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Autumn Market Dip May be Unseasonably Mild

Smartest plan: Ride out any seasonal weakness in the stock market

September 6, 2018

Main Points

The stock market's typical autumn drop may be lighter than usual.

Ride out any seasonal downturn as a rally before year-end is likely.

Look for strong S&P performance during the six months after the U.S. mid-term elections.

The stock market is entering its weakest time of the year. However, analysis by Ned Davis Research shows that **the market's seasonal drop could be lighter than usual in 2018.**

Studies confirm that the market typically dips from September to October, as shown by the **blue line in the chart at right** (which is an annual composite of differing market cycles going back to 1928).

To be specific, **the autumn downturn usually brings about a 6-percent loss**, on average. And it's typically more severe during mid-term election years (like 2018), so this fall's potential drop is understandably receiving some special attention this year.

So what indicators suggest that we'll see an unusually mild market dip in the autumn of 2018?

First, late in August, NDR's U.S. Stock Market model was neutral, rather than bullish or bearish. **Historically, this has been a signal that a fall downturn will be comparatively mild or short-lived.**

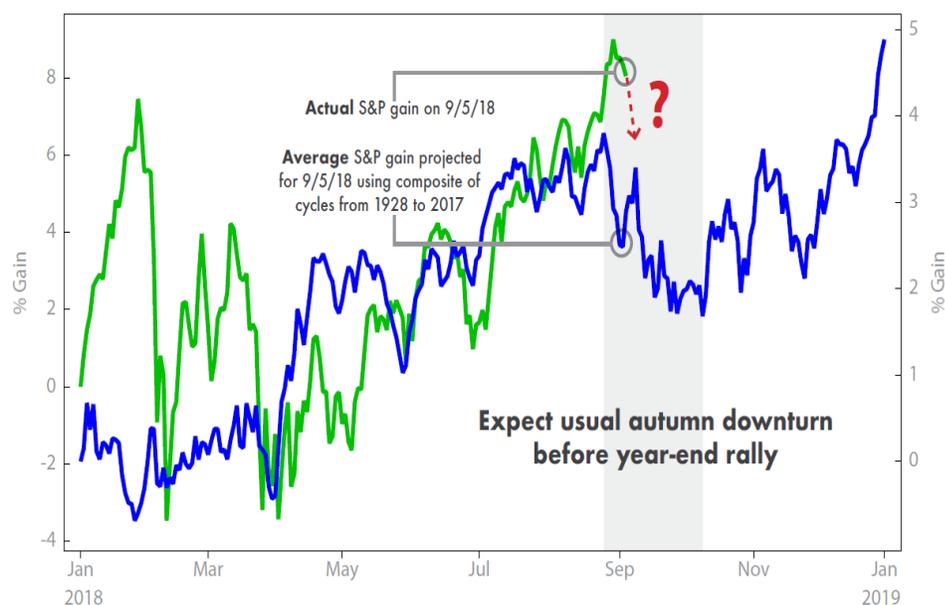
Secondly, in mid-August, there was a shift from the more market-resilient (or "defensive") areas of the market (such as blue-chip and dividend stocks) back toward the cyclical areas of the market (such as the energy and materials sectors). This suggests that investors may be looking beyond any correction this fall or early winter and positioning for further market gains.

Finally, as of September 5, the actual S&P market performance (**green line** in the chart below) was only down about 0.5% month-to-date. That may be a sign that there are buyers on the sidelines.

The bottom line: **Ride out any seasonal market weakness, as a rally before year-end is likely.**

What's more, **there's good reason to expect strong S&P performance well into 2019.** History shows that the stock market usually notches its strongest gains in the six months following U.S. mid-term elections.

Is the stock market ready to drop ?



— Actual S&P 500 through 9/5/18 (scale left)
— S&P 500 Road Map* for 2018 (scale right)

*Road Map concept: Composite based on the average of the seasonal, presidential and decennial cycles from 1928 to 2017, courtesy of Ned Davis Research, Inc.
Source: S&P Dow Jones Indices, data from 1928 to 2018

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