MV Capital Management Weekly Market Flash

Thirty Days Has September

August 30, 2013

April may be the cruelest month for those cutting a mid-month check to Uncle Sam, but for investors it's another 30-day month – September – that comes around every year to spread misery. Right? So say many of the market pundits spouting their wisdom on CNBC. We say: Not so fast. Context matters.

Context, Context

A look at the last 20 calendar years shows that the September price return of the S&P 500 was worse than the average monthly return for that calendar year on eight occasions. That means, of course, that on twelve occasions the performance during back-to-school month was better than that year's monthly average. Interestingly, four of those Septembers correspond to the four worst-performing years of that 20 year stretch – 2000, 2001, 2002 and 2008. Two other years for bad Septembers – 1994 and 2011 – also aligned with generally unfriendly equity market environments.

Traders of a Feather

That is perhaps not surprising: autumn tends to be a time when traders and money managers tack their portfolios towards end of year performance, and that can magnify the year's trend to date one way or the other. Once the kids are back in school and the bags with Halloween decorations are coming out of garage cupboards, traders' thoughts turn to their calendar year performance. Being creatures of a herd sensibility they will be very attuned to breakaway trends one way or the other. Small wonder that September and October tend to, historically speaking, bear the brunt of that.

On Tap For This Year

So what does that mean for this year? Well, no doubt there are a couple potential headwinds, as we have pointed out in previous Market Flashes. The big one is the mid-September FOMC meeting that will send the first clear message as to whether QE tapering is an imminent reality or not. With a strong GDP revision and continuing firmness in employment leading the macro picture the consensus appears to expect tapering to begin next month. Then we have the anticipated budget and debt ceiling battles, the ongoing volatility of emerging market currencies, geopolitical flashpoints in the Middle East and much else to keep our eyes on. It will be a month that calls for laser-like focus, to be sure.

Strong Undercurrent

But there is a fairly strong undercurrent that may take us through the headwinds without much damage. Steady, if somewhat modest, growth with improving employment and low inflation; moderately positive corporate earnings; and gradual improvement in Europe's economy remain positive factors. And it's not like we're cruising into September on the back of a hot rally: the S&P 500 is down around 3% for the month of August to date. We think it more likely than not that most of whatever the S&P 500 earns for this year is reflected in the current price. But in the absence of a sharp reversal there may be room for a bit more as money managers dress up their portfolios before Christmas.

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