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February Almanac: Historical Performance Improves in Midterm Years

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Even though February is right in the middle of the Best Six Months, its long-term track record, since 1950, is rather tepid. February ranks no better than sixth and has posted meager average gains except for the Russell 2000. Small cap stocks, benefiting from "January Effect" carry over; historically tend to outpace large cap stocks in February. The Russell 2000 index of small cap stocks turns in an average gain of 1.1% in February since 1979 — just the sixth best month for that benchmark. With Russell 2000 lagging this January, prospects for February outperformance appear slim.

In midterm years, February's performance generally improves with average returns all increasing. Here again it is the Russell 2000 small-cap index that shines brightest gaining 1.4% on average since 1982. DJIA and NASDAQ average gains of 0.7% (since 1950 & 1974) while S&P 500 lags with average advance of 0.4% (since 1974).

The first trading day is bullish for DJIA, S&P 500 and NASDAQ. Average gains on the first day over the last 21-year period are right around 0.4%. Strength then tends to fade after that until the stronger fourth, sixth, ninth, ten and eleventh trading days.

Presidents' Day is the lone holiday that exhibits weakness the day before and after (*Stock Trader's Almanac 2022*, page 100). The Friday

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Midterm Year February since 1950

	Rank[1]	Avg %	Up	Down
DJIA	6	0.7	12	6
S&P 500	6	0.5	10	8
NASDAQ*	4	0.7	6	6

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

February Vital Stats (1950-2021)

	DJIA		S&P 500		NASDAQ	
Rank[2]	8		11		10	
# Up	43		40		28	
# Down	29		32		23	
Average %	0.2		0.002		0.6	
4-Year Presidential Election Cycle Performance by %						
Post-Election	–1.1		–1.5		–3.3	
Mid-Term	0.7		0.5		0.70	
Pre-Election	1.4		1.2		2.8	
Election	–0.7		–0.4		1.8	
Best & Worst February by %						
Best	1986	8.8	1986	7.1	2000	19.2
Worst	2009	–11.7	2009	–11.0	2001	–22.4
February Weeks by %						
Best	2/1/2008	4.4	2/6/2009	5.2	2/4/2000	9.2
Worst	2/28/2020	-12.4	2/28/2020	-11.5	2/28/2020	-10.5
February Days by %						
Best	2/24/2009	3.3	2/24/2009	4.0	2/11/1999	4.2
Worst	2/10/2009	–4.6	2/10/2009	–4.9	2/16/2001	–5.0
February 2022 Bullish Days[3]: Data 2000-2021						
	1, 4, 15, 16		1, 4, 8, 11, 14, 15		1, 4, 8, 11, 14, 15, 24	
February 2022 Bearish Days[4]: Data 2000-2021						
	18, 28		18, 22, 28		3, 18, 28	

[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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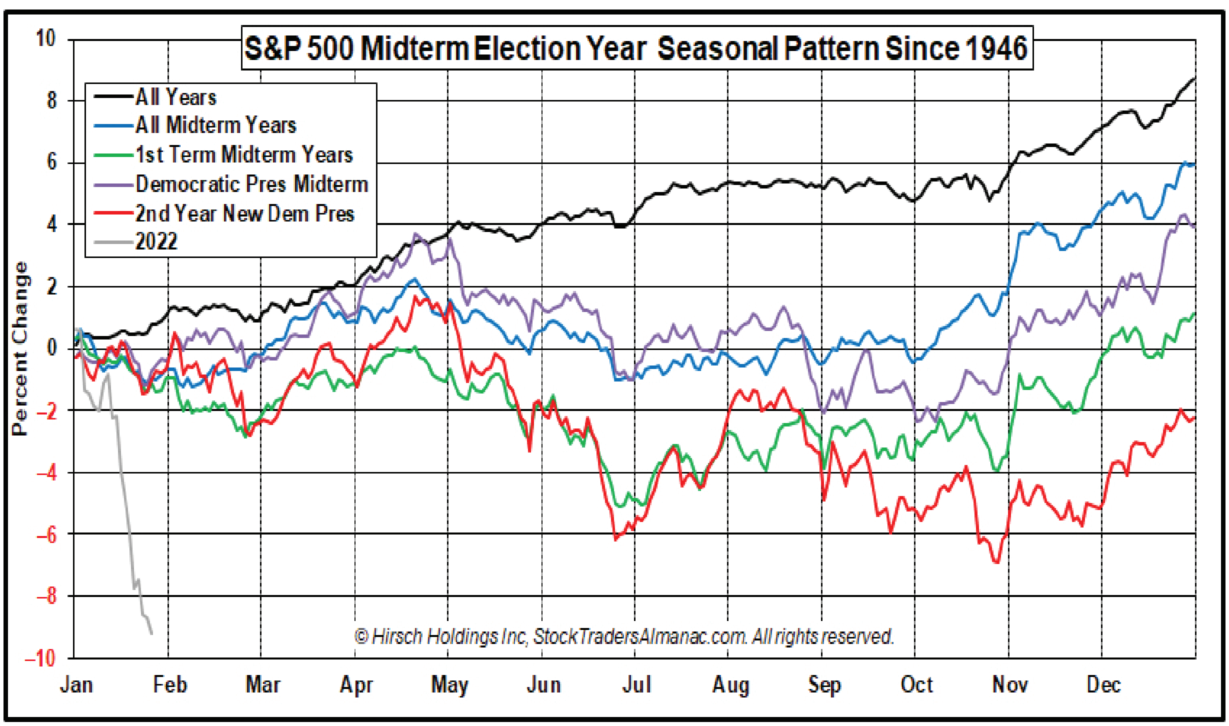
before this mid-winter three-day break can be treacherous and average declines persist for three trading days after the holiday going back to 1980. In recent years, trading before and after the holiday has been more bullish. S&P 500 has been up 10 of the last 11 years on the day before and NASDAQ has been up 7 of the last 9 years on the day after.

February Outlook:
Heightened Volatility Expected to Continue Through Midterm Elections

In our 2022 Annual Forecast last month we were candid about our less than sanguine outlook for 2022 and that we were expecting a reversion to the mean in annual returns and a decent correction. We shared the many obstacles and hurdles we felt the market would be facing in 2022. First and foremost are the forces of the 4-Year Cycle and the impact the midterm elections have on the market.

Midterm election years are notoriously volatile as the two political parties battle it out with the opposing party hammering the incumbent president publically, politically and legislatively to control Congress. And this is particularly pronounced for first term presidents like Joe Biden. We have added 2022 year-to-date performance to our chart here of the "S&P 500 Midterm Election Year Seasonal Pattern" and it's not pretty.



The market has already exceeded the average midterm low this year. But we might find some solace from the table on page 34 in the *2022 Almanac* on "Why A 50% Gain in the Dow Is Possible from Its 2022 Low to Its 2023 High." In the table on that page you will note that of the 27 midterm lows since 1914 the month with the most midterm year lows is January with six. That's not to say we believe the low for the year is in as the midterm low as you can see in the chart usually comes during the weak spot of the 4-Year Cycle during Q2 or Q3.

Selling Climax Finding Support

The current volatile selloff is disconcerting for the market with several technical support levels already having been breached and support near the October 2021 low around the S&P 500 4300-level currently under attack. Interestingly though, the old stodgy DJIA has been holding up best finding some support for now around 34000. DJIA has not closed below its December closing low of 34022.04 reached on December 1, which means the "December Low Indicator" (*2022 Almanac*, page 36) has not been triggered.

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February Outlook: Heightened Volatility Expected to Continue Through Midterm Elections

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Technical damage has been done, with the major averages breaking through the old uptrend line from the October 2020 low, falling below their 200-day moving averages and now finding resistance at those 200-DMA levels. But we may have seen an Advance/Decline Ratio Selling Climax when more than 70% of total issues traded declined on January 18 and 21 with less than 20% advancing. If the market can find some support here at least in the short-term we could see the market rally into the end of the Best Six Months in April.

But in our opinion, the market still faces obstacles beyond the adverse midterm year forces and the technical breakdown. Geopolitically, pressures have not abated as the situation with Russia and Ukraine remains fluid and the diplomatic dance with China on Taiwan and other fronts continues as well as the usual hot button issues in the Mideast and with North Korea. Rich valuations have come down a bit but they are still elevated. Corporations will have difficulty beating last year's results with 2021 year-over-year comparisons being a hard act to follow in 2022. Then there is inflation and the Fed shifting from its longtime extremely accommodative stance to a neutral/tightening bias.

And of course there are the discouraging results from our January Indicator Trifecta. The Trifecta started the year on a positive note with the Santa Claus Rally (SCR) coming in with a gain on the second trading day of the year. But that was quickly squashed as the S&P 500 declined for the First Five Days (FFD) of January. And with only two trading days left in January it is highly unlikely our January Barometer (JB) will be positive. S&P 500 would need to rally 10.2% or 439.68 points to overtake the 2021 close of 4766.18 — a tall order indeed. Years when SCR was up but the FFD and the JB were down were not bullish. Only one of the eight occurrences (2014) saw full year gains. A Down January is not a positive indication for the year (*2022 Almanac,* page 22).

But in our opinion, there are some potential positives. The economy is booming with the full-year 2021 GDP number the best reading in three decades since we came out of the double dip recession in 1984. And while we believe the market is suffering from Fed phobia we expect the Fed to be in no rush to quell inflation with a major tightening cycle. They have not been in any hurry up to now so why would they suddenly speed up. They will most likely remain data dependent and maintain their wait-and-see attitude. We expect 4 rate hikes this year and for them to occur at the FOMC meetings associated with their Summary of Economic Projections in March, June, September and December. But most importantly, even after the anticipated increases, rates will remain historically low.

All in all we expect the market to find support here in February and then rally back toward the recent highs by the end of the Best Six Months in April. After that we expect a retest of the current lows and perhaps lower lows in the Worst Six Months of 2022, the weak spot of the 4-Year Cycle, followed by a Q4 rally at the beginning of the sweet spot of the 4-Year Cycle in line with our 2022 Annual Forecast Base Case Scenario with S&P 500 and DJIA finishing 2022 up 5-10% and NASDAQ slightly weaker.

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: *Neutral.* February is part of the "Best Six Months," but it is historically the poorest performing month of the six. February ranks #8 for DJIA, #11 S&P 500 and #10 for NASDAQ. Russell 2000 tends to outperform in February most likely due to carry over of the January Effect. Midterm Februarys have historically been better, but still only mid-pack for DJIA and S&P 500.

Fundamental: *Mixed.* Initial Q4 GDP came in at a solid 6.9% annualized pace, much better than estimates. Inflation rose 7% on a year-over-year basis in December, the highest reading since June 1982 while "core" inflation was up 5.5%. Supply chain disruptions persist and are likely to continue to elevate inflation readings as demand outpaces supply. Omicron continues to spread, but the pace appears to be slowing. Earnings have been fair but the monster numbers of last year make for tough comparisons.

Technical: *Correcting.* DJIA, S&P 500, NASDAQ & Russell 2000 have all fallen below their respective 50- and 200-day moving averages. Russell 2000 has satisfied the 20% decline from its closing high used by many sources as the definition of a bear market, down 20.9%. NASDAQ is not far behind, down 16.8% from its November closing high through the close on January 27. S&P 500 is down 9.8% while DJIA is holding up best, down 7.2%.

Monetary: *0 – 0.25%.* Following the first Fed meeting of 2022, QE is scheduled to end just ahead of mid-March and the first rate increase could come then as well. Our guess for rate increases would be one 0.25% increase at each meeting in March, June, September and December this year which would put Fed funds at 1-1.25% at year's end. There has been no real rush to end QE and the Fed has tolerated year-over-year inflation above 5% since last June. This measured pace of rate increases is also rather consistent with their repeated dependency on data.

> ***"Our guess for rate increases would be one 0.25% increase at each meeting in March, June, September and December this year which would put Fed funds at 1-1.25% at year's end."***

Psychological: *Sliding.* According to *Investor's Intelligence* Advisors Sentiment survey Bullish advisors have retreated to 34.9%. Correction advisors stand at 38.4% while Bearish advisors are at 26.7% as of their January 26 release. Even though this is a significant shift away from the elevated bullish levels last seen in November, overall sentiment has not yet reached levels that have historically been seen at substantial buying opportunities. When Bearish advisors begin to swell, that could indicate a bottom is near.

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