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July Almanac: Luke Warm in Pre-Election Years

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July historically is the best performing month of the third quarter however, the mostly negative results in August and September make the comparison easy. Two "hot" Julys in 2009 and 2010 where DJIA and S&P 500 both gained greater than 6% and a strong performance in 2013 have boosted July's average gains since 1950 to 1.2% and 1.1% respectively. Such strength inevitability stirs talk of a "summer rally", but beware the hype, as it has historically been the weakest rally of all seasons (page 74, *Stock Trader's Almanac 2019*).

July begins NASDAQ's worst four months and is the third weakest performing NASDAQ month since 1971, posting a 0.5% average gain. Dynamic trading often accompanies the first full month of summer as the beginning of the second half of the year brings an inflow of new capital. This creates a bullish beginning, a soft week after mid-month and strength towards the end.

July's first trading day is the second best performing first trading day of all twelve months with DJIA gaining a cumulative 1175.74 points since 1998. Over the past 21 years, DJIA's first trading day of July has produced gains 81.0% of the

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Pre-Election Year July since 1950

	Rank[1]	Avg %	Up	Down
DJIA	6	1.0	10	7
S&P 500	7	0.9	10	7
NASDAQ*	8	0.9	6	6

[1] *Based upon the average historical monthly performance of the indices in comparison to other months of the year.*
** Since 1971*

July Vital Stats (1950-2018)

	DJIA		S&P 500		NASDAQ	
Rank[2]	4		5		10	
# Up	44		39		26	
# Down	25		30		22	
Average %	1.2		1.10		0.5	
4-Year Presidential Election Cycle Performance by %						
Post-Election	2.2		2.1		3.4	
Mid-Term	1.3		0.9		–1.9	
Pre-Election	1.0		0.9		0.9	
Election	0.5		0.4		–0.7	
Best & Worst July by %						
Best	1989	9.0	1989	8.8	1997	10.5
Worst	1969	–6.6	2002	–7.9	2002	–9.2
July Weeks by %						
Best	7/17/2009	7.3	7/17/2009	7.0	7/17/2009	7.4
Worst	7/19/2002	–7.7	7/19/2002	–8.0	7/28/2000	–10.5
July Days by %						
Best	7/24/2002	6.4	7/24/2002	5.7	7/29/2002	5.8
Worst	7/19/2002	–4.6	7/19/2002	–3.8	7/28/2000	–4.7
July 2019 Bullish Days: Data 1998-2018						
	1, 5, 8, 9, 11, 12 17, 18, 25		1, 3, 5, 11, 12, 18		1, 5, 8, 9, 11, 12 16-18, 30	
July 2019 Bearish Days: Data 1998-2018						
	2, 19, 22-24 29-31		2, 15, 19, 22, 29		2, 19, 29, 31	

[2] *Based upon the average historical monthly performance of the indices in comparison to other months of the year.*
[3] *Based on the S&P 500 Rising 60% or more of the time on a particular trading day.*
[4] *Based on the S&P 500 Falling 60% or more of the time on a particular trading day.*

Inside

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time with an average advance of 0.42%. S&P 500 has advanced 85.7% of the time (average gain 0.40%). NASDAQ has been slightly weaker at 76.2% (0.26% average gain). No other day of the year exhibits this amount of across-the-board strength which makes a case for declaring the first trading day of July the most consistently bullish day of the year over the past 21 years.

Trading on the day before and after the Independence Day holiday is often lackluster. Volume tends to decline on either side of the holiday as vacations begin early and/or finish late. Since 1980, DJIA, S&P 500, NASDAQ and Russell 2000 have recorded net losses on the day after.

Pre-election-year July rankings are something of a mixed bag, ranking #6 for DJIA and #7 S&P 500, averaging gains of 1.0% and 0.9% respectively (since 1950); and #8 for NASDAQ (since 1971). NASDAQ has only advanced in six of the last twelve pre-election Julys. Despite NASDAQ's meager pre-election July track record, it has averaged gains of 0.9%.

July Outlook: Big June Gains Hazardous for July – Worst 4 Months Prep

As you can see in the accompanying chart the U.S. stock market has been tracking rather close to the historical seasonal pattern for Pre-Election Years. As we have pointed out here the past several months, outsized gains are to be expected this year based on the Pre-Election Year pattern illustrated in the chart, especially following our positive January Indicator Trifecta. But we have also warned these gains would not come without pause and correction.

After the third best first-four-month start to the year since 1950 for the S&P 500, up 17.5%, May was destined for weakness as it is also notoriously weaker in Pre-Election Years. But that augured well for June. Now that June has delivered, the prospects for July and the Worst Four Months July-October are less than sanguine. June 2019 was the best June for the Dow since 1938, the S&P 500 since 1955 and NASDAQ since 1995.

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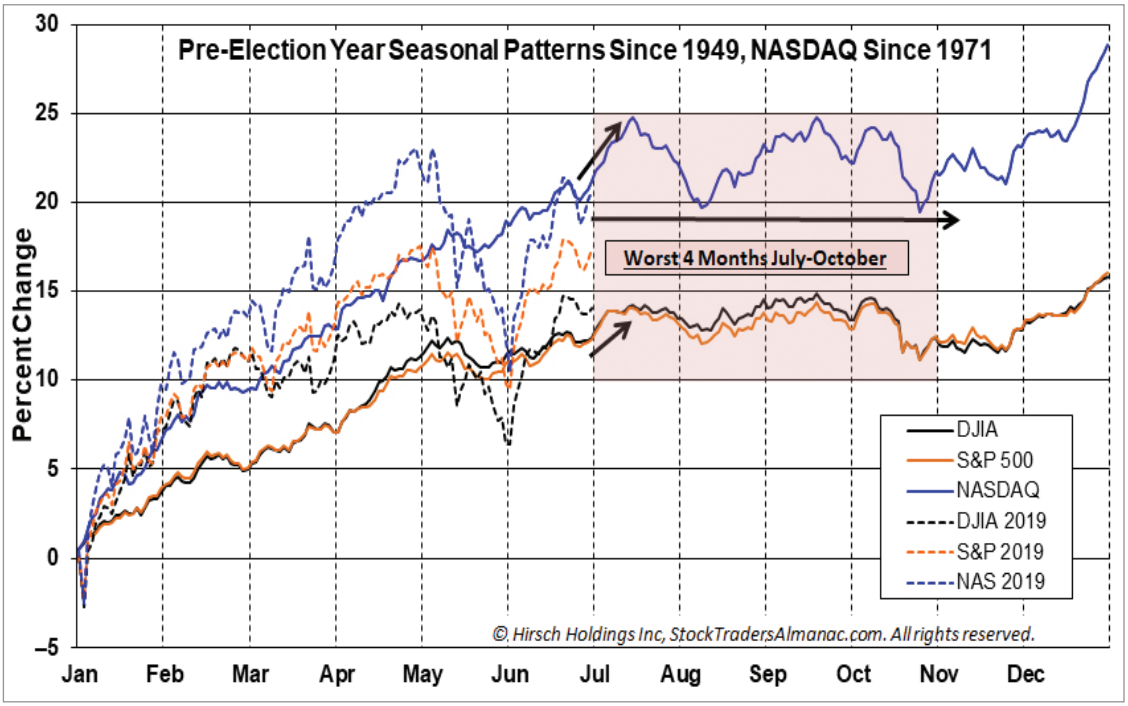

July Outlook: Big June Gains Hazardous for July – Worst 4 Months Prep

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Historically July has been weaker after a positive June. July averages just 0.48% for the S&P 500 after an up June compared to a gain of 2.84% after a down June. However, even if July and the Worst Four Months suffer a correction or go sideways as we expect, the full year is still on pace for additional gains after the usual annual soft patch. Also visible in the chart is what we call Christmas in July for NASDAQ. This 12-day Midyear Rally for NASDAQ that runs from the last three trading days of June through the 9th trading day of July appears to be underway.

June is the last month of NASDAQ's Best 8 Months and U.S. equity markets have been tracking seasonal patterns closely this year, which suggests reduced volume trading as folks begin the annual summer exodus from The Street and choppy sideways trading over the next four months. Technical readings and market internals are pointing to a market running out of steam. The world stage is featuring some challenging events. U.S. presidential campaign politics are now ramping up to full swing, highlighting domestic political disputes, standoffs and unfinished business. Diplomatic and trade issues also remain front and center.

Major market gains promise to be hard to come by this summer and early fall. But after that we expect a run to new highs by yearend. So stick to the drill and resist getting sucked into the "summer rally" hype. Our posture remains market neutral and defensive.

Index Definitions: The S&P 500 Index is an unmanaged composite of 500 large capitalization companies. This index is widely used by professional investors as a performance benchmark for large-cap stocks. The Dow Jones Industrial Average ('DJIA') is an unmanaged composite of 30 widely held stocks. The NASDAQ Index is an unmanaged composite of the common stocks and similar securities listed on the NASDAQ Stock Market. The Russell 2000 Index is an unmanaged composite of the bottom 2,000 stocks in the Russell 3000 Index. The Russell 3000 Index is an unmanaged composite of the 3,000 largest publicly held companies incorporated in America as measured by total market capitalization. The Russell 2000 index is widely used by professional investors as a performance benchmark for small-cap stocks.You cannot invest directly in an index and unmanaged index returns do not reflect any fees, expenses or sales charges. Past performance does not guarantee future results.

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Market at a Glance

Seasonal: *Turning Bearish.* July is the best month of the third quarter, but performance in pre-election years has been uninspiring. First half of July likely to be better than second half. NASDAQ's midyear rally ends on the ninth trading day and July is the beginning of NASDAQ's "Worst Four Months."

Psychological: *Rebounding.* According to *Investor's Intelligence* Advisors Sentiment survey bulls are at 53.3%. Correction advisors are at 28.6% and Bearish advisors are 18.1%. At this level sentiment is in the grey area between neutral and cautious. This suggests it is neither a great time to be buying or selling, instead holding is most likely the best action. Keeping a toe in the exit door may also be a fine idea as well.

Fundamental: *Reasonably firm.* Final Q1 GDP for the U.S. came in at 3.1%. Q2 estimate from Atlanta Fed *GDPNow* is also hanging in at 1.9% which has been adequate to keep the bull market alive throughout much of its life. Employment remains solid with 75k jobs added in May. Soft areas include tepid inflation (Fed's preferred metric), corporate earnings, housing, autos and consumer confidence. Soft, being the key word.

Technical: *Meandering.* DJIA, S&P 500 and NASDAQ look to be slipping into a holding pattern while awaiting new info regarding any trade deal with China. All three indexes are near their respective all-time closing highs, but a catalyst to breakout and move on is lacking. A decisive move to new highs by DJIA, S&P 500 and NASDAQ would suggest further gains otherwise more of the same up/down/sideways trading is likely to continue.

"NASDAQ's "Worst Four Months." Sentiment is between neutral and cautious. Soft areas include inflation, earnings, housing, autos and confidence. Sideways trading is likely to continue. The Fed is getting past the notion that rates should be higher because they used to be."

Monetary: *2.25-2.50%.* For now that is. Many signs point to a cut in rates as soon as July. Apparently, the Fed is getting past the notion that rates should be higher because they used to be. In reality the market's mini meltdown in May and persistently below-target inflation are the real reasons for an increasingly dovish stance.

More Information

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