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August Almanac: Top Month in Election Years for Tech & Small Caps

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Money flows from harvesting made August a great stock market month in the first half of the Twentieth Century. It was the best month from 1901 to 1951. In 1900, 37.5% of the population was farming. Now that less than 2% farm, August is amongst the worst months of the year. It is the worst DJIA, S&P 500, NASDAQ, Russell 1000 and Russell 2000 month over the last 32 years, 1988-2019, with average declines ranging from 0.1% by NASDAQ to 1.1% by DJIA.

However, in election years since 1950, Augusts' rankings improve: #6 DJIA, #5 S&P 500, #1 NASDAQ (since 1971), #1 Russell 1000 and #1 Russell 2000 (since 1979). This year, the market's performance in August will likely depend heavily on how July closes and whether or not the rate of covid-19 infection continues to accelerate which could force some areas to roll back reopening plans.

Contributing to this poor performance since 1987 is the second shortest bear market in history (45 days) caused by turmoil in Russia, the Asian currency crisis and the Long-Term Capital Management hedge fund debacle ending August 31, 1998 with the DJIA shedding 6.4% that day. DJIA dropped a record 1344.22 points for the month, off 15.1% — which is the second worst monthly percentage DJIA loss since 1950. Saddam Hussein triggered a 10.0% slide in August 1990. The best DJIA gains occurred in 1982 (11.5%) and 1984 (9.8%) as bear markets ended. Sizeable losses in 2010, 2011, 2013 and 2015 of over 4% on DJIA have widened Augusts' average decline.

The first nine trading days of the month have exhibited weakness while mid-month is better. Note the bullish cluster from August 17 through 19. The end of August

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Election Year August since 1950

	Rank[1]	Avg %	Up	Down
DJIA	6	0.7	9	8
S&P 500	5	0.9	10	7
NASDAQ*	1	2.7	8	4

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

August Vital Stats (1950-2019)

	DJIA	S&P 500	NASDAQ
Rank[2]	10	11	11
# Up	39	38	27
# Down	31	32	22
Average %	–0.2	–0.1	0.2
4-Year Presidential Election Cycle Performance by %			
Post-Election	–1.7	–1.4	–1.2
Mid-Term	–0.5	–0.2	–1.2
Pre-Election	0.8	0.4	0.5
Election	0.7	0.9	2.7
Best & Worst August by %			
Best	1982 11.5	1982 11.6	2000 11.7
Worst	1998 –15.1	1998 –14.6	1998 –19.9
August Weeks by %			
Best	8/20/1982 10.3	8/20/1982 8.8	8/3/1984 7.4
Worst	8/23/1974 -6.1	8/5/2011 -7.2	8/28/1998 -8.8
August Days by %			
Best	8/17/1982 4.9	8/17/1982 4.8	8/9/2011 5.3
Worst	8/31/1998 –6.4	8/31/1998 –6.8	8/31/1998 –8.6
August 2020 Bullish Days: Data 1999-2019			
	14, 19, 27	17-19, 27, 31	14, 17-19, 27
August 2020 Bearish Days: Data 1999-2019			
	3, 12, 28	12, 20, 28	4, 12, 20

[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.*

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August Almanac: Top Month in Election Years for Tech & Small Caps

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tends to get whacked as traders evacuate Wall Street for the summer finale. The last five days have declined in 13 of the last 24 years with the S&P 500 up only seven times on the penultimate day in the past 24 years. In the last 24 years, the last five days of August have averaged losses of: Dow Jones Industrials, –0.7%; S&P 500, –0.6% and NASDAQ, –0.2%.

On Monday of expiration the Dow has been up 16 of the last 25 years with four up more than 1%, while on expiration Friday it has dropped in 7 of the last 10 years. Expiration week is down slightly more than half the time since 1990, but some of the losses have been steep (–2.6% in 1990, –2.3% in 1992, –4.2% in 1997, –4.0% in 2011, –2.2% in 2013 and –5.8% in 2015). The week after expiration is mildly stronger up 18 of the last 30.

August Outlook: Pandemic, GDP & Election Jeopardize Rally

In mid-July the market was shrugging off pandemic setbacks, bleak economic and corporate outlooks, geopolitical tensions, civic unrest and a contentious U.S. presidential election battle with NASDAQ hitting a new all-time high and S&P 500 at a new recovery high. In fact we were looking at a classic "Hot July" pattern with DJIA up 4.6% for the month as of the close on July 22.

Gains of this magnitude for July, however, have frequently been followed by late-summer or autumn selloffs and better buying opportunities than end-of-July. In the past, full-month July gains in excess of 3.5% for DJIA have been followed historically by declines of -7.2% on average (-4.7% median decline) in the Dow with a low at some point in the last 5 months of the year.

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Quite a bit has changed at the end of July with the Dow giving back 2.1% putting July up only 2.4% at the close. Jobless claims have up-ticked the past two weeks from 1.31 million to 1.43 million. To put it in perspective the difference of 126,000 claims is just under half the entire pre-pandemic level of 282,000 weekly jobless claims released on March 19. Plus, the Advanced Estimate (first reading of three) of Q2 GDP came in at -32.9%. This was the worst reading ever — even worse than the Great Depression. Perhaps we can find some solace in the fact that it was less bad than the early June estimates of -40-50%.

We are not bearish long term. The super accommodative Fed will continue to print money as needed and we are likely to see more fiscal stimulus from central governments that will tack on more trillions to the current running tab of about $13 trillion. With Congress scheduled to go into recess August 10 through Labor Day there is concern the next stimulus package that is currently in negotiation will not be completed prior. However, it is in both parties best self-interest to get it done before the break. If it does not get done the market will likely respond more negatively.

There has been a bit of chatter out there about how Q3 of election years is the best performing quarter of the entire 4-year presidential stock market cycle. But that study uses data going all the way back to 1900 when the world was a much different place with much of the economy driven by agriculture. Our studies show that all the election year Q3 outperformance transpired before WWII with an average DJIA gain of 11.1% from 1901-1948. However, from 1949-June 2020 election year Q3 averaged DJIA gains of only 0.7%, ranked 11th of 16.

Also any improvement to August and September performance during election years is attributable to the buzz and excitement around the conventions. Nowadays campaigning goes on pretty much nonstop. This year's candidates are already set save Biden's running mate. The rally off the pandemic low has put the market back at lofty levels again. With most of the good news baked in, the market will be hard-pressed to add significant gains over the next 2-3 months without some major virus breakthroughs and a return to more normal economic activity.

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August Outlook: Pandemic, GDP & Election Jeopardize Rally

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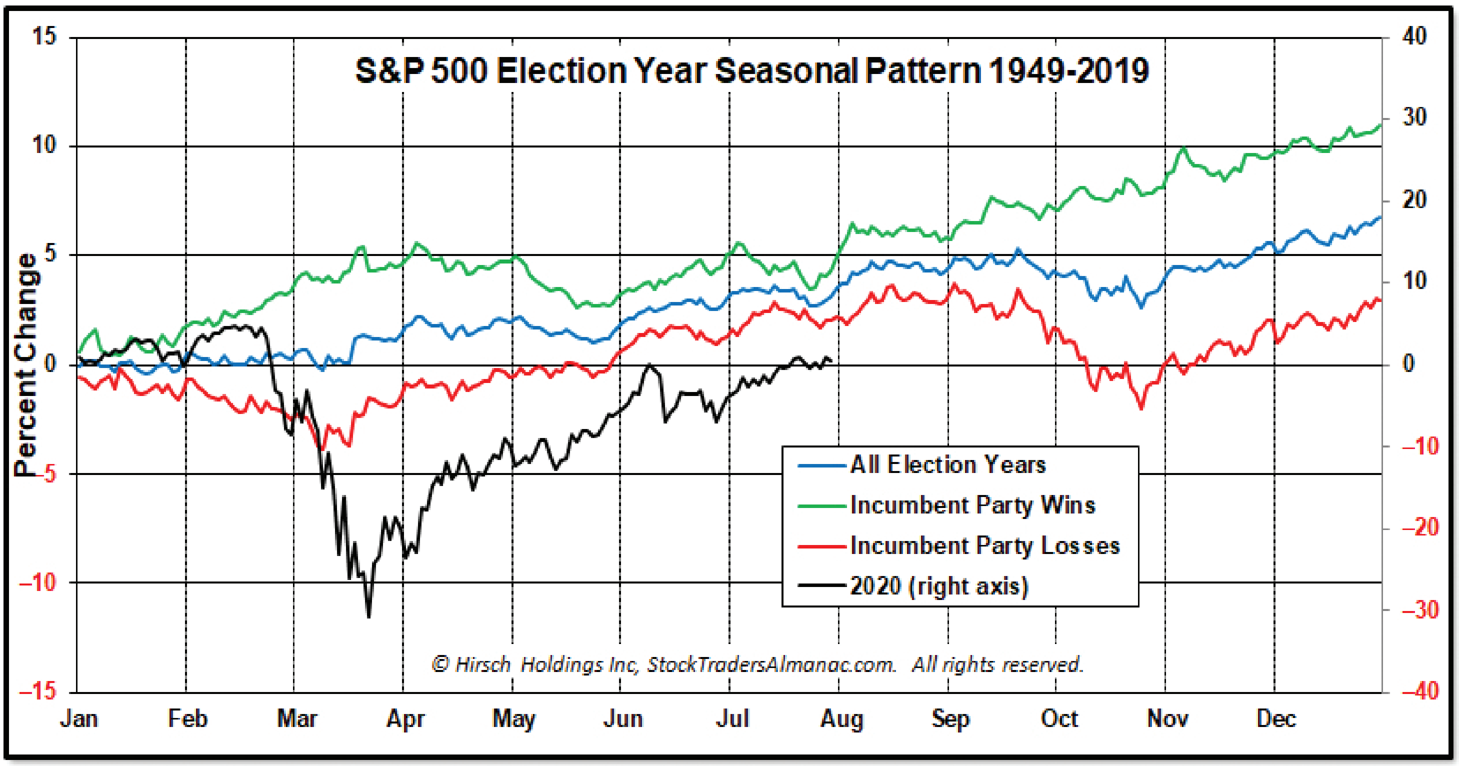
Election Year Seasonal Pattern

Checking the accompanying updated chart of election years tracking 2020 S&P 500 performance versus all election years and incumbent party wins and losses — as well as the polls — suggests that President Trump's reelection is not a forgone conclusion. In fact S&P 500 is tracking the incumbent loss trend more closely. But that of course remains to be seen. Market performance over the next three months is critical to President Trump's reelection bid and you can be sure he is well aware and will do everything in his power to boost the market as all incumbents generally do.

Depending on the state of the pandemic, the economy and the market over the next three months and how President Trump handles the COVID situation as well as civic unrest and diplomatic machinations the election could go still go either way. If things go south and the president is not reelected the yearend rally will likely come from lower levels and be more robust. The market is more prone to a pullback or correction over the next two months than piling on the monster rally. So stick to the drill remain patient and cautious as the market works its way through the summer doldrums and then a year-end rally.



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. The Wilshire 5000 is a market-capitalization-weighted index of the market value of all US-stocks actively traded in the United States. As of December 31, 2019, the index contained only 3,473 components. The index is intended to measure the performance of most publicly traded companies headquartered in the United States, with readily available price data. Past performance does not guarantee future results.

Market at a Glance

Seasonal: *Neutral.* August has been the worst DJIA, S&P 500 and NASDAQ month of the year since 1988. However, August's track record in election years since 1950 (DJIA & S&P 500) or 1971 (NASDAQ) is much better. Average election year August performance ranges from 0.7% by DJIA to 3.3% for Russell 2000 (since 1979). This election year could be different since the pandemic has changed the date and structure of the conventions which have historically taken place in July.

Fundamental: *Improving.* Yes, improving. Q2 GDP advance estimate showed a decrease of 32.9%, but this was considerably better than early June projections of 40-50% decreases. This was the worst quarterly decline on record. For reference the worst quarter during the financial crisis of 2008-2009 was less than a third of that. Because of that massive decline and a clear desire not to fully shut down again, the worst is most likely in the rearview mirror. Weekly jobless claims are also well off their peak, although they have picked up slightly and remain above 1 million as many areas of the economy remain closed or are taking steps backwards. The low bar for corporate earnings also appears to be overly pessimistic.

Technical: *Divergent?* NASDAQ trading at new all-time highs. S&P 500 positive year-to-date and DJIA is trailing both. This divide is also in the overall economy and is likely to persist until the pandemic fades into history. All three indexes are bullishly above their respective 50- and 200-day moving averages. NASDAQ and S&P 500 are strongest with their 50-day moving averages above their 200-day moving averages. Previous highs are likely to prove formidable resistance for DJIA and S&P 500. NASDAQ's concerns are earnings, guidance and valuation.

Monetary: *0 – 0.25%.* At its meeting on July 28-29 the Fed attempted to be cautiously optimistic. They noted activity has picked up since the lows but remains below pre-pandemic levels. They also pointed out a fair amount of uncertainty exists and that the "*path of the economy will depend significantly on the course of the virus.*" Nothing truly shocking. To alleviate some of this uncertainty, the Fed further committed to do everything in its power to support the recovery.

> ***"The "path of the economy will depend significantly on the course of the virus." Nothing truly shocking. To alleviate some of this uncertainty, the Fed further committed to do everything in its power to support the recovery."***

Psychological: *Near frothy.* According to *Investor's Intelligence* Advisors Sentiment survey Bullish advisors are at 57.3%. Correction advisors stand at 25.2% while Bearish advisors stand at 17.5%. Overall sentiment is hovering right around levels seen near recent highs going back to late 2018. Sentiment has often lingered at elevated bullish levels for varying lengths of time before any meaningful retreat occurs. As long as the major indexes hold up, sentiment is likely to remain bullish.

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