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Stock indexes enjoy best first quarter in 12 years

'If you liked the first quarter, just wait until the second quarter,' expert says

By Matt Krantz
USA TODAY

Don't be lulled by the lazy calm that has settled over Wall Street the past several weeks. The stock market is on a roll.

Stocks are coming off their best first-quarter performance in a dozen years, up 4.9 percent year-to-date, says Standard & Poor's.

It's the fourth consecutive up quarter, the market's best streak since the five-quarter run that ended after the third quarter of 2007, based on the broad Wilshire 5000 index.

The quarter's gains might not seem like much considering the jumps during the past three quarters as stocks roared back from bear market lows.

Remember, though, that halfway through this quarter the market was on the verge of its first correction, or drop of 10 percent, since the bull market began.

The market's strong performance during the first quarter has some investors believing the momentum can last, especially because the first quarter historically hasn't been one of the market's best.

"It was a great first quarter," says Hugh Johnson of Johnson Illington Advisors. "Looks like this bull market and economic recovery has more to go."

Investors are picking apart the action in the quarter to get clues about:

- Momentum going into the second quarter.

First quarters aren't usually the market's best, causing some to wonder if the follow-through could be better. Stocks have gained just 1.9 percent on average during the first quarters going back to 1945, says S&P's Sam Stovall. While that beats the average 0.5 percent gain during third quarters, it's a far cry from the 3.6 percent average gain in fourth quarters, he says.

"If you liked the first quarter, just wait until the second quarter," Stovall says.

- Hints of future pullbacks or corrections.

The fact the first quarter rallied, faded and then recovered much like the fourth quarter is a signal stocks are ready for a setback, says Jeff Kleintop, market strategist at LPL Financial. Investors may decide to sell even if S&P 500 companies deliver the strong 70 percent year-over-year growth forecast when they report first-quarter earnings, he says.

- Source of industry leadership.

Half of the top 10 best stocks in the S&P 500 in the first quarter were financials. Leadership could spread if history is a guide. The second quarter is the only one in which all 10 sectors averaged gains since 1990, S&P says.

But investors shouldn't let the first-quarter performance make them complacent, says Joe Saluzzi, trader at Themis Trading. "As long as the stock market keeps going up, no one seems to have a problem. But how is it going to keep going up?"

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