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July Almanac: Best Month of Post-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 tend to make the comparison easy. Two "hot" Julys in 2009 and 2010 where DJIA and S&P 500 both gained greater than 6% and strong performances in 2013 and 2018 have boosted July's average gains since 1950 to 1.3% and 1.1% respectively. Such strength inevitably 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 2021*).

July begins NASDAQ's worst four months and is the fifth weakest performing NASDAQ month since 1971, posting a 0.6% 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 options expiration and some strength towards the end.

July's first trading day is the third best performing DJIA first trading day of all twelve months with DJIA gaining a cumulative 1215.30 points since 1998. Over the past 21 years, DJIA's first trading day of July has produced gains 76.2% of the time with an average advance of 0.33%. S&P 500 has advanced 85.7% of the time (average gain 0.37%). NASDAQ has been slightly weaker at 76.2% (0.27% 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.

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Post-Election Year July since 1950

	Rank[1]	Avg %	Up	Down
DJIA	1	2.2	14	3
S&P 500	1	2.1	11	6
NASDAQ*	1	3.4	10	2

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

July Vital Stats (1950-2020)

	DJIA		S&P 500		NASDAQ	
Rank[2]	4		4		8	
# Up	46		41		28	
# Down	25		30		22	
Average %	1.3		1.1		0.6	
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		1.0	
Election	0.6		0.7		–0.1	
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	7/17/2009	7.4
Worst	7/19/2002	-7.7	7/19/2002	-8	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 2021 Bullish Days: Data 2000-2020						
	1, 8, 13, 14, 20, 26		1, 6, 12, 14, 20		1, 6, 7, 9, 12-14, 19, 20, 29	
July 2021 Bearish Days: Data 2000-2020						
	2, 21, 23, 29		2, 15, 21, 28		2, 21, 28	

[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

July Almanac: Best Month of Post-Election Years

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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.

Post-election year Julys rank at or near the top of all post-election year months. DJIA, S&P 500, and NASDAQ are ranked #1. Russell 2000 ranks #2. Delving deeper into this data revealed that many of these past "hot" Julys were preceded by a flat or down first half of the year so there is no guarantee that this July will live up to its historical post-election year record again this year.

July Outlook:
Mid-year Rally Yields To Doldrums Mid-July

The rotation back into tech and growth stocks has picked up momentum on the prospects that recent rampant inflation fears are a bit overblown. The retreat in Treasury bond yields and the more tranquil bond market suggests the spike in prices is more transitory than the extremes some market observers and investors have been suggesting. In turn, NASDAQ's mid-year rally appears to be running ahead of schedule.

We remain in the transitory inflation camp. Sure it will likely be higher than the recent past. The recent uptick of 5% CPI growth is more a product of the historic reopening. The job market, especially in the service industry, remains tight. The service industry was clearly hit the hardest. Soaring demand as the economy reopened quickly caught a lot of businesses flat-footed. Price gains also reflect temporary supply bottlenecks and sharp price drops in 2020 make inflation comparisons to 2021 look larger. When the dust settles the rate of inflation is likely to cool down later this year if the bond market is any indication.

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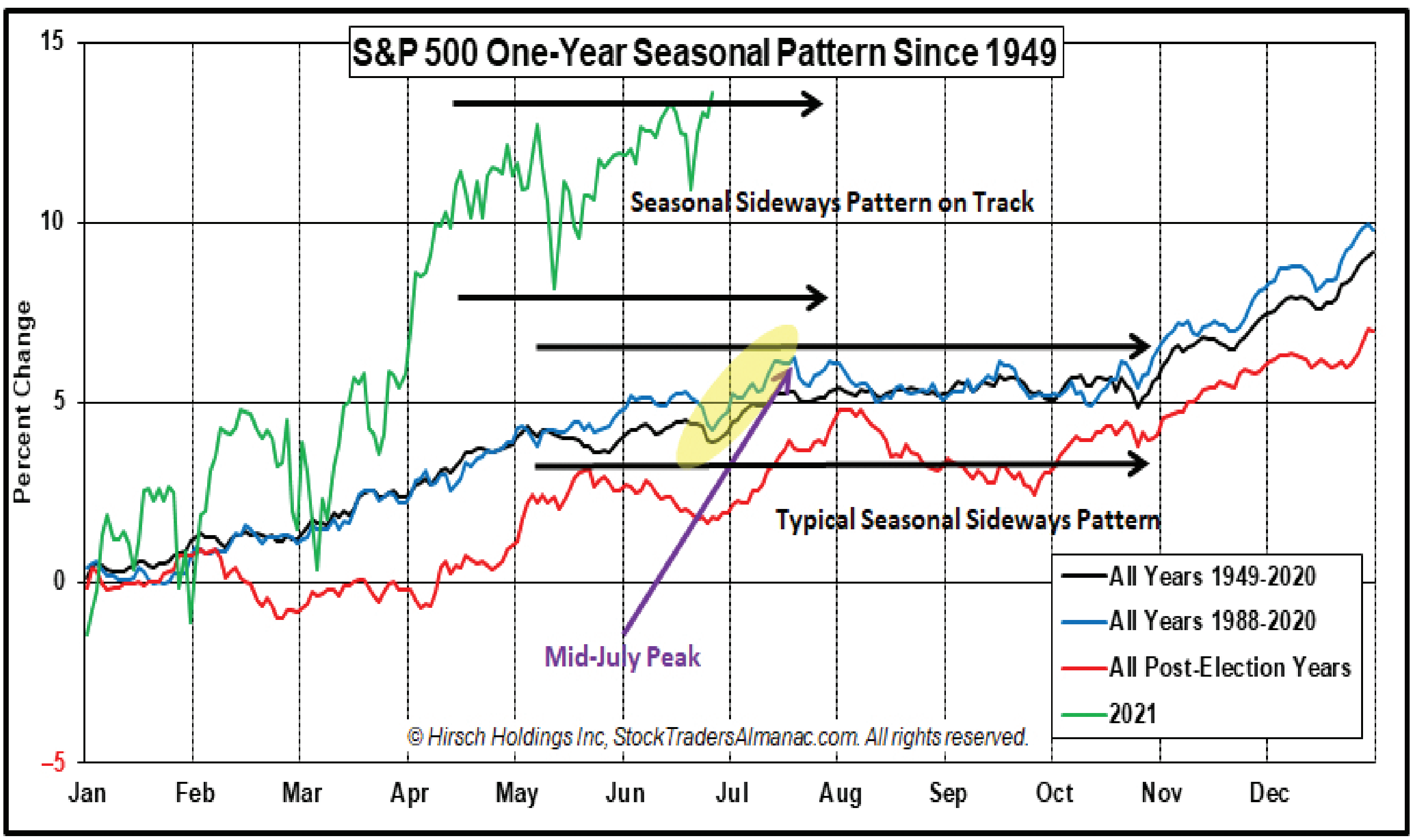

July Outlook: Mid-year Rally Yields To Doldrums Mid-July

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Seasonality and cycles have been back on track since September 2020, but pent-up demand, free money, business innovation and some stellar science that created the vaccines have continued to keep stock prices elevated during the first two months of the Worst Six Months. This red-hot economy is not likely to cool down until next year. However, we do expect a pause and some sideways movement after mid-July.

In the updated chart here of the "S&P 500 One-Year Seasonal Pattern" we have highlighted the mid-year rally with a yellow oval. Also noted is the mid-July peak. It is after this peak that the "Summer Market Volume Doldrums" detailed on page 48 of the 2021 Almanac begins in earnest.

If we have truly made it to the other side of the pandemic and the market and economy are beginning to return to their normal cycles and seasonal patterns, the prospects for a pullback during August and September are higher as illustrated by the red line post-election year pattern. Post-election year Augusts rank #11 for S&P 500 and NASDAQ, and #12 for the Dow. September is not much better in post-election years ranking 9th for S&P 500 and DJIA, 10th for NASDAQ.

NASDAQ Best 8 MACD Sell Signal Update

Our bias for the year remains clearly bullish in keeping with the base and best case scenarios of our 2021 Annual Forecast and we still expect to see the S&P 500 finish the year above current levels in the 4300-4500 range or higher. But after mid-July the market is poised for a pullback during the weaker end-of-summer months August and September as perennial vacation and leisure seasons kicks into post-pandemic high gear.

We are still waiting for the *Stock Trader's Almanac* NASDAQ Best 8 Months MACD Seasonal Sell Signal to trigger. With NASDAQ's mid-year rally picking up steam as of the June 24 close it would take a one-day decline of 475.36 points or 3.31% to trigger NASDAQ's Best 8 Months MACD Sell Signal.

The latest news on the deal struck between President Biden and the bipartisan Senate infrastructure group for a major infrastructure initiative is long overdue and welcome news indeed. We have been clamoring for this for years over the past several administrations. If they can really pull it off it will be a boon for the country, the economy and market over the long haul. We are rooting for this, but delays, setbacks and partisan bickering could spur a market pullback.

Positives abound with improving employment numbers, robust GDP forecasts, strong earnings and guidance from Wall Street and rising vaccine rates. But negatives from inflation, international machinations especially with China, Russia and Iran, Covid-19 variants, supply bottlenecks and tougher year-over-year comps. Consider using this mid-year rally to reposition your portfolio for the August/September summer doldrums and prepare to pounce on the *Stock Trader's Almanac* next Best 6/8 Months Buy Signal for the 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, 2020, the index contained only 3463 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.

Moving Average Convergence Divergence (MACD): A trend-following momentum indicator that shows the relationship between two moving averages of prices.

Santa Claus Rally: Discovered and named by Yale Hirsch in 1972 and published in the 1*973 Stock Trader's Almanac*. Santa Claus tends to come to Wall Street nearly every year, bringing a short, sweet, respectable rally within the last five days of the year and the first two in January. This rally has been averaged 1.3% S&P 500 gain since 1969. Santa's failure to show tends to precede bear markets, or times stocks could be purchased later in the year at much lower prices.

Triple Witch Week: Is the week containing the third Friday in March, June, September and December when stock options, index options and index futures expire on Friday.

January Effect: Is the tendency of small-cap stocks to outperform large-cap stocks in January.

January Barometer: Devised by Yale Hirsch in 1972, and published in the *1973 Stock Trader's Almanac*, the January Barometer states that as the S&P 500 goes in January, so goes the year. This indicator has registered eleven major errors since 1950 for an 84.5% accuracy ratio.

Market at a Glance

Seasonal: *Neutral.* July is the first month of the second half of the year and has the most bullish record in Q3. Post-election-year Julys rank #1 for DJIA, S&P 500 and NASDAQ. But July is also the first month of NASDAQ's "Worst Four Months" and early July strength has a tendency to fade around mid-month. NASDAQ's Mid-Year Rally ends on the close on July 14.

Fundamental: *Positive.* Employment metrics are broadly positive and trending in favorable directions. Initial weekly claims have bounced off of recent lows, but there has been no major spike. Earnings forecasts are encouraging, and corporate guidance will likely be generally positive as overall vaccination rates in the U.S. continue to climb and restrictions are being eased or dropped all together. Q2 GDP is currently estimated to be 9.7% according to the Atlanta Fed's *GDPNow*. Headwinds remain. COVID-19 variants, inflation, supply chain issues and year-over-year comparisons will get tougher as the pandemic induced trough slips further into history.

"The outright lack of Bearish advisors is worrisome from a contrary viewpoint. Currently there are the fewest numbers of Bears since 2018."

Technical: *Rotating?* NASDAQ and S&P 500 have closed at new all-time highs this month. DJIA has not. Slipping and stabilizing Treasury yields are lifting growth stocks while interest in value stocks wanes. This appears to be the unwinding of the rotation that took place earlier this year as rates climbed higher. In the time since, major indexes have been essentially trading sideways. Without across the board new all-time highs and a meaningful breakout, more sideways trading with a mild upside bias is likely.

Monetary: *0 – 0.25%.* Fed is still highly accommodative and fully committed to supporting the economy, the labor market, and the market; whatever the cost maybe in the long-term. The biggest development out of the most recent meeting was an indication that rate hikes could be coming somewhat sooner. The Fed is now projecting hikes in 2023 instead of 2024.

Psychological: *Borderline Euphoric.* According to *Investor's Intelligence* Advisors Sentiment survey Bullish advisors have risen to 56.5%. Correction advisors have declined to 27.7% while Bearish advisors fell to 15.8%. The outright lack of Bearish advisors is worrisome from a contrary viewpoint. Currently there are the fewest numbers of Bears since 2018. Their numbers have not dwindled to the lows of 2018, just prior to the market correction, but the trend in that direction warrants caution and maintaining seasonally defensive maneuvers taken already or planned to be taken.

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