Brinker Capital

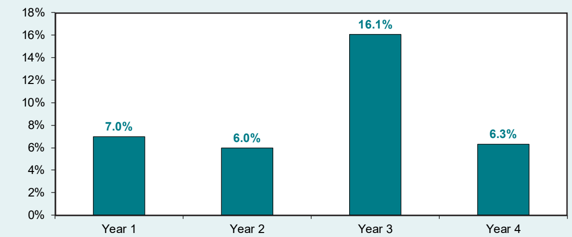
There's more to market patterns than "sell in May and go away"

Stock market returns should – and will – ultimately reflect the underlying economy, particularly the level of interest rates and corporate earnings, which means, among other things, that the calendar, Gregorian or otherwise, should have no impact whatsoever on performance. Yet, with that written, most investors are aware of the well-established pattern of seasonal strength and weakness in US stocks, specifically the market's historical outperformance during the last few months of one calendar year through the first few months of the next calendar year and underperformance through the summer and early fall months in any particular year, performance patterns immortalized by the old Wall Street adage, "Sell In May And Go Away." Theories behind these seasonal patterns include corporate and consumer optimism over the holiday season, and 401k contributions early in a new year, both giving the market a bit of a boost.

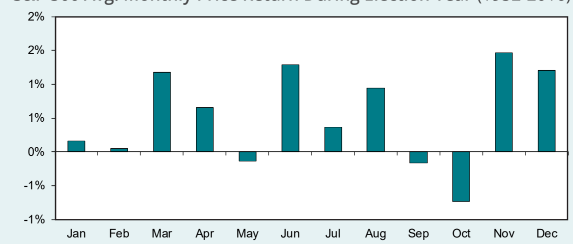
While "sell in May and go away" is a well-documented phenomenon, there is another equally persistent pattern to market returns that has received less attention but is worth discussing, particularly today, and that is "The Presidential Cycle." Looking back 70 years, the S&P 500 Index (S&P 500) has meaningfully outperformed in the third year of "The Presidential Cycle," or the third year of a President's term, up just north of 16%. As we come to the end of President Trump's third year in office, "The Presidential Cycle" has not disappointed, with the S&P 500 up 26% in 2019. As is the case with "Sell In May And Go Away," there are several theories behind "The Presidential Cycle," with the most widely held being the President will do all in their power late in their term to boost the economy and the market, with an eye toward securing their reelection or the election of their party's nominee. While one can argue uncertainty around US/China relations has weighed on investor sentiment this year, the news on that front has been much more positive of late, a development which has helped propel the stock market to a record high.

Historically, the fourth year of "The Presidential Cycle" has produced positive, albeit more modest returns, with much of year's gains coming after election day. Setting aside "Sell In May And Go Away" and "The Presidential Cycle," we remain optimistic on US equities into year-end and into 2020, seeing the asset class supported by an accommodative Federal Reserve, low inflation, a bottoming out in global economic growth, and improving relations between the US and China.

S&P 500 Price Returns By Presidential Cycle (CY, 1948-2018)



S&P 500 Avg. Monthly Price Return During Election Year (1952-2016)



Stocks, bonds, and commodities (12/2/19)

Security name	Last	QTD chg	YTD chg	12mo chg
S&P 500	3140.98	5.52%	25.30%	13.80%
MSCI AC World ex USA	289.57	4.16%	13.38%	8.07%
MSCI EAFE	1974.47	4.50%	14.80%	9.11%
MSCI EM	1040.05	3.90%	7.69%	4.56%
Bloomberg Barclays US Agg	105.96	-0.26%	5.86%	7.56%
Crude Oil WTI	55.42	2.50%	22.04%	8.82%
Natural Gas	2.31	-0.73%	-18.87%	-49.85%

Treasury rates (12/2/19)

	Price	Yield
2Y	99.252 / 0.000	1.604
3Y	100.006 / 0.000	1.614
5Y	99.126 / 0.000	1.624
7Y	99.100 / 0.000	1.729
10Y	99.226 / 0.000	1.780
30Y	103.246 / 0.000	2.201

Weekly reports

This week
- ISM Manufacturing
- Hourly Earnings Y/Y

Last week
- New Home Sales SAAR 733K
- Chicago PMI 46.3

Brinker Capital Market Barometer

NOVEMBER 2019

The weight of the evidence leans positive, in line with our modest overweight to risk across portfolios.

SHORT-TERM FACTORS (< 6 months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Momentum	→			●	Market momentum continues to improve
Trend	→			●	S&P 500 Index hit new high; trend is solid
Investor sentiment			●		Sentiment survey data shifted more neutral; equity flows still negative
Seasonality				●	4Q tends to be the most constructive for equities

INTERMEDIATE-TERM FACTORS (6-36 months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Fiscal policy			●		Fiscal stimulus potentially offset by tariffs in 2020
Monetary policy				●	The Fed has cut three times and remains accommodative
Inflation				●	Global inflation low and inflation expectations muted
Interest rate environment			●		US yield curve has largely “un-inverted” but more progress is needed
Macroeconomic			●		Global growth slowdown but still positive; US/China trade war concerns
Business sentiment	←	●			CEO confidence has fallen sharply; small business confidence still elevated
Consumer sentiment				●	Measures have ticked down but remain at elevated levels
Corporate earnings			●		US earnings growth slowing but positive; weaker ex-US
Credit environment				●	Credit spreads have tightened; little sign of stress in financial conditions

LONG-TERM FACTORS (36+ months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Valuation			●		US equity valuations at long-term averages; more attractive ex-US
Business cycle	←		●		Longest expansion on record but also the slowest
Demographics			●		Mixed (US and emerging markets positive; developed int’l negative)

Source: Brinker Capital. Information is accurate as of November 5, 2019. Themes and specific funds utilized to implement themes are discussed within the context of Brinker Capital’s managed asset allocations and are based on current market conditions and constitute Brinker Capital’s judgment and opinions, which are subject to change without notice. Past performance does not guarantee future results. Statements referring to future actions or events, such as the future financial performance of certain asset classes or market segments, are based on the current expectations and projections about future events provided by various sources, including Brinker Capital’s Investment Management Group. These statements are not guarantees of future performance and actual events may differ materially from those discussed. Brinker Capital Inc., a registered investment advisor. MSCI AC World ex US Growth: An index made up of approximately the top 50% of the MSCI AC World ex US Index as composite ranked by five growth rates. This is a common proxy used to represent the growth segment of the developed international market. MSCI EAFE Index: A market-capitalized weighted index representing developed international equity markets located in Europe, Australia, Asia and Far East (EAFE). S&P 500 Index: An index consisting of 500 stocks chosen for market size, liquidity and industry grouping, among other factors. The S&P 500 is designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large-cap universe. Companies included in the Index are selected by the S&P Index Committee, a team of analysts and economists at Standard & Poor’s. Barclays US Aggregate Index: A market capitalization-weighed index, maintained by Barclays Capital, and is often used to represent investment grade bonds being traded in the US. MSCI Emerging Markets: a float-adjusted market capitalization index representing 13% of global market capitalization. Captures mid and large cap across more than two dozen emerging market countries.