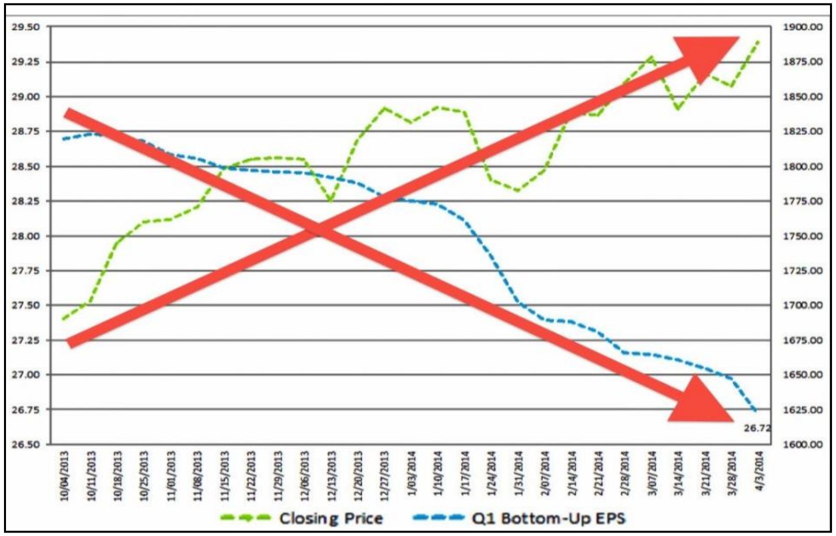
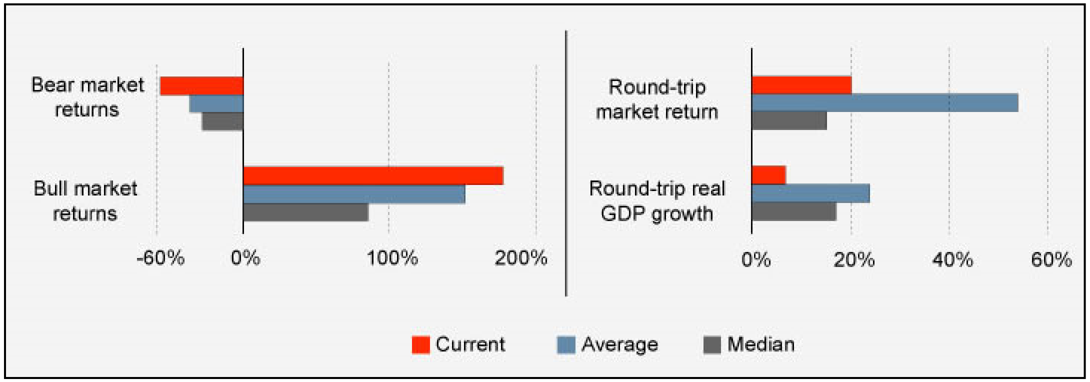
Market Recap

S&P 500 First Quarter Earnings Expectations versus Price



Source: Factset

Current Bull Market versus Historical Bull Markets



Source: Bloomberg; Fidelity

Corporate America has just begun to report earnings for the first quarter. Since the start of the year, earnings expectations have been steadily revised lower. For companies in the S&P 500, first quarter estimated earnings have declined from 4.3% at the beginning of the year to -1.2% today. The sectors for which earnings projections have fallen the furthest are Materials, Financials, and Consumer Discretionary. The only sector that has seen an increase in projected earnings growth over this period is the Utilities sector. Earnings and expectations for earnings are arguably the most important drivers of stocks. Accordingly, one might think that negative revisions would be bad news for stocks. This has not been the case thus far this year, with the S&P 500 recording highs despite the lowered expectations.

In March, the current bull market passed its 5-year anniversary. During this time, the S&P 500 has risen 180%. Of the 13 bull markets since 1928, only four have made it to their fifth anniversary, and only two went on beyond a sixth. The combined length and strength of the current bull market places it in the top five by both duration and cumulative performance. However, this recovery must be viewed in perspective in light of the fact that it followed the third-worst bear market in history, beginning its ascent after a market drop of 57%. When compared to others, it took much longer for this bull market to return to the previous peak: more than four years, compared to a two-year average (and four-year lifespan). On a round-trip basis (i.e., measuring performance since the previous bull market peak), the current market is 20% above its peak in 2007 and slightly higher than the median round-trip return.

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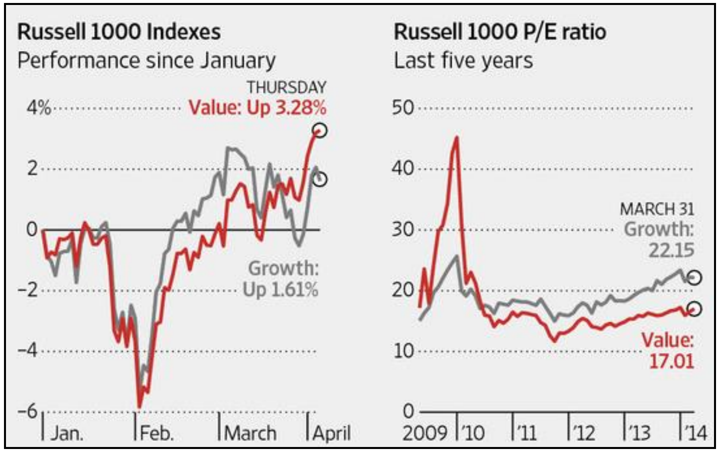
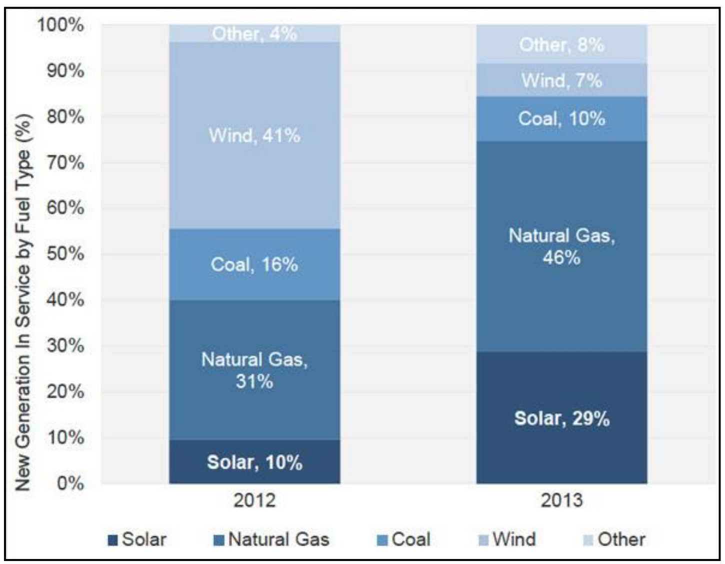
Value versus Growth



Source: Factset; Russell; WSJ

New U.S. Energy Capacity (2012-2013)



Source: SEIA

One subplot of the current market cycle has been a rotation out of growth company stocks into value stocks. In March alone, large-company value stocks (as measured by the Russell 1000 Value Index) rose 2.2%, with the index up 3.3% year-to-date. By comparison, the Russell 1000 Growth index fell 1.1% in March and is up 1.6% thus far in 2014. This is in contrast to last year, when returns on growth outshined value. In the second half of 2013, growth stocks rose 18%, beating the 13% gain of value stocks. Now that the business cycle is entering its fifth year, value stocks, which typically outperform growth companies later in a business cycle, have begun to lead the market. Traders suggest that the move into value could accelerate further if it appears that the first interest-rate rise is forthcoming. Stocks with higher levels of expected growth would see their valuations take a bigger hit once interest rates (and the cost of financing growth) begin to rise.

According to the U.S. Solar Energy Industries Association (SEIA), more solar power capacity has been installed in the U.S. in the past 18 months than in the previous 30 years combined. Roughly 29% of energy capacity added in America last year came from solar projects, including development in geographic areas which had heretofore seen limited solar adoption, such as Massachusetts and Vermont, which increased capacity two-fold. A recent McKinsey study said the average cost of installed solar power across the U.S. has dropped to $2.59 per watt from more than $6.00 a watt in 2010. It expects further cost reductions to $2.30 by next year, and $1.60 by 2020. This will put the cost of solar generation on a par with coal and gas. With this recent growth, there is sufficient solar power capacity in the U.S. to power more than 2.2 million average American homes.

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