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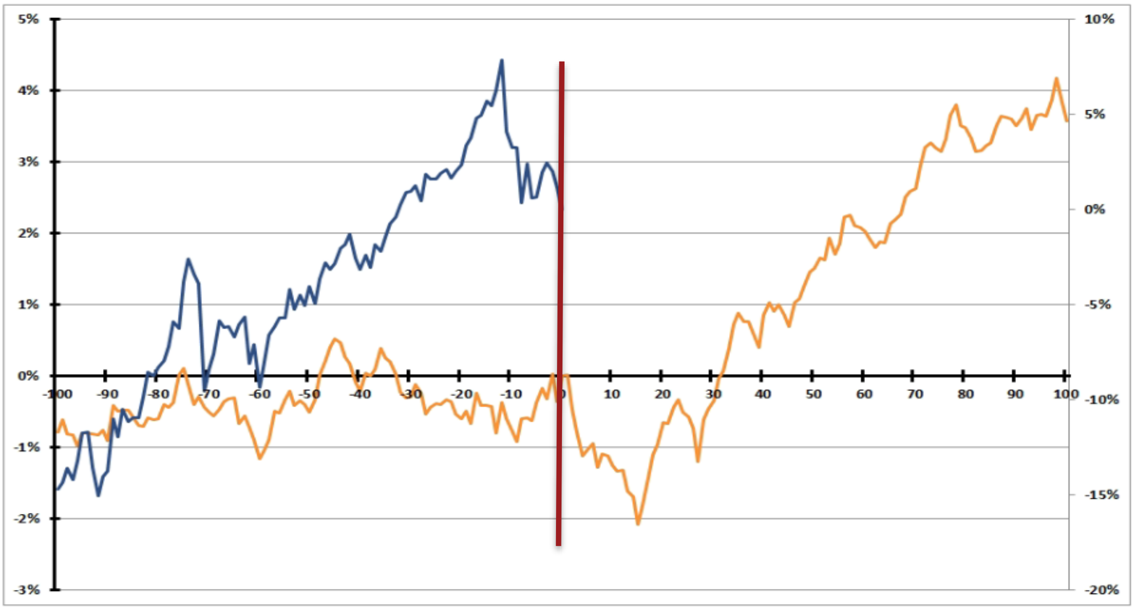
Seasonal stress test

The summer months of August and September are considered a difficult period on the stock markets. The vacation period in the northern hemisphere not only leads to a lower trading volume, but usually also to greater price fluctuations and, as a result, to price losses.

Since 1990, these two months are the only ones that have brought on average a negative performance for investors in the S&P 500 and DAX. A closer look at the seasonal trends reveals that August is a month with more frequent volatile escapades. The negative September performance, on the other hand, is mainly due to the crisis years 2001 and 2008, when the attacks on the World Trade Center (2001) and the bankruptcy of Lehman Brothers (2008) brought the stock markets to their knees.

Compared to the seasonal pattern, August 2020 was much more relaxed, probably due in part to the chronically negative mood of investors in the year of the Corona crisis. However, the negative sentiment was by no means homogeneous in recent times. In the technology sector in particular, we saw a high degree of carelessness and speculative interest at the end of August, which is now reflected in price losses in September.

In detail, the following basic seasonal pattern emerges for the US stock market:

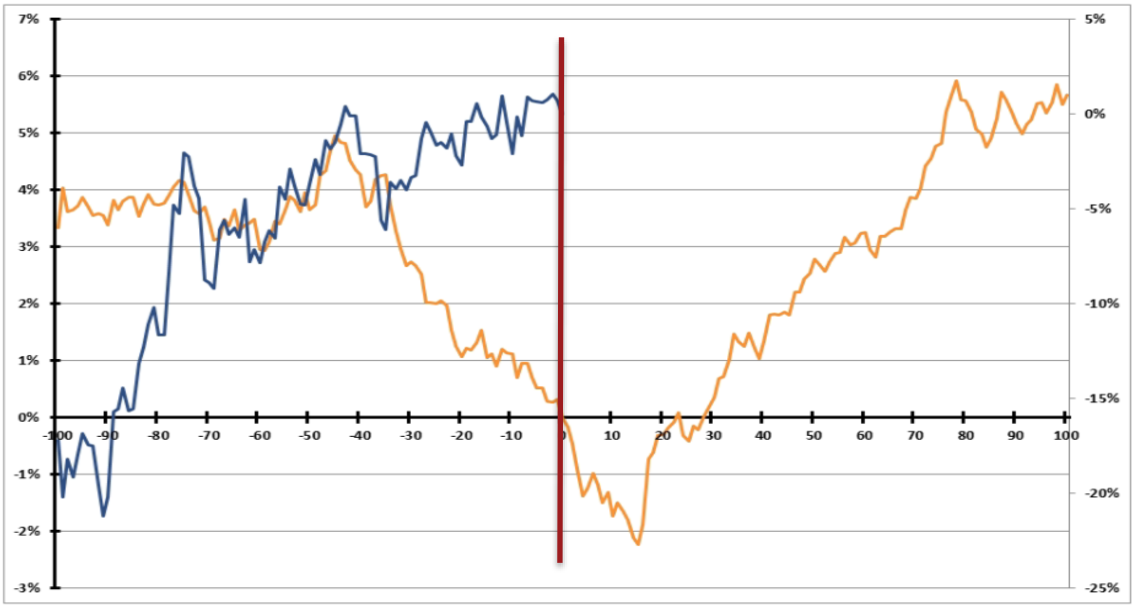


Average performance of the S&P 500 (since 1990) before and after September 18th, and current year

The chart clearly shows the positive decoupling of the US stock market in August. In addition, it is clear that the second half of September in particular, which is now ahead of us, holds negative price expectations.

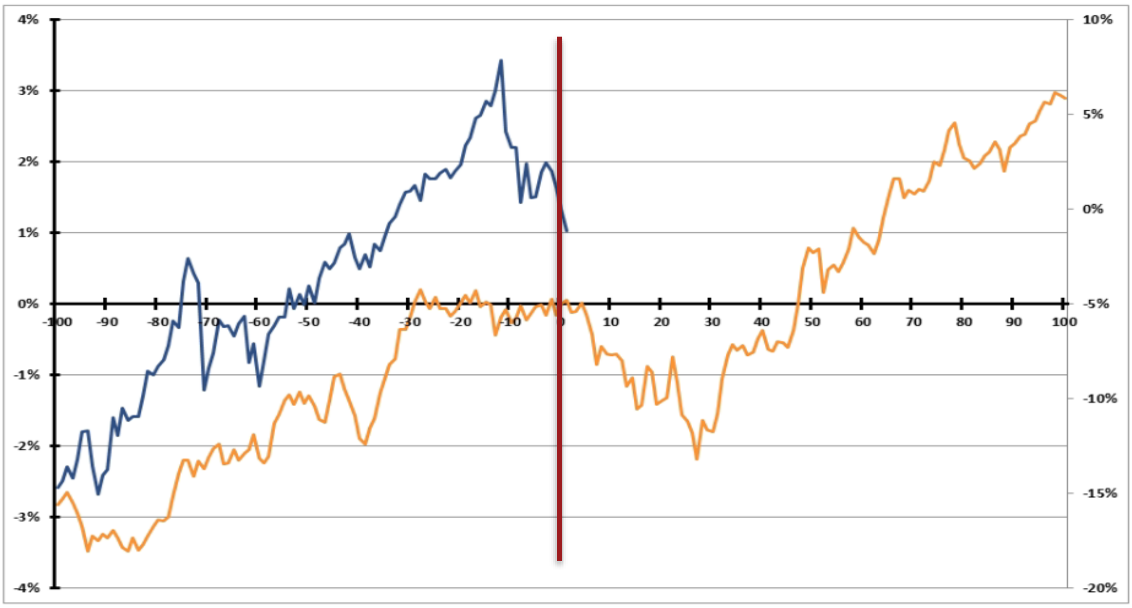
This seasonal correction window lasts around 15 days, which is probably also related to the processing of the "triple witching day", the expiration of futures and options in September. Yesterday's trading day, the first after the expiration of the futures on last Friday, seems to provide a corresponding foretaste.

For the DAX, the extent of the positive decoupling in August becomes even more apparent from this perspective. But here, too, the correction window in the second half of September appears in the average pattern:



Average performance of the DAX Index (since 1990) before and after September 18th, and current year

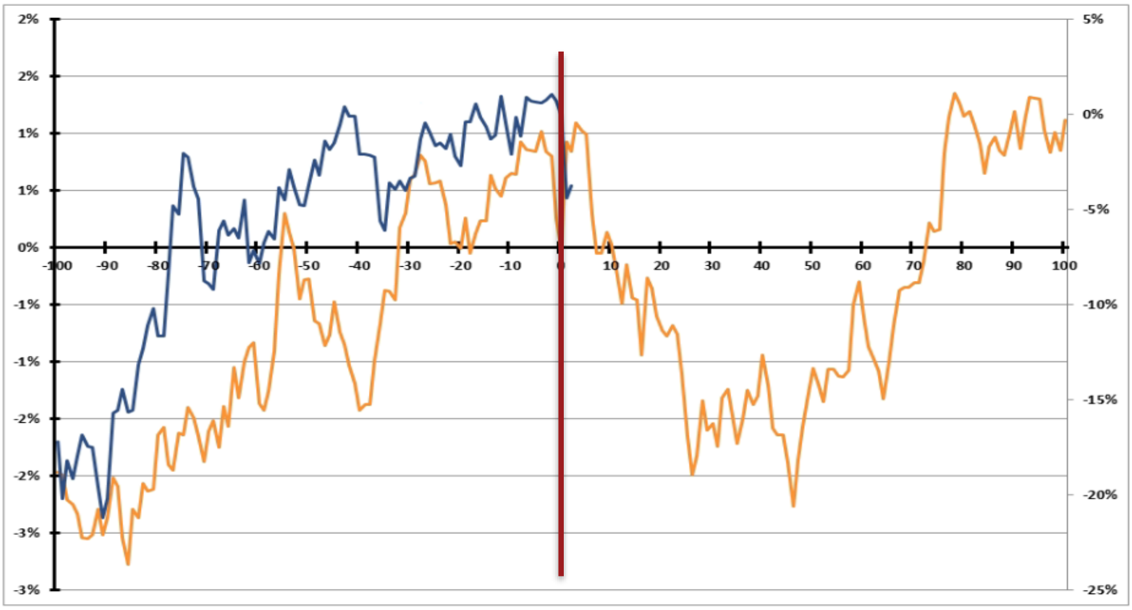
Is this the only seasonal factor of importance? Certainly not this year, because the U.S. presidential election is scheduled for November and the U.S. election cycle is considered one of the most important seasonal factors. If we look at the election years since 1952, we can see that the seasonal decoupling this August can be explained not only by sentiment but also by the election cycle:



Average performance S&P 500 in an election year (since 1952) before and after September 18th, and current year

In an election year there is a significantly different average pattern than the average of the last 30 years. In an election year, August is a rather neutral month, while the weakness becomes even more apparent in the second half of September and, above all, lasts not only 15 but 25 trading days!

If we apply the US election cycle to the DAX (since 1960), the seasonally unexpected August decoupling suddenly turns into a completely "normal" price behavior:



Average performance DAX in an election year (since 1960) before and after September 18th, and current year

Clear is with this view however likewise: for seasonal reasons one should count on weaker courses in the next 15 to 25 trading days! Only then does the seasonal pattern turn around again and allow rising share prices to be expected. After all, the fourth quarter is seen as particularly promising on the stock markets.

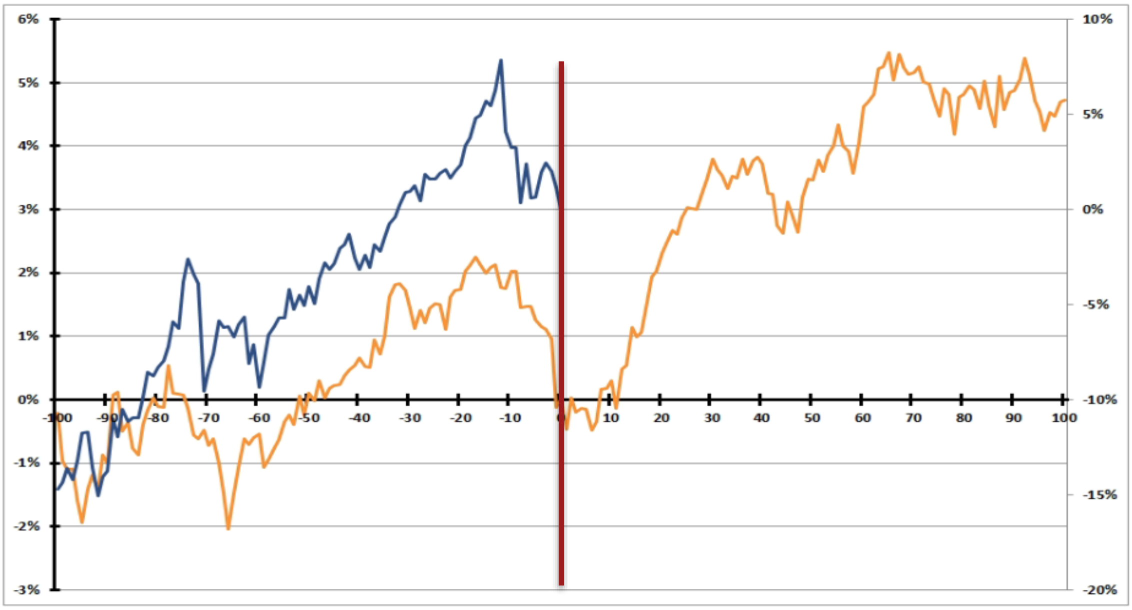
In an election year, there is also a pre-election rally in the 5-10 days before the election and a "honeymoon" for the new or re-elected president a few days after the election.

From a seasonal perspective, the situation is therefore clear. **What does the sentiment analysis say?** In August, we were able to raise hopes that the usual summer correction in the familiar 2020 form would not occur. The "wall of fear", which we have seen again and again since the stock market hit a low in mid-March, provided the reason for this.

And now there is once again a reason to believe that things will not be as bad as one would have to assume, especially when looking at the US election cycle for the next 25 days. And this reason is hidden in the TD-Index, the sentix Time Differential Index. This index is calculated from investor sentiment and basic confidence (strategic bias). The TD-Index is low when investors are anxious in the short term, but more positive strategically. With a value of -0.364, short-term fears currently dominate considerably.

For the S&P 500 such a low TD-Index results in a positive price expectation. We have measured a similar TD-Index 18 times since 2001. On average, the S&P 500 rose by 3.6% in the following 6 weeks.

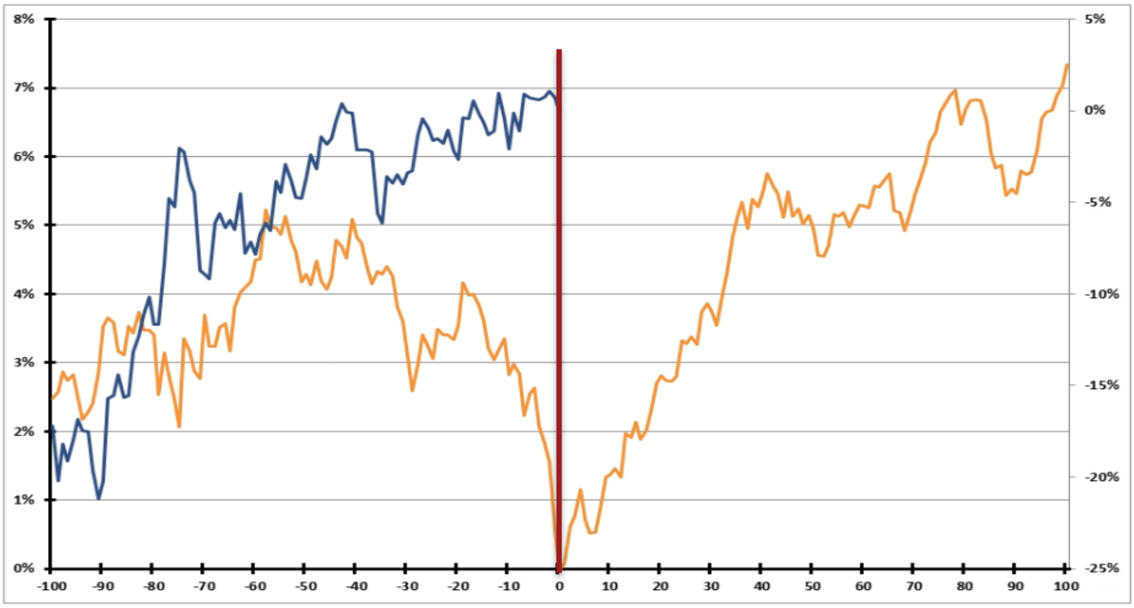
And also for this index a pattern similar to the seasonal analysis can be determined:



Average performance S&P 500 with a TD-Signal like current and current signal

The path on which the S&P 500 is currently moving is therefore typical for the generation of a TD Index signal. However, in contrast to the seasonal observations above, the sentiment analysis does not indicate that such a pronounced correction tendency is to be expected in the second half of September. From a senti-mental point of view, the price risks are small and not as pronounced over time as the seasonal analysis alone would suggest.

We also measure a low TD-Index for the DAX, which also offers price opportunities:



Average performance DAX Index with a TD-Signal like current and current signal

Sentiment vs. seasonality / election cycle - an interesting constellation! We are convinced that sentiment data dominate the seasonal pattern. This usually "only" strengthens or weakens the sentiment forces. This makes it clear why we are currently not moving into a defensive position in our funds. But the price gains that the TD-Index offers the prospect of are likely to be smaller and later than is usually the case.

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