The Summer Rally

August 9, 2021

An old stock market adage that comes back to life during the spring about investing in the stock market is: "Sell in May and Go Away." The foundation for this seasonal investment saying is that the stock market underperforms for the six-month period from May through October. The reason is that historical market returns during this period are sub-par. Well, so far this year from May through July, that adage was wrong. Take for example the market as represented by the most followed yardstick, the S&P 500. At the beginning of May, the index stood at 4,181. By August 6th, the index had not fallen — it had risen to 4,437 — an increase of 6.1%. Year to date, the index is 18.1% higher, almost double the average annual return since 1926!! Over the past three years, the S&P 500 has experienced an annualized return of 15.9%, the same exact return of the Dow Jones Total Stock Market index. This good news is not only here in the United States, but also globally – the MSCI World index is up 7% year-to-date, and that includes the travails of countries suffering much worse economic conditions due to the coronavirus.

As investors in global stock markets for the past 88 years combined, we know that adages do not make sense but doing your homework does. All one has to do is follow the improvements in overall economic statistics to see why the stock market has been sailing along without a major correction since the low in March of 2020. The headline in the Saturday Wall Street Journal was: "Job Gain Is Best in Nearly a Year." Nonfarm payrolls rose by a seasonally adjusted 943,000 in July leading to a fall in the unemployment rate to 5.4% down from a June level of 5.9%. This advance occurred in the face of a surge in cases of the Covid Delta variant that has infected thousands of Americans recently and has triggered arguments about mandating a return to wearing masks and the avoidance of large public meetings. Even President Obama reduced his list of invitees to his weekend 60th birthday party bash in Martha's Vineyard due to the rebound in the virus (or so we were told).

Another important statistic that gives us a broad look at the state of the economy is the Institute for Supply Management index (ISM). The latest data from the non-manufacturing side (read services) of this measure indicated a level of 64.1 — the highest level going back to 1997 and well above the estimate of 60.5! (A reading above 50 indicates expansion). More importantly, seventeen of the eighteen components of this index moved higher indicating a broad expansion.

This week, the Senate is likely to pass President Biden's $1 trillion plus infrastructure stimulus package that will further add to economic growth over the next few years. With billions of dollars already allocated to Covid relief but not spent, fiscal stimulus is likely to keep rolling along for the foreseeable future.

Although February of 2022 seems distant, in six months Fed Chairman Jerome Powell will be up for appointment to another term. Given this important position for guiding monetary policy and ultimately economic growth and inflation, we expect a favorable decision on Powell given his recent historic performance as chairman.