr. Hodges said. “There have been a lot of excuses for the market to go down and it really hasn’t.”

With earnings estimates falling even as stocks surge, major indexes have gotten more expensive relative to companies' earnings for the next 12 months. The price/earnings ratio of the S&P 500 based on profit estimates for the next year, a common valuation measure, just logged its largest one-quarter increase since June 2009, according to a Dow Jones Market Data analysis of figures through Thursday.

Pricier Proposition

Stocks have gotten much more expensive following their recovery and cuts to earnings targets.

S&P 500 price/earnings ratio based on earnings estimates for next 12 months

Note: Data through Thursday
Source: FactSet

Still, some analysts say current valuations are appropriate following the fourth-quarter selloff and swift recovery. The steady nature of this year's gains also continues to placate nervous investors.

The S&P 500 fell more than 1% in a session just three times in the first quarter, minimizing the outsize gyrations that made market observers so anxious late last year.

“People are trying to get really aggressive now,” said Benjamin Lau, chief investment officer of Apriem Advisors. “Clients do not want to miss out on the upswing in the market...The hard part is keeping their expectations in check.”

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