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July Almanac: Worst NASDAQ Month in Midterm 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 inevitability stirs talk of a "summer rally", but beware the hype, as it has historically been the weakest rally of all seasons (page 76, *Stock Trader's Almanac 2022*).

July begins NASDAQ's worst four months and is the fourth 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 and middle, a soft week after options expiration and some strength towards the end. The last trading day of July has a bearish bias over the last 21 years.

July's first trading day is the third best performing first trading day of all twelve months with DJIA gaining a cumulative 1346.32 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 0.30%. S&P 500 has advanced 85.7% of the time (average gain 0.35%). NASDAQ has been slightly weaker at 76.2% (0.24% average gain). No other day of the year exhibits this amount of across-the-board strength which

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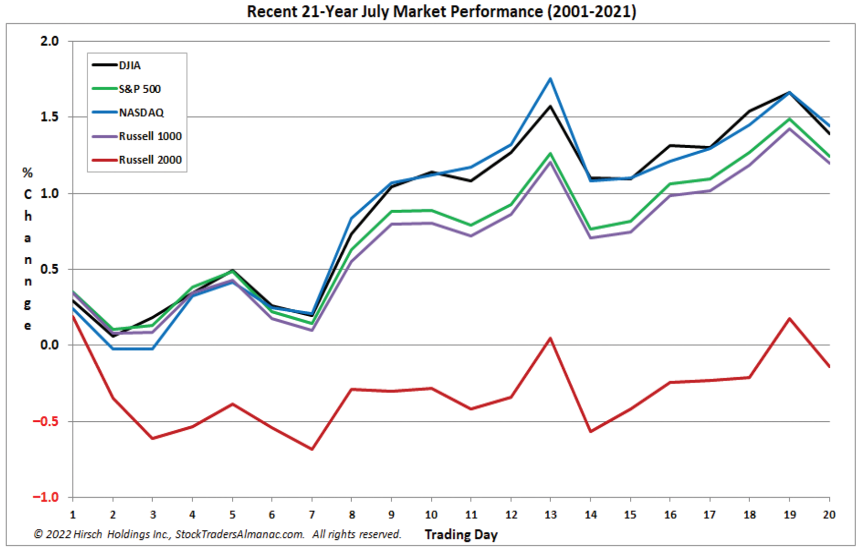
July Vital Stats (1950-2021)	DJIA	S&P 500	NASDAQ
Rank[2]	4	4	9
# Up	47	42	29
# Down	25	30	22
% Higher	65.3	58.3	56.9
Average %	1.3	1.1	0.6
4-Year Presidential Election Cycle Performance by %			
Post-Election	2.2	2.1	3.4
Mid-Term	1.3	0.9	–1.9
Pre-Election	1.0	0.9	1.0
Election	0.6	0.7	–0.1
Best & Worst 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 –8.0	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 2022 Bullish Days[3]: Data 2000-2021			
	1, 13, 14, 20, 25	1, 6, 13, 14, 20	1, 6, 7, 11-14,19 20, 28
July 2022 Bearish Days[4]: Data 2000-2021			
	5, 21, 22, 28, 29	15, 21, 27	21, 29

[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.

Recent 21-Year July Market Performance (2001-2021)



Midterm Year July since 1950	Rank[1]	Avg %	Up	Down
DJIA	3	1.3	11	7
S&P 500	5	0.9	10	8
NASDAQ*	12	–1.9	4	8

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

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makes a case for declaring the first trading day of July the most consistently bullish day of the year over the past 21 years.

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.

Midterm-year July rankings are something of a mixed bag, ranking #3 for DJIA and #5 S&P 500, averaging gains of 1.3% and 0.9% respectively (since 1950); while NASDAQ (since 1974) and Russell 2000 (since 1982) midterm Julys rank #12. NASDAQ has only advanced in four of the last twelve midterm Julys with an average loss of 1.9%. Russell 2000 has advanced only three in its last ten with an average decline of 3.8%.

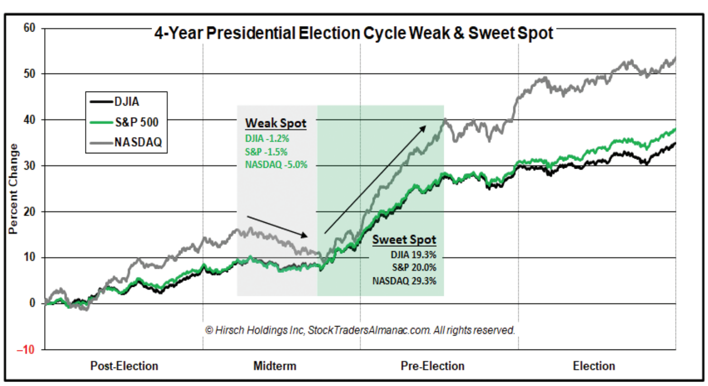
July Outlook: Worst Case Scenario in Play No Bottom Yet

Unfortunately, the stock market is delivering on its bearish historical 4-Year Cycle and seasonal tendencies here at the midway point of 2022. It is also playing out the less than sanguine outlook we wrote last year around this time in the *2022 Stock Trader's Almanac* (pages 10-11) and in our annual forecast from last December 16. So where do we go from here?

Much to our chagrin, we believe the short answer is that we have likely not seen the low either in price or time. Current trends are now leaning towards the "Worst Case" scenario we presented in our 2022 forecast which was for a "Mild bear market for S&P 500 with 2022 ending down 10-20%." With S&P 500 down 20.6% year-to-date at the end of June the bear is fully in place.

As we have been guiding over the past several months, we still believe this bear to put in a typical midterm election year bottom sometime in the August-October timeframe just ahead of the midterm elections. Stocks are clearly exhibiting the historical weakness that often transpires in the Worst Six Months of the year May-October and they are also tracking the "Weak Spot" of the 4-year cycle. But we believe this should set us up for the "Sweet Spot" of the cycle from Q4 midterm year through Q2 pre-election year.

The intersection of the annual seasonal pattern and the 4-Year Cycle produces the quadrennial "Sweet Spot." As we continue to patiently ride out this bear the chart below of



the 4-year cycle may provide some solace. We are currently finalizing the 2023 edition of the *Stock Trader's Almanac* so here's a sneak peek at this new chart from the 2023 STA that highlights the midterm low and most importantly the quadrennial rally from the midterm low to the pre-election year high in what we call the Sweet Spot of the 4-year cycle.

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% for the Dow, –1.5% for the S&P 500 and –5.0% for the NASDAQ Composite Index. But in the Sweet Spot of the cycle the Dow gains 19.3%, S&P 500 increases 20.0% and NASDAQ jumps 29.3% over the three-quarter span from midterm year Q4 to pre-election year Q2.

It is for this reason that we call midterm election years "A Bottom Pickers Paradise." From the midterm low to the pre-election year high DJIA gains 46.8% since 1914 and NASDAQ gains a whopping 68.2% since 1974! As the 2022 bear market runs its course, we believethe market will likely bounce along sideways, testing the lows, hitting its low point in late Q3 or early Q4 in the August-October period in prototypical midterm bottom fashion. Then be prepared for the rally off that low into the Sweet Spot and beyond to new highs.

Worst First Half Since 1970

As the market logged its worst first half start to the year since 1970 with DJIA down 15.3%, S&P off 20.6% and NASDAQ down 29.5%, there has been a lot of positive spin on how great second halves are when the market is down so much in the first half. Well, we did some deeper digging and went back a bit further than some of the cherry-picked stats we have seen.

Unfortunately, as you can see in this chart on the next page of DJIA Top 10 Worst First Half Starts since 1901 all but two of the years, 1939 and 1970 end down 10% or more. Five years (1932, 1939, 1940, 1962 & 1970) ended significantly higher (>5%) than their mid-year levels. Three (1907, 1920, & 2008) ended much lower and two (1910 & 1913) were flat from mid-year to year-end.

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July Outlook: Worst Case Scenario in Play No Bottom Yet

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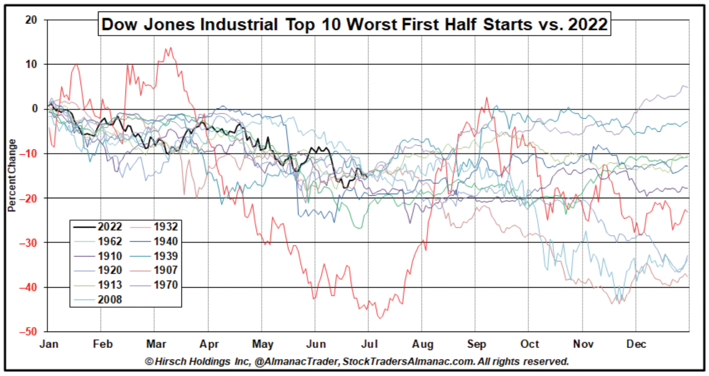


We suspect that the Fed will be wrapping up its aggressive tightening cycle at the September meeting or at least indicating a pause after three consecutive large rate increases. After the 75-basis-point hike at the June meeting another 75 is expected in July and at least another 50 in September bringing the Fed Funds rate up to 3.0%. This should coincide with the end of the Weak Spot and the final push of the midterm election campaigns ahead of the Sweet Spot.

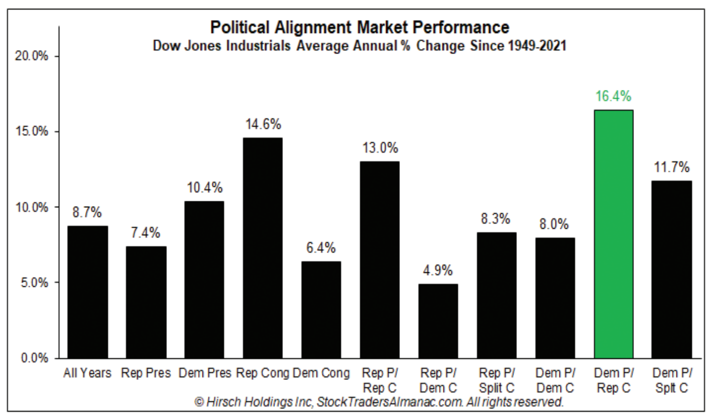
> ***"The pre-election year is still the best year of the 4-year cycle and with midterm year 2022 delivering a bear as has been the tendency for the past 74 years and back further, the prospects for upside action in 2023 are good despite the gloomy present situation."***

Pre-Election Best Year of 4-Year Cycle

Thankfully, the pre-election year is still the best year of the 4-year cycle and with midterm year 2022 delivering a bear as has been the tendency for the past 74 years and back further, the prospects for upside action in 2023 are good despite the gloomy present situation. Since 1949 DJIA is up an average of 16.2% in the pre-election year, S&P is up 16.8% and since 1971 NASDAQ gains an average 29.3% in the third year of the 4-year cycle.

But first we must get through the midterm elections. The drop in consumer confidence, recession fears and President Biden's already low and dwindling approval ratings implies that the usual loss of Congressional seats by the incumbent president's party will likely result in the Republicans taking back control of both houses of Congress.

However, this would create the best political alignment for the stock market: a Democratic president with a Republican Congress. In the chart here as you can see in the green bar this combination has produced the best market performance for an average gain on the Dow of 16.4% since 1949. If President Biden can tack to the center and facilitate some bipartisan legislation as Bill Clinton did after the 1994 midterms the market could respond rather bullishly.



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 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 twelve major errors since 1950 for an 83.3% accuracy ratio.

Market at a Glance

Seasonal: *Neutral.* July has been the strongest month of the third quarter. Midterm-year Julys have a mixed record ranking #3 for DJIA and #5 S&P 500, but for NASDAQ and Russell 2000 July is the worst month in midterm years. NASDAQ's seasonal midyear rally ends on or around July 14. Early July gains tend to fizzle after mid-month. July is the first month of NASDAQ's Worst Four Months, July through October.

Fundamental: *Shaky.* Third estimate of Q1 GDP was revised even lower to a –1.6% annual rate. Atlanta Fed's *GDPNow* forecast of Q2 GDP has slipped to –1.0% as of June 30. Two consecutive quarters of negative GDP satisfies the traditional definition of a recession. Headline inflation has accelerated to a new multi-decade high. Official employment metrics remain firm, but the technology sector has slowed hiring and, in some instances, begun layoffs. Consumer sentiment has plunged to the lowest level on record according to University of Michigan's final release in June. Corporate earnings could be the next to suffer.

> ***"It is looking increasingly likely that DJIA, S&P 500 and NASDAQ return to pre-Covid levels before the bear market ends."***

Technical: *Oversold Bounce?* Countless key support levels have not held this year for DJIA, S&P 500 or NASDAQ. With several popular companies trading at or near pre-Covid levels, it is looking increasingly likely that DJIA, S&P 500 and NASDAQ return to pre-Covid levels before the bear market ends. DJIA has already come within a few hundred points of its February 2020 closing high of 29551.42. S&P 500 pre-Covid closing high was 3386.15 and NASDAQ's was 9817.18.

Monetary: *1.50 – 1.75%.* Surging inflation has forced the Fed to accelerate interest rate increases. The Fed is currently projecting a 3.1% to 3.6% target rate by year end. This is a sharp increase from where it was at the start of the year. Most of this increase is expected before Election Day in November. Election results and a Fed nearing the end of a tightening cycle could prove to be the catalyst for the market to find bottom later this year and rally into 2023.

Psychological: *Bearish.* According to *Investor's Intelligence* Advisors Sentiment survey Bullish advisors stand at 32.9%. Correction advisors are at 27.1% while Bearish advisors numbered 40.0% as of their June 29 release. Bears have outnumbered bulls for nine straight weeks now and for good reason. That has been the market's trend the entire year with only the briefest of bounces. Overall, we still do not see bearish sentiment at a level that suggests outright fear and/or panic and this is what it will likely be when the current bear market nears its end.

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