by CHRIS KONSTANTINOS, CFA

THE WRITING TEAM

ADAM GROSSMAN, CFA
Global Equity CIO | Partner

CHRIS KONSTANTINOS, CFA
Managing Partner |
Chief Investment Strategist

KEVIN NICHOLSON, CFA
Global Fixed Income CIO | Partner

DOUG SANDLER, CFA
Vice Chairman

ROD SMYTH
Chairman of the Board of Directors

DAN ZOLET, CFA
Associate Portfolio Manager

SUMMARY

- September and October historically have been difficult months for the market.
- However, markets tend to rally in the winter, especially in election years.
- Riverfront remains positive on the fundamental and technical backdrop for stocks.

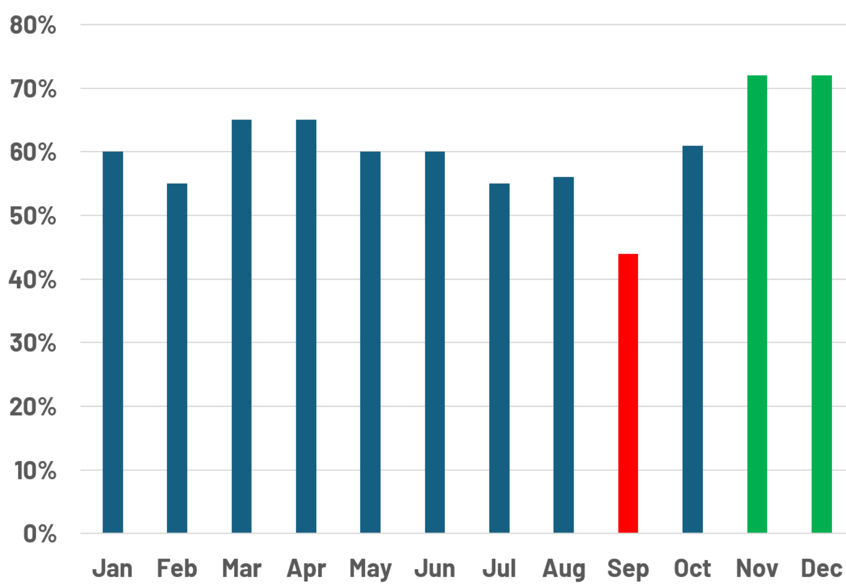
09.17.2024

Autumn: The Witching Season

What History Can Tell Us About Seasonal Returns

Buckle your seatbelts...we are now past Labor Day and thus 'the witching season' starts. No, not Halloween...but rather the spooky market anomaly that is September. According to a NDR Research study of 656 months starting in December 1969, September has been historically the worst month of the year in terms of stock market returns. This is true both in terms of percentage of positive outcomes (September is positive only 44% of the time - red bar in Chart 1, below) and in average return, as September is the only month of the year that averages a negative return. Adding insult to injury, October also tends to be a volatile month that witnesses the most market lows.

Chart 1: Historical Percentage of Positive Returns, by Month



Source: NDR Research, Riverfront Investment Group; Green is highest % month, red is lowest. MSCI US Index data, Dec 1969-July 2024. Copyright 2024 Ned Davis Research, Inc. Further distribution prohibited without prior permission. All Rights Reserved. See NDR Disclaimer at ndr.com/copyright.html. For data vendor disclaimers refer to ndr.com/vendorinfo/.

This autumn, the market fear *du jour* concerns the perception of rising recession risk...albeit with a few election-year twists. Recent lackluster employment and manufacturing data have caused 10-year Treasury bond yields and the price of oil to break to new yearly lows, stoking recession fears. Despite this, we offer **three good reasons NOT to sell now:**

First, the 'witching season' tends to give way to 'Santa Claus' rallies: November and December tend to be two of the strongest stock market months of the year in terms of both average return and probability of positive return (green bars in chart). In an election year, this effect can be pronounced: a market rally into the end of the year is typical after an election result becomes clear…regardless of which party wins. Furthermore, we believe the first year of a new Presidential cycle also tends to feature strong stock markets, suggesting a seasonal tailwind for investors through 2025.

Second, trying to trade selloffs in secular bull markets is difficult and can disrupt a long-term financial plan. Timing market bottoms is difficult to consistently do well, as bottoms often are only 'obvious' in hindsight. In our view, long-term damage has been done by some investors who have exited markets, convincing themselves they will reinvest 'when things get better'…but in reality, often don't. We are a dynamic asset manager who may undertake meaningful risk reduction when it's deemed necessary. Importantly, we also concurrently formulate a reinvestment strategy, which can help keep an investor's long-term financial plan in place.

Third, Riverfront remains positive on economic and market fundamentals. The equity market rally has been predicated on a 'Goldilocks' scenario of continued growth in the economy and corporate earnings, even as the Fed starts cutting interest rates. This is borne out in the recent economic data, in our view. The Atlanta Fed's GDPNow tracker is currently trending at around 2.3% real GDP growth for Q3, after a strong 3% print for Q2. Corporate profit and cash flow levels also just hit an all-time high in Q2, keeping credit spreads contained and lending availability favorable. As discussed here, we continue to believe the US economy is not on the brink of recession.

Technical Outlook Remains Favorable; Some Levels We Are Watching

Source: LSEG Datastream, RiverFront; Data daily, as of 09.13.24. Chart shown for illustrative purposes only. Past performance is no indication of future results.

The study of technical price movements provides another objective, sometimes contrary view, offering a useful supplement to fundamental analysis. Today, we see the technical picture as confirming our positive fundamental view. The overall trend remains positive, with an upward-sloping 200-day moving average (green line, Chart 2 left). The S&P 500 has been stalling just below its July 16th record high of 5667 since mid-August. An upside breakout above 5667 would be a positive signal that the S&P is on track to hit 6,000 by year end, in our view. That said, we expect some time and consolidation in order to get through September's 'witching season,' with the previous high acting as potential resistance this fall.

Should the market fail here to make new highs, we see initial support levels around 5300, which is the 23% retracement of the rally from last October's low. We view 5071 (the 38% retracement) as the secondary support level. Even a pullback to 5000 would be consistent with a typical 'routine' pullback within the context of a healthy secular bull market, in our opinion. Additionally, Riverfront's proprietary analysis of historical probabilities is currently giving an above-average chance of market gains over the next 3 months.

Risk Discussion: All investments in securities, including the strategies discussed above, include a risk of loss of principal (invested amount) and any profits that have not been realized. Markets fluctuate substantially over time, and have experienced increased volatility in recent years due to global and domestic economic events. Performance of any investment is not guaranteed. In a rising interest rate environment, the value of fixed-income securities generally declines. Diversification does not guarantee a profit or protect against a loss. Investments in international and emerging markets securities include exposure to risks such as currency fluctuations, foreign taxes and regulations, and the potential for illiquid markets and political instability. Please see the end of this publication for more disclosures.

Important Disclosure Information

The comments above refer generally to financial markets and not RiverFront portfolios or any related performance. Opinions expressed are current as of the date shown and are subject to change. Past performance is not indicative of future results and diversification does not ensure a profit or protect against loss. All investments carry some level of risk, including loss of principal. An investment cannot be made directly in an index.
Information or data shown or used in this material was received from sources believed to be reliable, but accuracy is not guaranteed.

This report does not provide recipients with information or advice that is sufficient on which to base an investment decision. This report does not take into account the specific investment objectives, financial situation or need of any particular client and may not be suitable for all types of investors. Recipients should consider the contents of this report as a single factor in making an investment decision. Additional fundamental and other analyses would be required to make an investment decision about any individual security identified in this report.

Chartered Financial Analyst is a professional designation given by the CFA Institute (formerly AIMR) that measures the competence and integrity of financial analysts. Candidates are required to pass three levels of exams covering areas such as accounting, economics, ethics, money management and security analysis. Four years of investment/financial career experience are required before one can become a CFA charterholder. Enrollees in the program must hold a bachelor's degree.

All charts shown for illustrative purposes only. Technical analysis is based on the study of historical price movements and past trend patterns. There are no assurances that movements or trends can or will be duplicated in the future.

Ned Davis Research (NDR) is a global provider of independent investment research, solutions and tools. Founded in 1980, NDR helps clients around the world make objective investment decisions. Note: Before using any Ned Davis chart, permission must be received from Ned Davis.

Stocks represent partial ownership of a corporation. If the corporation does well, its value increases, and investors share in the appreciation. However, if it goes bankrupt, or performs poorly, investors can lose their entire initial investment (i.e., the stock price can go to zero). Bonds represent a loan made by an investor to a corporation or government. As such, the investor gets a guaranteed interest rate for a specific period of time and expects to get their original investment back at the end of that time period, along with the interest earned. Investment risk is repayment of the principal (amount invested). In the event of a bankruptcy or other corporate disruption, bonds are senior to stocks. Investors should be aware of these differences prior to investing.

In general, the bond market is volatile, and fixed income securities carry interest rate risk. (As interest rates rise, bond prices usually fall, and vice versa). This effect is usually more pronounced for longer-term securities). Fixed income securities also carry inflation risk, liquidity risk, call risk and credit and default risks for both issuers and counterparties. Lower-quality fixed income securities involve greater risk of default or price changes due to potential changes in the credit quality of the issuer. Foreign investments involve greater risks than U.S. investments, and can decline significantly in response to adverse issuer, political, regulatory, market, and economic risks. Any fixed-income security sold or redeemed prior to maturity may be subject to loss.

Index Definitions:

Standard & Poor's (S&P) 500 Index measures the performance of 500 large cap stocks, which together represent about 80% of the total US equities market.

Definitions:

A recession is a significant, widespread, and prolonged downturn in economic activity. A common rule of thumb is that two consecutive quarters of negative gross domestic product (GDP) growth indicate a recession. However, more complex formulas are also used to determine recessions.

Gross Domestic Product (GDP) is the monetary value of all finished goods and services made within a country during a specific period. GDP provides an economic snapshot of a country, used to estimate the size of an economy and growth rate.

A Goldilocks economy is not too hot nor too cold but just right, to steal a line from the popular children's story "Goldilocks and the Three Bears". The term describes an ideal state for an economic system. There's full employment, economic stability, and stable growth in this perfect state. The economy isn't expanding or contracting by a large margin.

The 200-day moving average is a popular technical indicator which investors use to analyze price trends. It is simply a security's average closing price over the last 200 days.

Treasuries: government debt securities issued by the US Government. Treasury securities typically pay less interest than other securities in exchange for lower default or credit risk. With relatively low yields, income produced by Treasuries may be lower than the rate of inflation.

Treasury Bonds is represented by the Bloomberg US Treasury Index which measures the performance of the US Treasury bond market.

RiverFront Investment Group, LLC ("RiverFront"), is a registered investment adviser with the Securities and Exchange Commission. Registration as an investment adviser does not imply any level of skill or expertise. Any discussion of specific securities is provided for informational purposes only and should not be deemed as investment advice or a recommendation to buy or sell any individual security mentioned. RiverFront is affiliated with Robert W. Baird & Co. Incorporated ("Baird"), member FINRA/SIPC, from its minority ownership interest in RiverFront. RiverFront is owned primarily by its employees through RiverFront Investment Holding Group, LLC, the holding company for RiverFront. Baird Financial Corporation (BFC) is a minority owner of RiverFront Investment Holding Group, LLC and therefore an indirect owner of RiverFront. BFC is the parent company of Robert W. Baird & Co. Incorporated, a registered broker/dealer and investment adviser.