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Investment Institute

Market Commentary

Weekly perspective on current market sentiment **September 15, 2021**

Scott Wren
Senior Global Market Strategist

Last week's S&P 500 Index: -1.7%

Seasonals

Key takeaways

- Historically, on average, September is the worst performance month for the S&P 500 and the Dow Jones Industrial Indexes.
- However, economic fundamentals remain strong and support higher equity prices over the coming 15 months.

It seems that every year, no matter what the stock market is doing, financial-media pundits bring up the old "Sell in May and go away" bromide. Specifically, this refers to the period from May 1 of each year through October. This six-month period, looking back to the beginning of 1950, features stock market returns that are lower than the November through April period. Analysts pay attention to seasonals to understand or at least be aware of the return tendencies equites exhibit during certain months or series of months of the year. Of course, seasonal tendencies are no guarantee that the pattern will repeat each year.

Given that, according to the Stock Trader's Almanac, the month of September has been the worst month for the stock market looking back to 1950, posting a -0.4% return on average. You don't need to look back very far in history to see that a number of meaningful pullbacks in the market started in September and ended in mid-October. It might just be coincidence, but at the very least it is worth keeping in the back of your mind. Volatility at this time of the year is not unusual, but it has been a while since the last truly noticeable pullback. We came close to a 10% correction in the S&P 500 last September, but prior to that it was the large pandemic-induced market tumble in February of 2020. Do note that better seasonal tendencies lie just ahead as the November through January period represents the best three three-month historical stretch by far in terms of average returns for the S&P 500.

But there are a number of reasons why the equity market might not adhere to the historical seasonal tendencies this time around. Our view is that economic growth will remain strong and interest rates will remain low over the balance of this year and next. In addition, the labor market remains strong and wages are rising, which should support consumer spending. Remember that the consumer drives nearly 70% of all economic activity here at home. And don't forget about the Federal Reserve's (Fed) easy money policies. While the Fed is likely to begin the process of reducing the amount of bonds it buys each month in the open market (aka tapering), we believe monetary policy will not be "tight" and our central bankers will likely continue to keep their foot on the accelerator, at least over the next 12 months or more.

That means we want to take advantage of any downside volatility in the stock market to add to positions with potential to benefit from a continuation of the economic recovery here at home and abroad. While it is true that we have not had a meaningful pullback in quite some time, we believe investors should look through potential near-term downside seasonal volatility and focus on the favorable fundamentals we believe lie ahead.

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Definitions

An index is unmanaged and not available for direct investment.

S&P 500 Index is a market capitalization-weighted index composed of 500 widely held common stocks that is generally considered representative of the US stock market.

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