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September Almanac: The Other Worst Month

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The start of business year, end of summer vacations, and back to school made September a leading barometer month in first 60 years of the 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, and NASDAQ (since 1971). September was creamed four years straight from 1999-2002 after four solid years from 1995-1998 during the dot.com bubble madness. September gets no respite from positive pre-election year forces.

Although the month used to open strong, S&P 500 has declined eight times in the last eleven 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, causing 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%). However, September is improving with S&P 500 advancing in ten of the last 15 Septembers and DJIA climbing in nine.

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Pre-Election Year September since 1950

	Rank[1]	Avg %	Up	Down
DJIA	12	–1.0	6	11
S&P 500	12	–0.9	5	12
NASDAQ*	12	–0.9	6	6

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

September Vital Stats (1950-2018)

	DJIA	S&P 500	NASDAQ
Rank[2]	12	12	12
# Up	28	31	26
# Down	41	37	22
Average %	–0.7	–0.50	–0.5
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	–1.0	–0.9	–0.9
Election	–0.4	–0.2	–0.0
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 2019 Bullish Days: Data 1998-2018			
	4, 5, 11, 12, 17 19, 26	11, 12, 17, 26, 27	2, 11-13, 17
September 2019 Bearish Days: Data 1998-2018			
	6, 23, 24, 30	4, 20, 23, 24, 30	16, 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.*

September Almanac: The Other Worst Month

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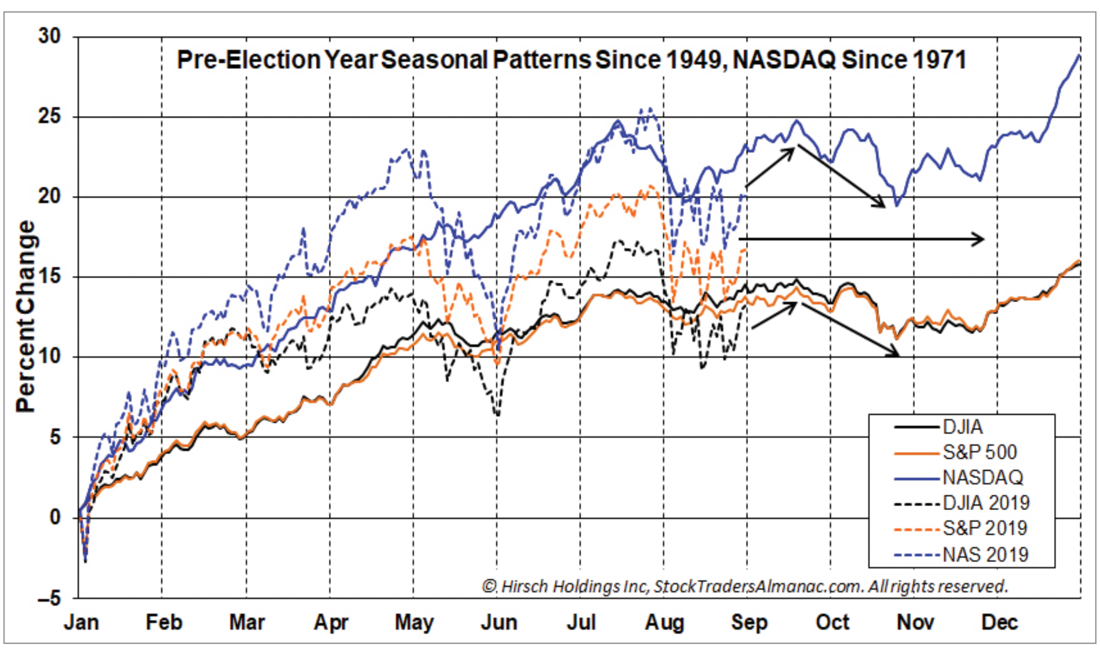
September Triple Witching week is generally bullish with S&P 500 advancing twice as many times as declining since 1990, but is has suffered some sizable losses. Triple-Witching Friday was essentially a sure bet for the bulls from 2004 to 2011 but has been a loser four to six of the last seven years, depending on index. The week after Triple Witching has been brutal, down 23 of the last 29, averaging an S&P 500 loss of 0.95%. In 2011, DJIA and S&P 500 both lost in excess of 6%. The week after was positive in 2016 and 2017.

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 twenty-three of twenty-eight 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 25 Tuesdays and 18 of the last 24 Wednesdays following Labor Day.

September Outlook: Volatility Continues & End Q3 Weakness

Last month we warned that the market was ripe for a seasonal pullback. Within days of our monthly missive late-July and early-August delivered their typical seasonal weakness, of course with a little help from the Fed, yield curve and hot-button geopolitics. At the risk of sounding like a broken record, we expect the market to continue to track the seasonal and 4-year election cycle patterns closely as it has all year long.

Our updated chart of Pre-Election Year Seasonal Patterns overlaid with 2019 to date highlights the amplitude of August 2019 price swings as well as how closely market price action this year has tracked the historical trend and pattern. This suggests 2019 will continue to move in synch with the seasonal moves depicted on the chart.



So we expect the market to move higher toward the July highs until the last week of the September, which is the treacherous Week After Q3 Triple Witching — down 23 of the last 29 years for the S&P 500. Then the market tends to have a downward bias until late October.

The CME Group's *FedWatch* Tool currently has the odds of a 1/4 point rate cut at the next meeting on September 18 as a virtual lock at 90.4%. Many on The Street are secretly (or not so secretly) expecting a 1/2 point cut. Negative market reaction to only a 1/4 point and perhaps some more ambiguous comments from Fed Chair Powell, could fall right in line with Q3 Triple Witching volatility, end-of-September seasonal weakness after quarterly expiration and institutional portfolio restructuring and window dressing.

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September Outlook: Volatility Continues & End Q3 Weakness

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Technically speaking, the market has settled into a range between 2815 and 2945 on the S&P 500. S&P 2815 is a support level we have been tracking for some time now that sits at the intraday high back on November 7, 2018 where the market failed last fall before the 20% correction ran its course to the Christmas Eve low. The good news is the 2815 has held here this time unlike the — 2700 level last fall.

The bad news or at least the technical case for no new highs is that the S&P has yet to clear the 2945 level, which was the intraday high on Friday August 2 that was the beginning of two back-to-back [Down Friday/Down Mondays](), which has a negative indication if not quickly reclaimed.

So look for the market to drift higher into mid-September with a struggle to break above 2945-2955 on the S&P, which is right at the 50-day moving average (DMA). If it can clear that level it may be able make a run at the highs before turning lower the last week of September. October could likely see a retest of 2815 with the 2725 support level that was held in June also being in play. Stick to the drill and wait for our Best Six Months Seasonal Buy Signal before jumping back in with both feet.

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. Past performance does not guarantee future results.

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Market at a Glance

Seasonal: *Bearish.* Since 1950, September is the worst performing month of the year for DJIA, S&P 500, and NASDAQ (since 1971). In pre-election years, rankings are unchanged while average losses expand.

Psychological: *Fading.* According to *Investor's Intelligence* Advisors Sentiment survey, bulls are at 44.9%. Correction advisors are at 36.4% and Bearish advisors are 18.7%. The drop in bullish sentiment and the increase in correction/bearish advisors are near levels observed at the end of May. Overall, the decline in bullish sentiment has corresponded with the decline and choppy trading of recent, but it has yet to slip to levels often seen near significant market bottoms.

Fundamental: *Sketchy.* Q2 GDP was revised lower to 2.0%. Trade tensions between U.S. and China continue to spiral with each new escalation bringing only more uncertainty. Yield curve inversions abound stoking recession fears that just drive rates lower. Some bright spots exist. Unemployment is low and the economy is still growing just at a slower pace.

Technical: *Range bound?* Since early August DJIA, S&P 500 and NASDAQ have essentially been trading between their respective 50- and 200-day moving averages. Support has held, but overhead resistance has also held. Trade and/or the Fed are likely to be the catalyst that pushes the market through one barrier or the other.

Monetary: *2.00-2.25%.* It would appear that the Fed is still behind the curve. Yields across the duration spectrum have plunged. Multiple central banks have cuts rates while the Fed ponders and remains data dependent. If the Fed waits for the data, it could be too late to avoid further slowing and possibly a recession.

> ***"Since 1950, September is the worst performing month of the year. Since early August the market has been trading between the 50- and 200-day moving averages. Trade and/or the Fed are likely to be the catalyst that pushes the market through one barrier or the other."***

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