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Seasonal patterns on the stock markets: Opportunity or risk?

Seasonal patterns on the stock markets are recurring trends that are based on historical price developments and occur more frequently at certain times of the year. These patterns, which result from investor behavior, economic factors or even psychological influences, can be a valuable guide. Although they are no guarantee of future market developments, they do provide a useful insight into possible market movements.

Sell in May and go away, ...

This is one of the best-known stock market rules, which states that investors should sell their shares in May and only re-enter the market in September. This strategy is based on the observation that the summer months (May to October) historically often produce lower returns than the winter months (November to April). The reasons for this seasonal weakness are manifold: in the summer months, especially in the vacation months of July and August, many traders and investors are said to be on vacation, which leads to less activity on the markets. Lower trading volumes can in turn increase volatility, as there are fewer buyers and sellers to mitigate price fluctuations. In some sectors, economic activity is also expected to slow in the summer, which may lead to less positive corporate news. This may also contribute to a subdued market development. In addition, it is often heard that many investors are liquidating their profits made in the first few months in order to act more cautiously in the summer months.

Probability of loss and average performance in the respective month (period: 1980-2023)

	DAX	S&P	DAX	S&P
January	36%	42%	1,1%	1,0%
February	47%	44%	0,8%	0,2%
March	38%	35%	1,2%	1,1%
April	35%	31%	1,8%	1,3%
May	47%	36%	-0,1%	0,5%
June	51%	40%	0,2%	0,4%
July	35%	45%	1,6%	1,0%
August	51%	44%	-1,0%	0,1%
September	61%	56%	-1,7%	-1,0%
October	37%	43%	1,1%	0,9%
November	33%	30%	1,7%	1,7%
December	37%	26%	1,6%	1,5%

Source: Refinitiv Datastream

But does the supposed success of this strategy really stand up to scrutiny with historical data? To find out, we took a closer look at the monthly returns of the S&P 500 and the DAX from January 1970 to the present day. For the S&P 500, December, November and April (in this order) are the months with the lowest loss probabilities of 26%, 30% and 31% respectively. In contrast, September is the month with the highest probability of loss at 56%. In the past 50 years, July, August and February have also been months with a higher average probability of loss (44% and 45% respectively) than the other months of the year. For the DAX, November, July and January are the months with the lowest probability of loss, while September, August and June should be avoided. However, the loss probabilities of the individual months are not evenly distributed if you look at the last 50 years by decade. September, for example, had an above-average negative performance in the 1970s and 1980s, while the frequency of negative performance has been below 50 percent since the 2010s.

Probability of loss in the respective month (period: 2000-2009)

	DAX	S&P
January	60%	60%
February	70%	70%
March	60%	40%
April	30%	40%
May	50%	30%
June	60%	50%
July	50%	60%
August	50%	20%
September	50%	50%
October	30%	40%
November	30%	30%
December	10%	30%

Source: Refinitiv Datastream

Probability of loss in the respective month (period: 2010-2019)

	DAX	S&P
January	30%	40%
February	40%	20%
March	30%	40%
April	30%	10%
May	60%	40%
June	60%	40%
July	40%	20%
August	70%	60%
September	40%	40%
October	20%	30%
November	40%	20%
December	50%	30%

Source: Refinitiv Datastream

… „but remember to come back in September“

But how successful was a trading strategy that was only invested in the DAX and S&P 500 from January to the end of April and from the beginning of September to the end of December compared to a pure buy-and-hold strategy, i.e. investing for the entire year? In the case of the DAX, the strategy of not being invested from May to August would actually have led to a slightly better overall result over the past 50 years with a success rate of 56%, whereby this strategy would have paid off particularly in the 1970s and between 2010 and 2019. In most cases, however, it was singular events that led to strong price losses in one of the months concerned in a particular year. For example, it would have been better not to have invested in the DAX in August 2011 and thus avoided a monthly loss of 19.2%.

In the case of the S&P 500, on the other hand, the “sell in May and come back in September” strategy would have been largely unsuccessful from 1970 to the present day, compared to an investment in which one would have been invested in the stock market throughout the year (success rate 37%). A small exception is the period from 2000 to 2009, when the probability of success was 60 percent if one had not been invested in the stock market during the summer months.

As October also enjoys a dubious reputation as a bad month for the stock market, we have also investigated whether it might even make more sense to return to the market in November. But here, too, the answer is clear: no, that makes no sense. At 52%, the probability of success for the DAX over the entire period is hardly better than a coin toss, and for the S&P 500 it is extremely low at 26%.

Fundamental influencing factors remain decisive

Even though studies have shown that the months from November to April tend to yield higher returns than the summer months, there are still many years in which the markets have risen sharply in the summer. Investors who have strictly followed these seasonal patterns and rules have therefore missed out on attractive gains. It is therefore important to view seasonal patterns as a guide and not as a strict rule. This is because these patterns are no guarantee for future developments. Markets are influenced by many factors, but in our view the fundamental factors clearly dominate.

Economic data, inflation rates and, above all, the development of corporate profits are the focus for us when we assess the future prospects for the equity markets. Even though September 2024 has so far lived up to its bad reputation with price losses of between three and five percent depending on the index, there are developments that make us optimistic for the rest of the month and year. For example, the European Central Bank has cut interest rates by 25 basis points for the second time this year, and further downward adjustments will follow. As the inflation rate is approaching the two percent mark and the currently still high rates of price increases in services will weaken due to the easing wage pressure (no further inflation compensation payments, lower rates of increase in the next wage settlements), the ECB will be able to focus more on the weak economy in future. In the USA, too, the Federal Reserve will initiate the interest rate reduction cycle next week with a 25 basis point cut in the key interest rate. As in the Eurozone, monetary policy will continue to be eased until the end of the year and further interest rate cuts are also on the agenda for next year. This means that fixed and overnight interest rates will fall and become less attractive for investors, making shifts into the stock market more likely.

Technology stocks, which have recently come under pressure, could also benefit from this again. Although their valuations are still higher than those of many other companies, they have become more attractive again compared to their own history. In addition, they continue to have the best prospects for further earnings growth, which is also reflected in the fact that they are the only sector for which earnings expectations for the third quarter have not been revised downwards.

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Market data

Stock marktes	As of 13.09.2024 09:30	Change versus 06.09.2024 -1 week	12.08.2024 -1 month	12.06.2024 -3 months	12.09.2023 -1 year	29.12.2023 YTD
Dow Jones	41097	1,9%	4,4%	6,2%	18,6%	9,0%
S&P 500	5610	3,7%	5,0%	3,5%	25,7%	17,6%
Nasdaq	17570	5,3%	4,7%	-0,2%	27,6%	17,0%
DAX	18578	1,5%	4,8%	-0,3%	18,2%	10,9%
MDAX	25351	1,2%	5,0%	-5,3%	-6,4%	-6,6%
TecDAX	3297	2,2%	1,1%	-4,7%	7,2%	-1,2%
EuroStoxx 50	4830	1,9%	3,4%	-4,1%	13,8%	6,8%
Stoxx 50	4423	1,5%	1,8%	-3,0%	11,6%	8,1%
SMI (Swiss Market Index)	12052	1,2%	1,5%	-0,9%	9,7%	8,2%
Nikkei 225	36582	0,5%	4,4%	-5,9%	11,6%	9,3%
Brasilien BOVESPA	134029	-0,4%	2,2%	11,8%	13,6%	-0,1%
Indien BSE 30	82960	2,2%	4,2%	8,3%	23,4%	14,8%
China CSI 300	3159	-2,2%	-5,0%	-10,9%	-16,0%	-7,9%
MSCI Welt	3611	2,6%	4,8%	2,7%	22,2%	14,0%
MSCI Emerging Markets	1076	0,1%	0,6%	0,7%	10,2%	5,1%
Bond markets						
Bund-Future	134,73	-35	32	363	410	-249
Bobl-Future	119,82	157	189	382	339	54
Schatz-Future	106,98	54	69	152	182	43
3 Monats Euribor	3,47	-20	-20	-20	-36	-42
3M Euribor Future, Dec 2024	3,06	11	6	-29	-25	76
3 Monats $ Libor	5,19	-1	-18	-42	-48	-40
Fed Funds Future, Dec 2024	4,43	-1	-6	-56	-12	59
10 year US Treasuries	3,65	-6	-26	-68	-61	-22
10 year Bunds	2,14	3	-2	-38	-47	14
10 year JGB	0,84	-2	-3	-14	14	22
10 year Swiss Government	0,45	-2	4	-36	-65	-25
US Treas 10Y Performance	627,07	0,3%	2,1%	6,3%	8,9%	4,3%
Bund 10Y Performance	570,70	0,2%	0,8%	4,0%	6,8%	0,9%
REX Performance Index	455,11	0,3%	1,0%	3,3%	5,3%	1,6%
IBOXX AA, €	3,07	0	-12	-42	-75	0
IBOXX BBB, €	3,60	1	-12	-44	-105	-16
ML US High Yield	7,49	-3	-36	-47	-115	-30
Commodities						
MG Base Metal Index	411,29	1,2%	2,5%	-5,3%	6,9%	5,2%
Crude oil Brent	72,41	1,1%	-10,5%	-11,9%	-21,4%	-6,8%
Gold	2565,89	2,0%	4,4%	10,3%	34,1%	24,2%
Silver	29,71	5,1%	6,5%	-1,4%	28,8%	22,5%
Aluminium	2397,40	3,3%	6,4%	-4,8%	11,3%	2,2%
Copper	9095,69	2,5%	2,1%	-7,4%	8,7%	7,5%
Iron ore	93,06	1,6%	-7,6%	-12,6%	-22,7%	-31,8%
Freight rates Baltic Dry Index	1927	-0,7%	16,4%	5,0%	56,0%	-8,0%
Currencies						
EUR/ USD	1,1079	-0,2%	1,4%	2,9%	3,4%	0,3%
EUR/ GBP	0,8434	0,0%	-1,3%	-0,2%	-1,9%	-2,7%
EUR/ JPY	156,46	-1,6%	-3,0%	-7,6%	-0,6%	0,1%
EUR/ CHF	0,9407	0,4%	-0,9%	-2,4%	-1,6%	1,6%
USD/ CNY	7,1020	0,1%	-1,1%	-1,9%	-2,7%	0,0%
USD/ JPY	141,82	-0,3%	-3,7%	-9,5%	-3,6%	0,5%
USD/ GBP	0,76	0,3%	-2,7%	-2,2%	-5,1%	-2,9%

Source: Refinitiv Datastream

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