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September Almanac: Historically Another Challenging Month

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Start of business year, end of summer vacations, and back to school made September a leading barometer month in first 60 years of 20th century, now portfolio managers back after Labor Day tend to clean house. Since 1950, September is the worst performing month of the year for DJIA, S&P 500 and NASDAQ (since 1971). Sizable gains in September 2009, 2010, 2012, 2013 and 2017 have lifted Russell 2000 to second worst (since 1979). September was creamed four years straight from 1999-2002 after four solid years from 1995-1998 during the dot.com bubble buildup.

Bullish election-year forces do little to improve on September's poor overall performance over the same timeframe. September's performance does improve slightly in election years, but it is still negative nearly across the board. Only the Russell 2000 has been able to escape negative territory and post a modest 0.8% average gain in the last ten election year Septembers.

Although the month used to open strong, S&P 500 has declined nine times in the last twelve years on the first trading day. As tans begin to fade and the new school year begins, fund managers tend to sell underperforming positions as the end of the third quarter approaches. This has caused some nasty selloffs near month-end over the years. Recent substantial declines occurred following the terrorist attacks in 2001 (DJIA: –11.1%), 2002 (DJIA –12.4%), the collapse of Lehman Brothers in 2008 (DJIA: –6.0%) and U.S. debt ceiling debacle in 2011 (DJIA –6.0%). However, September is improving with S&P 500 advancing in 11 of the last 16 Septembers and DJIA climbing in 10.

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Election Year September since 1950

	Rank[1]	Avg %	Up	Down
DJIA	10	–0.4	7	10
S&P 500	11	–0.2	9	8
NASDAQ*	6	–0.04	8	4

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

September Vital Stats (1950-2019)

	DJIA		S&P 500		NASDAQ	
Rank[2]	12		12		12	
# Up	29		32		27	
# Down	41		37		22	
Average %	–0.6		–0.4		–0.5	
4-Year Presidential Election Cycle Performance by %						
Post-Election	–0.5		–0.5		–0.2	
Mid-Term	–0.8		–0.4		–0.8	
Pre-Election	–0.8		–0.8		–0.8	
Election	–0.4		–0.2		–0.04	
Best & Worst September by %						
Best	2010	7.7	2010	8.8	1998	13.0
Worst	2002	–12.4	1974	–11.9	2001	–17.0
September Weeks by %						
Best	9/28/2001	7.4	9/28/2001	7.8	9/16/2011	6.3
Worst	9/21/2001	-14.3	9/21/2001	-11.6	9/21/2001	-16.1
September Days by %						
Best	9/8/1998	5.0	9/30/2008	5.4	9/8/1998	6.0
Worst	9/17/2001	–7.1	9/29/2008	–8.8	9/29/2008	–9.1
September 2020 Bullish Days: Data 1999-2019						
	2, 3, 10, 11, 16		9, 10, 11, 16		10, 11, 14, 16	
September 2020 Bearish Days: Data 1999-2019						
	22, 23, 24		21-24, 30		15, 21, 22, 23	

[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

September Almanac: Historically Another Challenging Month

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September Triple Witching week is generally bullish with S&P 500 advancing twice as many times as declining since 1990, but it has suffered some sizable losses. Triple-Witching Friday was essentially a sure bet for the bulls from 2004 to 2011 but has been a loser five to seven of the last eight years, depending on index with S&P 500 weakest, down seven of the last eight. The week after Triple Witching has been brutal, down 24 of the last 30, averaging an S&P 500 loss of 0.95%. In 2011, DJIA and S&P 500 both lost in excess of 6%. The week after was last positive in 2016 and 2017 for DJIA and S&P 500.

In recent years, Labor Day has become the unofficial end of summer and the three-day weekend has become prime vacation time for many. Business activity ahead of the holiday was more energetic in the old days. From 1950 through 1977 the three days before Labor Day pushed the DJIA higher in twenty-five of twenty-eight years. Bullishness has since shifted to favor the two days after the holiday as opposed to the days before. DJIA has gained in 16 of the last 26 Tuesdays and 19 of the last 25 Wednesdays following Labor Day.

September Outlook: Ripe for a Brief Pause during the March Higher

Reflecting on this historic and crazy year from the breezy climes on the southern end of Long Beach Island, New Jersey we are encouraged by the tale of the tape and the stance of monetary policy and fiscal stimulus. Two old market postulates are currently at play: “Don’t fight the tape,” and “Don’t fight the Fed.” In addition we have massive, unprecedented fiscal stimulus with little place to go but into the stock market, particularly U.S. stocks. The Fed’s new approach to inflation and their already firm stance to keep rates near zero for the foreseeable future indicate the bears will be hard-pressed to survive.

And now election forces have finally begun impacting the market again after they were usurped by the pandemic. Regardless of who wins the election the current administration is still priming the pump as all incumbent administrations have done since time immemorial. This is what creates the 4-year cycle. Here in Covid-time the White House has been making deals and pumping money into any and all tests, treatments and vaccines for Covid.

There is still a bit of dichotomy between NASDAQ, S&P 500, DJIA and the small-cap Russell 2000 index. On the back of the new work-from-home economy and the biotech/pharma push to combat this virus NASDAQ stocks have been strongest and first to blow out the old highs in June and have led the market higher through this whole pandemic quarantine fiasco. S&P has just cleared its high-water mark in August. DJIA flirted with being positive for the year on Friday, August 28, 2020 before falling back on the 31st. New changes to the Dow are likely to make it easier for the blue-chip benchmark to reach new highs. The Russell 2000 continues to lag.

Technical resistance is all but destroyed and the market is on a path higher fueled by massive stimulus, ultra-low interest rates and infinitely accommodative monetary policy. Sentiment is high but that can persist for months before the market corrects. Market breadth and valuations are concerning as is September’s infamous history of declines, even in election years.

It will be instructive to see how the market reacts to the conclusion of the Republican National Convention over the next several days and weeks. Any signs of weakness or concern that the incumbent is not going to win in November will put pressure on the market to pullback in September. But if the market rallies around the president and we continue to corral this pandemic we don’t expect much of a pullback.

If things continue to move back toward normal as they appear to be doing here “down-the-shore” as well as back home in Rockland County and at the office in Westchester in what was once on the outskirts of ground zero for the pandemic in the U.S., the economy will rebuild and reshape itself into a new more efficient organism fueled on lower labor costs, Fed Kool-Aid, fiscal stimulus and technological productivity growth no matter who wins the election.

2021 is a different story. A new administration is more likely to make major economic changes that would take some time for the market to adjust to and the market would likely be weaker as it acclimates to the different

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September Outlook: Ripe for a Brief Pause during the March Higher

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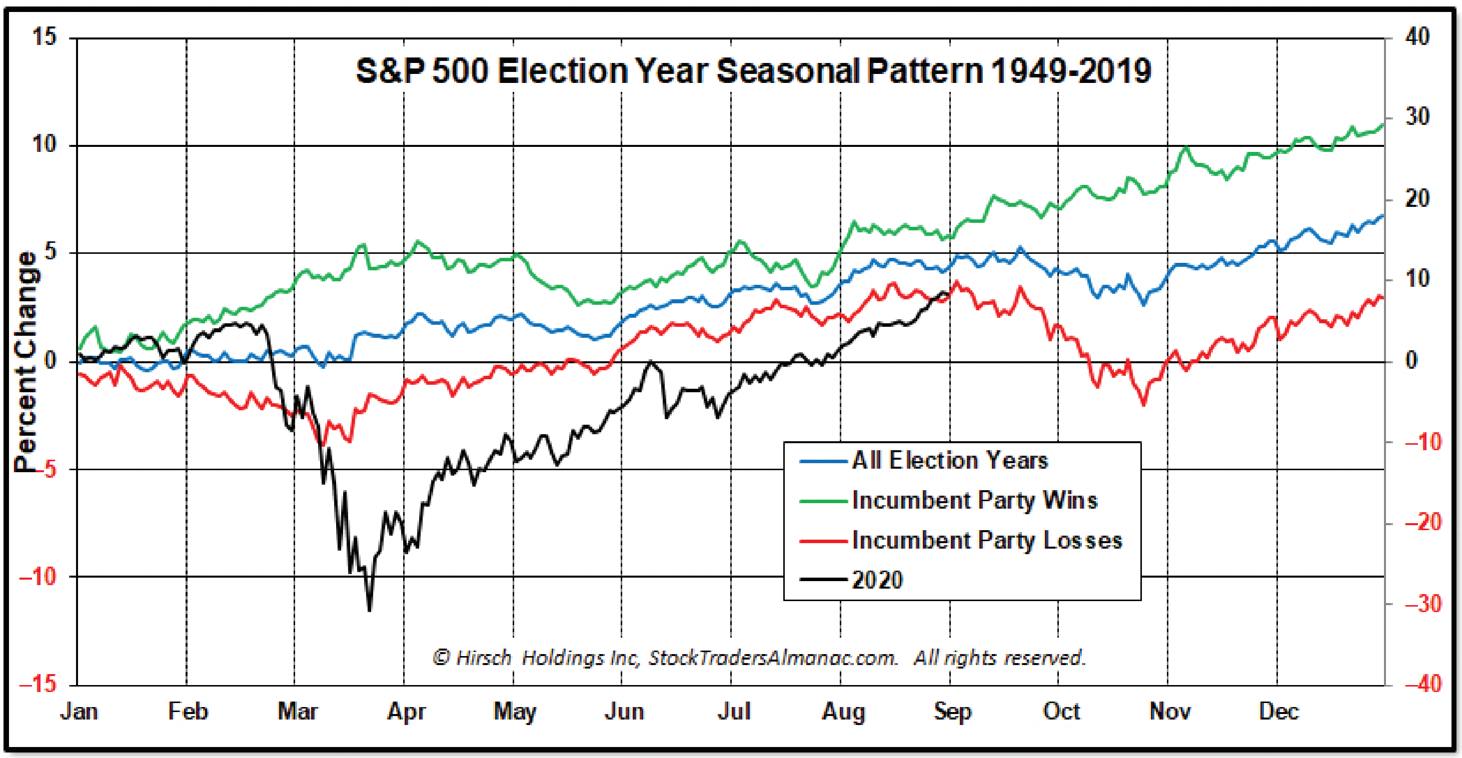
circumstances. But for now it looks like the market and economy will remain in recovery mode for the rest of 2020 with the potential for a pullback highest in September and leading up to this likely contentious election.

Our 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. Recent polls indicate the race has gotten quite tight. The S&P 500 is still tracking the red incumbent-loss trend more closely, but is closing in on the on the average election year trend in the blue line.

The red incumbent loss line shows the market beginning to pullback in early September, so any weakness could be an indication the market is anticipating a change in power in Washington DC and that stocks will be impacted adversely. If the market continues higher uninterrupted it is more likely the Trump Administration will be reelected to another term. This is a critical time for the market and the election and how the market behaves over the next two months will be the best poll we know of to gauge who may win the White House in November.



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: *Bearish.* September (since 1950) is the worst performing month of the year for DJIA, S&P 500, and NASDAQ (since 1971). Bullish election-year forces do little to improve on September's poor overall performance since 1950. Performance does improve slightly in election years, but it remains negative nearly across the board. Only the Russell 2000 has been able to escape negative territory and post a modest 0.8% average gain in the last ten election-year Septembers.

Fundamental: *Improving.* Compared to a few months ago, the economy has improved. The second estimate of Q2 GDP released at the end of August improved to a decline of 31.7% from last July's reading of –32.9%. Still a historic decrease that is likely to take a significant amount of time to recover from. Unemployment is also off of its worst levels, but the trend of improvement has stalled with weekly initial jobless claims stubbornly remaining around 1 million in recent weeks. Corporate earnings, most notably from mega-cap technology, have been solid. However, millions are still struggling and further assistance from the Fed and the Federal government will likely be needed.

> ***"The second estimate of Q2 GDP released at the end of August improved to a decline of 31.7% from last July's reading of –32.9%. Still a historic decrease that is likely to take a significant amount of time to recover from."***

Technical: *Broken Out?* S&P 500 and NASDAQ have broken out to new all-time highs on mega-cap tech strength. DJIA is rapidly closing in on previous all-time highs and is about to get a boost with the replacement of Exxon Mobil, Pfizer and Raytheon in favor of Salesforce, Amgen and Honeywell. But the breakout is in danger as rally participation is fading with S&P 500, NASDAQ and NYSE Advance/Decline lines off mid-August highs.

Monetary: *0 – 0.25%.* Average inflation targeting and more focus on the lower end of income spectrum when evaluating unemployment are the two new policy adjustments announced by Fed Chairman Powell at the last meeting. Once through the background and reasoning for the changes it boils down to rates willlikely stay low, near zero, even longer than previously expected due to the changes. The last time the Fed stayed at 0 – 0.25% for seven years (December 16, 2008 through December 16, 2015).

Psychological: *Frothy.* According to *Investor's Intelligence* Advisors Sentiment survey Bullish advisors are now at 60.0%. Correction advisors stand at 23.8% while Bearish advisors stand at 16.2%. Historically Bullish advisors at 60.0% and above is an increasing danger to the market. Timing for a top is still unknown and sentiment could remain high for weeks or even months, but caution is in order.

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