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September Almanac: Worst Month of Year Over Last 71 Years

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Start of the business year, end of summer vacations, and back to school once made September a leading barometer month in the 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, NASDAQ (since 1971), Russell 1000 and Russell 2000 (since 1979). After four solid years from 1995-1998 during the dot.com bubble buildup, S&P 500 was down five Septembers straight from 1999-2003. In the 17 years since, S&P 500 has advanced 11 times in September and declined six times.

In post-election years, September's overall rank improves modestly in post-election years going back to 1953 (third or fourth worst month depending on index). Average losses are little changed. Although September 2001 does influence the average declines, the fact remains DJIA and S&P 500 have declined in 9 of the last 17 post-election year Septembers. Russell 2000 has the best post-election year record, up seven times in 10 years.

Although the month used to open strong, S&P 500 has declined nine times in the last thirteen 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%).

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Post-Election Year September since 1950

	Rank[1]	Avg %	Up	Down
DJIA	9	–0.5	8	9
S&P 500	9	–0.5	8	9
NASDAQ*	10	–0.2	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 (1950-2020)

	DJIA		S&P 500		NASDAQ	
Rank[2]	12		12		12	
# Up	29		32		27	
# Down	42		38		23	
Average %	–0.7		–0.5		–0.6	
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	–0.5		–0.4		–0.4	
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 2021 Bullish Days: Data 2000-2020						
	2, 3, 10, 13, 16, 28		9, 10, 13, 16, 28		10, 13, 14, 16	
September 2021 Bearish Days: Data 2000-2020						
	22, 23, 24		21, 22, 23, 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: Worst Month of Year Over Last 71 Years

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September Triple Witching week is generally bullish with S&P 500 advancing nearly 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 six, seven or eight of the last nine years, depending on the index with S&P 500 weakest, down eight of the last nine. The week after Triple Witching has been brutal, down 25 of the last 31, averaging an S&P 500 loss of 0.94%. 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 23 of 28 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 27 Tuesdays and 20 of the last 26 Wednesdays following Labor Day.

September Outlook: End of Q3 Has Been Challenging

Aloha friends. We've seen a lot these past two weeks in Hawaii from snorkeling with sea turtles and swimming in waterfalls on Maui to the southernmost point in the U.S. and Kilauea Caldera on the Big Island, then to surfing Hanalei Bay and hiking the Na Pali Coast in Kauai and now Waikiki Beach on Oahu for the last leg of the trip. We will be heading to Pearl Harbor National Memorial and Banzai Pipeline before heading home. We joke each time we jump to a new island that this is our favorite island so far.

Economically the islands are booming again despite the governor's recent call for tourists not to visit the islands right now and restaurants at 50% capacity. Rental cars are rather scarce and super-high priced. The Islands are bustling, though you can still see the economy being held back by the pandemic fears and protocols, but the Aloha Spirit prevails.

As the summer travel season winds down here in Hawaii as well as on the Mainland and the rest of the world the market faces seasonal challenges as the third quarter comes to a close in the September, which is still the worst month of the year. The market is also struggling technically on the charts and has been exhibiting weak market internals.

Some geopolitical hotspots have flared up, namely our old nemesis Afghanistan, as well as persistent troubles in the Middle East, the Far East and with Russia. Add in fears of the Delta variant fourth wave of Covid-19 and Fed taper chatter and the potential for a September selloff or at least pause in the march to continued new highs increases. But until the fiscal spending spigot flow rate is reduced and the Fed telegraphs it will begin to tighten the market is likely to wander higher on stimulus and easy money.

As you can see in the updated chart on page 3 of the S&P 500 One-Year Seasonal Pattern Since 1949, the market has so far defied the typical seasonal summer weakness it normally exhibits. The market continues to rally on pent up demand from pandemic restrictions as well as trillions in federal fiscal stimulus and continued quantitative easing and still historically low interest rates from the Federal Reserve.

If the market continues to defy gravity and rallies through Labor Day, the next most likely weak spot is the end of September after Triple Witching on the third Friday of September as noted by the two purple arrows in the chart. We are not expecting any major sell off here. At most we'd expect a 5% correction or so as the market succumbs to some of the same headwinds we have been experiencing all year.

Sentiment remains elevated though bullish advisors have diminished some with a few more bears and the weekly put/call ratio has up ticked. Valuations remain elevated as earnings growth has likely peaked and the easy comps to

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September Outlook: End of Q3 Has Been Challenging

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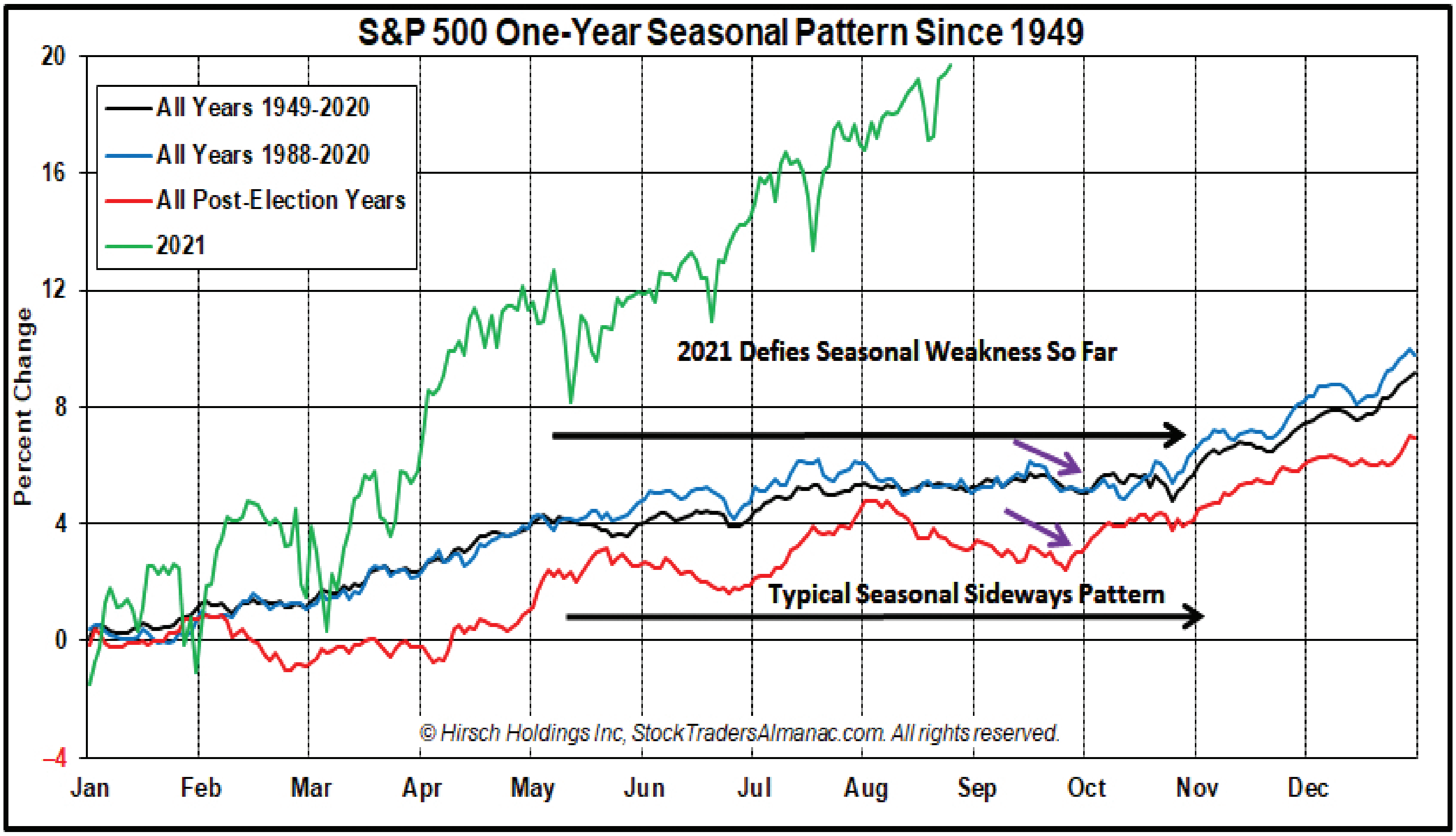
last year's pandemic lows fade away. Market breadth is not too fresh with a dearth of new highs and expanding new lows as the indices have logged new highs. Weekly advancing stocks versus declining stocks have been mixed as well.

We continue to expect the market to wander higher with the potential for a pause or sell off highest toward the end of September. Any late-September/October sell off would set up the next Best Months Seasonal MACD Buy Signal quite well and we still expect the S&P 500 to finish the year in the 4500-4600 range or even higher.



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: *Bearish.* September is the worst DJIA, S&P 500, NASDAQ, Russell 1000 and Russell 2000 month. Average declines range from -0.4% from Russell 2000 to -0.7% by DJIA. In post-election years since 1950, September is still ranked no higher than #9 while average performance remains negative with only a modest improvement.

Fundamental: *Decelerating.* Although the second estimate of Q2 GDP was revised 0.1% higher to 6.6%, estimates for Q3 are slipping. According to the Atlanta Fed's *GDPNow* Forecast, Q3 growth is projected to be 5.7% as of its update on August 25 from 6.1% the prior week. Corporate earnings growth is also slowing as easy year-over-year comparisons fade into history. Housing and labor markets are cooling as the pace of gains in both are also moderating. Broad moderation across the economy as it continues to struggle to return to "normal" is likely to have a similar effect on equity market returns going forward.

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Technical: *Stretched.* DJIA, S&P 500 and NASDAQ have all recently broken out to new all-time highs. However, momentum appears to be waning. Weekly and cumulative advance/decline metrics are still mixed suggesting the move to marginally higher new highs has occurred with limited participation. Historically as participation fades so has the rally.

Monetary: *0 – 0.25%.* Fiscal and monetary policy both remain highly supportive, but for how much longer is the key question. Discussions of when and how the Fed will taper bond purchases are accelerating and some clarity was given on Friday, August 27, when the annual Jackson Hole symposium took place virtually due to the Delta variant's seemingly unchecked spread. Tapering could begin later this year in Q4 and the Fed is still not expected to begin raising rates until sometime in late 2022 or even early 2023.

Psychological: *Bulls retreating.* According to *Investor's Intelligence* Advisors Sentiment survey Bullish advisors have slipped to 50.0%, their lowest number since May 2020. Correction advisors have increased to 31.5% while Bearish advisors have crept up to 18.5%. The ongoing retreat in bullish sentiment combined with a modest uptick in correction/bearish is encouraging, but overall sentiment is still at levels that call for caution.

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