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May Almanac: A Challenging Month in Midterm Election Years

By Jeffrey A. Hirsch, CEO, Editor & Publisher and Christopher Mistal, Director of Research at Hirsch Holdings Inc, Stock Trader's Almanac & Almanac Investor Newsletter

May officially marks the beginning of the "Worst Six Months" for the DJIA and S&P. To wit: "Sell in May and go away." Our "Best Six Months Switching Strategy," created in 1986, proves that there is merit to this old trader's tale. A hypothetical $10,000 investment in the DJIA compounded to a gain of $1,230,865 for November-April in 71 years compared to just $2,693 for May-October (STA 2022, page 54). The same hypothetical $10,000 investment in the S&P 500 compounded to $1,011,918 for November-April in 71 years compared to a gain of just $12,623 for May-October.

May has been a tricky month over the years, a well-deserved reputation following the May 6, 2010 "flash crash". It used to be part of what we once called the "May/June disaster area." From 1965 to 1984 the S&P 500 was down during May fifteen out of twenty times. Then from 1985 through 1997 May was the best month, gaining ground every single year (13 straight gains) on the S&P, up 3.3% on average with the DJIA falling once and two NASDAQ losses.

In the years since 1997, May's performance has been erratic; DJIA up thirteen times in the past twenty-four years (four of the years had gains in excess of 4%). NASDAQ suffered five May losses in a row from 1998-2001, down –11.9% in 2000, followed by thirteen sizable gains in excess of 2.5% and six losses, the worst of which was 8.3% in 2010 followed by another sizable loss of 7.9% in 2019.

Since 1950, midterm-year Mays rank poorly, #10 DJIA, #11 S&P 500, #8 NASDAQ and #9 Russell 2000. Performance ranges from a best of –0.1% by NASDAQ to a worst of –1.1% for Russell 2000. Not one of these indexes has been positive more than 50% of the time in midterm years.

The first two days of May have historically traded higher, and the S&P 500 has been up 17 of the last 24 first trading

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Midterm Year May since 1950

	Rank[1]	Avg %	Up	Down
DJIA	10	–0.6	9	9
S&P 500	11	–0.7	9	9
NASDAQ*	8	–0.1	6	6

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

** Since 1971*

May Vital Stats (1950-2021)

	DJIA		S&P 500		NASDAQ	
Rank[2]	9		8		6	
# Up	39		43		31	
# Down	33		29		20	
% Higher	54.2		59.7		60.8	
Average %	–0.01		0.2		1.0	
4-Year Presidential Election Cycle Performance by %						
Post-Election	1.3		1.7		3.4	
Mid-Term	–0.1		–0.7		–0.7	
Pre-Election	–0.3		–0.2		1.1	
Election	–0.4		0.1		0.2	
Best & Worst May by %						
Best	1990	8.3	1990	9.2	1997	11.1
Worst	2010	–7.9	1962	–8.6	2000	–11.9
May Weeks by %						
Best	5/29/1970	5.8	5/2/1997	6.2	5/17/2002	8.8
Worst	5/25/1962	-6	5/25/1962	-6.8	5/7/2010	-8
May Days by %						
Best	5/27/1970	5.1	5/27/1970	5.0	5/30/2000	7.9
Worst	5/28/1962	–5.7	5/28/1962	–6.7	5/23/2000	–5.9
May 2022 Bullish Days[3]: Data 2000-2021						
	3, 6, 9, 11, 27		2, 25, 27		2, 9, 17, 25, 26, 27	
May 2022 Bearish Days[4]: Data 2000-2021						
	10, 12, 18, 19, 20, 31		4, 12, 18, 19		4, 19	

[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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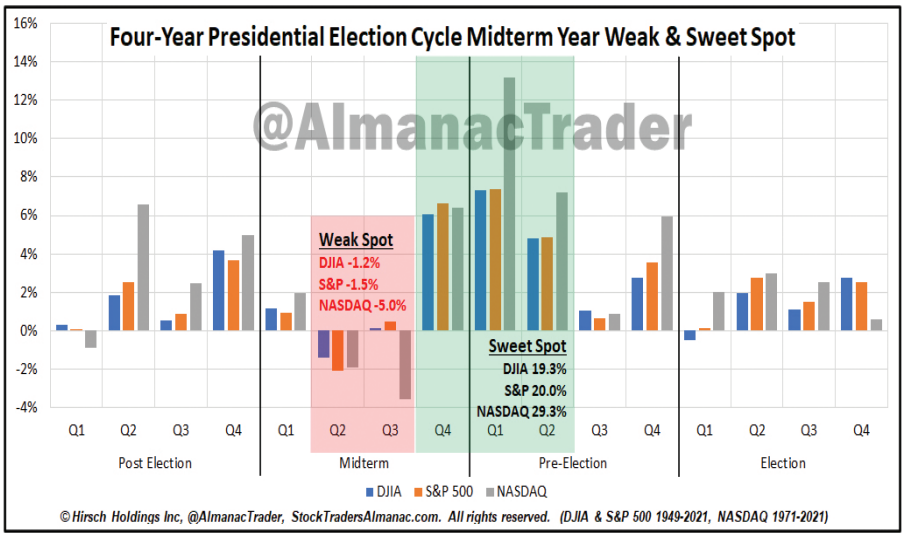
days of May. Bouts of weakness often appears around or on the third, sixth, and twelfth trading days of the month while the last four or five trading days have generally enjoyed respectable gains on average. In midterm years it has generally been better to lighten up on long positions early in May as the entire month tends to be weak (pages 42 and 44 STA 2022).

May Outlook: Midterm Bottom on the Horizon

The Worst Six Months of the year (May-October) for 2022 commences on the heels of the worst start for the market since 1950. At the end of April, S&P 500 was down 13.3% for the year. The second worst start to the year was 1970, down 11.4% — more on 1970 in a moment. As of the close on April 29, April was down 4.9% for DJIA, 8.8% for S&P 500 and 13.3% for NASDAQ. April being the best month of the year this is not a great sign.



As we noted on the blog, when the S&P 500 is down year-to-date and down in April, it preceded a yearly loss 69.2% of the time with an average loss of 7.3%. April has not lived up to its historically bullish reputation this year. S&P 500's 8.8% decline in April is the second worst April since 1950 and fourth worst since 1930 behind 1932, 1931, and 1970.

To top off the ominous seasonality readings, the current Best Six Months from the close of October are off 7.9% for DJIA and –10.3% for S&P 500. From our MACD Buy Signal on October 8 to our recent Sell Signal on April 7 the results improve to –0.5% for DJIA and positive 2.5% for S&P. NASDAQ's Best 8 Months ends in June but so far, it's down 20.4% from the end of October and –15.4% from the Buy Signal.

In the words of the late, great market analyst Edson Gould *(Findings & Forecasts, 1902-1987): "If the market does not rally, as it should during bullish seasonal periods, it is a sign that other forces are stronger and that when the seasonal period ends those forces will really have their say."*

Welcome To the Weak Spot of the 4-Year Cycle

Not only are we on the cusp of the Worst Six Months, we also have entered the Weak Spot of the 4-Year Presidential Election Cycle. We created the bar chart here to highlight this critical juncture of the 4-Year Cycle we have been discussing all year. The second and third quarter of the midterm year has been the weakest period of the entire 4-year pattern averaging losses over the 2-quarter period of –1.2% DJIA, –1.5% S&P and –5.0% NASDAQ. But thankfully, this sets up the even more important Sweet Spot of the cycle where DJIA gains 19.3%, S&P 20.0% and NASDAQ 29.3% over the three quarters from midterm year Q4 to pre-election year Q2.

Our updated S&P 500 Midterm Year Seasonal Pattern reinforces this quadrennial buying opportunity as the market tends to find a midterm bottom over the next six months. The graph shows the "average" year, but it is important to note that these midterm bottoms have occurred at different times in individual midterm years and many of them came toward the beginning of the Weak Spot. The May 26, 1970 bear market low is a prime example.

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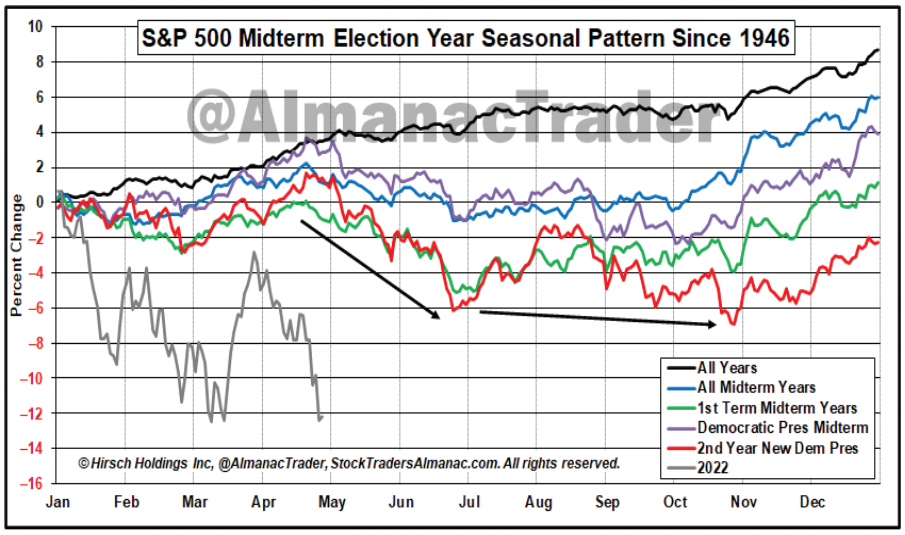

May Outlook: Midterm Bottom on the Horizon

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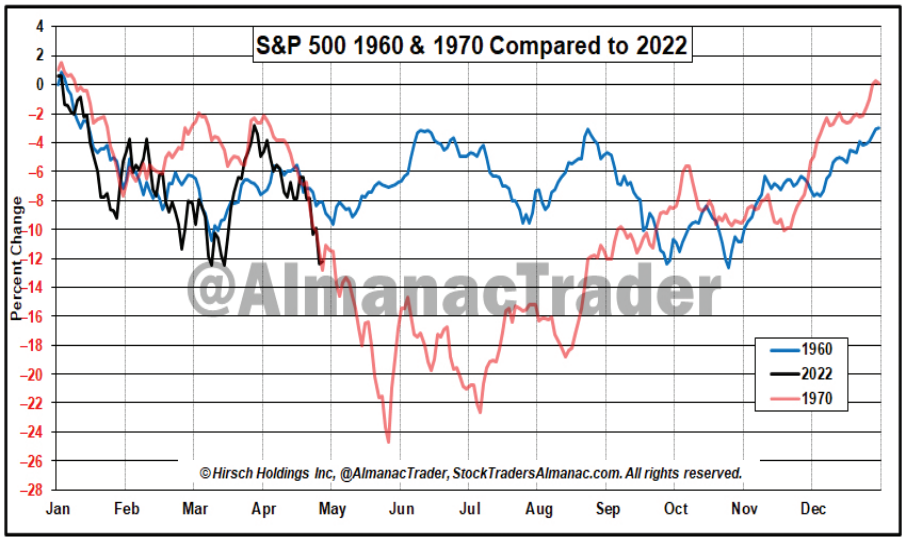
1960, 1970 & 2022

As you can see here in our graphic comparison of the years 1960 and 1970 to this year, 2022 is tracking eerily close to those two bear market years. Both 1960 and 1970 hosted recessions and rate increases in the prior year. Inflation in 1970 was closer to current conditions with the CPI (Consumer Price Index) peaking around 6.5% year-over-year. We believe it would be nice if 2022 played out more like 1960 with milder losses. Unfortunately, present circumstances are more akin to 1970. 1960 was also an election year, while1970 was a midterm year like 2022.

This time appears a little different due to covid-disrupted supply chains and the fallout from Russia's invasion of Ukraine with soaring energy and commodity prices. We are not implying the 36% bear market losses from the 1968 top to the 1970 bottom are in the cards, but we suspect that we have not found bottom just yet. Though it is becoming increasingly possible we get a bottom sooner rather than later as we did in May 1970 with the Fed expected to raise rates 50 basis points at the May meeting and Russia looking to chalk up a victory on WWII Victory Day celebrated on May 9 in Russia.

The support we have been keen on for the last two months at the intraday lows on February 24, the day Russia invaded Ukraine have held on DJIA and S&P 500 but are being tested on NASDAQ and our favorite benchmark these days **NASDAQ 100 Index** (NDX), which is tracked by the **Invesco QQQ Trust** (QQQ). NDX has been leading the market in both directions for several years.



After failing to find support at the 200- and 50-day moving averages in March and April NDX closed below the February 24 and March 14 intraday and closing lows two days in a row on April 26 and 27. Then on April 29 it closed just below the big round 13000 number. We believe a breach of this level would likely signal a test of the March 2021 lows around 12250. This would be equivalent to about 31000 DJIA and 3750 S&P 500. The NASDAQ Composite has already tested and slightly breached the March 2021 support levels around 12500, which brings the old October 2020 support levels around 10500 into play.

In short, the market currently faces a plethora of headwinds. Preliminary readings for 2022 Q1 GDP (Gross Domestic Product) were a major disappointment registering a 1.4% loss versus expectations of a 1% increase. It was a complicated report with big inflation numbers and a large trade deficit that likely subtracted about 3 percentage points from the GDP number. By the time the final Q1 GDP number comes in June we suspect it is likely to be revised higher.

We might get an early midterm bottom like 1970 or a milder more drawn-out bottoming process like 1960 and the average midterm year. Either way, fasten your seatbelts, we believe volatility is probably here for the next several months as the market searches for bottom. Gains on May's first trading day are encouraging, but let's not get ahead of ourselves as we expect continued heightened volatility in the face of midterm year and seasonal pressures, supply chain issues, inflation, and rate hikes.

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, 2021, the index contained only 3687 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 *1973 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 twelve major errors since 1950 for an 83.3% accuracy ratio.

Market at a Glance

Seasonal: *Neutral. Stock Trader's Almanac* Seasonal MACD Sell Signal for DJIA and S&P 500 triggered April 7. May is the first month of DJIA & S&P 500 "Worst Six Months," but NASDAQ's "Best Eight Months" lasts through June. Average May gains; DJIA –0.01%, S&P 500 500 0.2% (since 1950), NASDAQ 1.0% (since 1971). In past midterm years average performance has been negative. May is the second worst month for S&P 500 in midterm years since 1950. However, DJIA and S&P 500 have advanced in 8 of the last 9 Mays.

Fundamental: *Murky.* Russia and Ukraine are still at war. Inflation is still running at multi-decade highs. Supply chain disruptions persist as China battles covid resurgences with lockdowns. The advance estimate of Q1 GDP was –1.4% annual rate. Post-pandemic growth has slowed, and the Fed is raising interest rates. Positively, inside the negative Q1 GDP, personal consumption expenditures, nonresidential and residential investments increased. Employment data also remains firm with claims data hovering around multi-decade lows and the unemployment rate was 3.6%.

"Seasonal MACD Sell Signal for DJIA and S&P 500 triggered April 7."

Technical: *Bouncing?* For the majority of April DJIA, S&P 500 and NASDAQ have been under pressure. All three have fallen back below their respective 50- and 200-day moving averages. February 24 intraday lows have held for DJIA and S&P 500. NASDAQ did sink below its February and mid-March low but is snapping back. Resistance looms above at the declining 50-day moving average and then the 200-day moving average for all three indexes.

Monetary: *0.25 – 0.50%.* Recent Fed comments have shifted market expectations toward a 0.50% increase in the Fed Funds Rate at its upcoming meeting scheduled for next week. Full-year expectations have also become more aggressive and currently point to rates being around 3% within one year. Rates are going up and have been in anticipation of the Fed. In addition to rates, further clarity surrounding the Fed's massive balance sheet is needed. Supply chain issues also remain that could hamper the Fed's efforts to tame inflation.

Psychological: *Neutral.* According to *Investor's Intelligence* Advisors Sentiment survey Bullish advisors have inched up to 34.2%. Correction advisors stood at 32.9% while Bearish advisors numbered 32.9% as of their April 27 release. A modest decrease in bears appears consistent with the markets trading action and the timing of the survey. Overall sentiment is likely to remain essentially neutral as the February intraday lows have not been broken by DJIA and S&P 500 while the outright bullish case remains challenged.

People

Management Team

Joseph B. Childrey, *Founder & CIO*

Sidney C. Hardee, CFA, *Partner & CCO*

Jonathan L. Chatfield, CFA, *Advisor*

Independent Research Consultants

Allen Shepard, PhD, *Research Consultant*

Robert B. Ausdal, Jr., CFA, *Research Consultant*

Contact

Probabilities Fund Management, LLC

A registered investment advisor.

10655 Main Street, Suite 612
Bellevue, WA 98004

Office: 800-519-0438

Email: info@probabilitiesfund.com

Website: www.probabilitiesfund.com

More Information

For more information about our strategies, products and services, including updated fact sheets, performance summary reports and prospectuses, visit our website: **http://www.probabilitiesfund.com** or call Advisor Services today at **(800) 519-0438**.