

# SECTOR WATCH

U.S. EQUITY RESEARCH



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## Rotate, Don't Retreat

*Better to Stay Than Sell in May*

During the final week of April, many investors, as well as members of the financial media, will be asking if it would be prudent to take the advice of the old Wall Street adage to “sell in May”. Some say yes, since they anticipate a gut-wrenching retest of the March 23 low, triggered by the continued free-fall in fundamental forecasts. Others say no, since they think the bear market is over, due to the anticipated gradual reopening of the global economy and the peaking of the daily count of Covid-19 patients, combined with the recent passage of a \$484 billion stimulus package aimed at replenishing the Paycheck Protection Program (PPP). They also point to the traditional optimism associated with the upcoming presidential election.

Tradition holds that the stock market registered the weakest six-month return from May through October (M-O) and the strongest from November through April (N-A). As seen in the table below, the S&P 500 posted an average gain of 6.5% during N-A since 1946, but only 1.4% from M-O, with the market's return in N-A outpacing the return in the following M-O period in more than seven out of every 10 years. This pattern of seasonal strength and weakness was not just a U.S. large-cap phenomenon, for this pronounced seasonal rotation was found in small-cap stocks, along with developed international and emerging markets.

To say that this most recent N-A period was atypical would be an understatement, since not only did the S&P 500 fall 6.6% price, but most

S&P 1500 Sector/Sub-Industry Price Returns*			
Regions/Sizes/Sectors	% Chg.	Best S&P 1500 Sub-Inds.	% Chg.
Health Care	6.5	Gold	49.4
Info. Technology	5.1	Internet Retail	26.4
<b>S&amp;P 500 Growth Index</b>	<b>0.6</b>	Food Retail	22.3
Consumer Staples	(4.2)	Systems Software	19.2
Communication Services	(4.4)	Interactive Home Enter.	17.6
Consumer Discretionary	(6.0)	Biotechnology	16.4
<b>S&amp;P 500</b>	<b>(6.6)</b>	Managed Health Care	14.7
Utilities	(10.0)	Internet Svcs./Infrastructure	14.6
<b>S&amp;P Global 1200</b>	<b>(11.1)</b>	<b>Worst S&amp;P 1500 Sub-Inds.</b>	<b>% Chg.</b>
<b>S&amp;P 500 Value Index</b>	<b>(14.8)</b>	Hotel & Resort REITs	(53.0)
Materials	(15.8)	Retail REITs	(53.7)
Real Estate	(20.5)	Airlines	(59.4)
<b>S&amp;P MidCap 400</b>	<b>(20.7)</b>	Leisure Facilities	(62.1)
Industrials	(21.8)	Coal & Consumable Fuels	(64.0)
Financials	(24.9)	Department Stores	(64.3)
<b>S&amp;P SmallCap 600</b>	<b>(25.9)</b>	Textiles	(64.8)
Energy	(38.7)	Mortgage REITs	(65.7)
<b>Positive Sectors:</b>	<b>18%</b>	<b>Oil &amp; Gas Drilling</b>	<b>16%</b>

Source: CFRA, S&P DJ Indices. \*10/31/19-4/24/20.

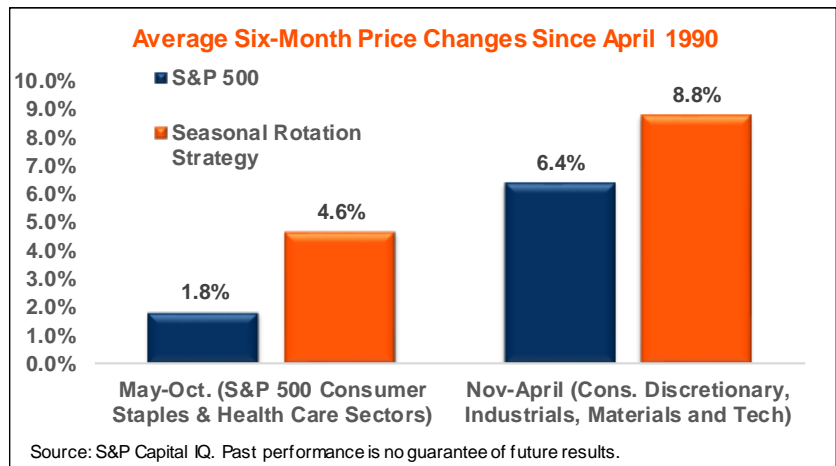
Semi-Annual Price Returns Based on Size and Region Through 4/24/20					
Index	Nov.-April (N-A)		May-Oct. (M-O)		N-A Beat M-O?
	Avg. %	Up?	Avg. %	Up?	
S&P 500 (Since 1946)	6.5	76%	1.4	65%	72%
Russell 2000 (1979)	9.0	76%	1.0	56%	68%
MSCI-EAFE (1969)	8.3	80%	(0.7)	48%	78%
MSCI-Emerg. Mkts. (1988)	9.8	81%	(0.6)	47%	68%
S&P Global 1200 (1990)	5.8	80%	0.6	0.7	79%

Source: CFRA, S&P Global, MSCI, Russell. Past performance is no guarantee of future results.

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sizes, sectors and sub-industries declined, due to the Covid-19 crisis.

Yet, a stock market decline in N-A is not unheard of either, since the S&P 500 fell an average of nearly one-in-four times since WWII. What's more, following S&P 500 declines in the N-A period, the market continued to experience price weakness in the subsequent six-month M-O period by falling an average 2.4%.



**Should You Really Go Away?**

Even though the average advance of 1.4% for the S&P 500 from M-O is the weakest of all 12 rolling six-month periods, it delivered an annualized return of nearly 3%. This is still better than what an investor would have received from a money market. Also, retreating from the “500” in that six-month period would have caused investors to miss out on unexpected summertime surges following bear, or near-bear, market declines, including 14.1% in 1997, 14.6% in 2003 and 18.7% in 2009, just to name a few.

Some sectors have their day in the summertime sun, while others skate along smoothly in winter. Since 1990, which is as far back as S&P DJ Indices has sector-level data, while the overall market recorded a gain of only 1.8% from M-O, the S&P 500 consumer staples and health care sectors posted price increases of 4.4% and 4.8%, respectively. Conversely, as the S&P 500 enjoyed its strongest six-month return in the N-A period, the cyclical sectors beat the defensive ones. Indeed, since 1990, above-average returns came from the consumer discretionary, industrials, materials, and tech sectors, which consistently outperformed the benchmark.

**Hypothetical Portfolios**

From 1990 through April 24, 2020, a hypothetical portfolio that owned the consumer staples and health care sectors in equal proportions from M-O, but then rotated into the consumer discretionary, industrials, materials, and tech sectors from N-A, saw

Indices	% Returns				Beat Benchmark	Standard Deviation
	2020		2019	Since 4/1990		
	MTD	YTD				
S&P 500	9.8	(12.2)	28.9	7.4	NA	17.0
Seasonal Rotation Large Cap.	10.5	(13.1)	35.4	13.1	73%	16.4
<b>S&amp;P Equal Weight 500*</b>	<b>8.9</b>	<b>(20.2)</b>	<b>29.2</b>	<b>10.6</b>	<b>NA</b>	<b>18.7</b>
<b>Seasonal Rotation Equal Weight*</b>	<b>9.2</b>	<b>(21.9)</b>	<b>36.7</b>	<b>16.5</b>	<b>77%</b>	<b>17.7</b>
S&P SmallCap 600**	4.4	(30.0)	20.9	8.2	NA	16.3
Seasonal Rotation SmallCap**	5.9	(30.7)	24.5	11.8	68%	15.7
S&P Global 1200**	6.7	(15.9)	25.0	5.2	NA	17.7
Seasonal Rotation Global**	7.8	(16.2)	32.8	10.7	68%	16.3

Source: S&P DJ Indices. Returns: 4/30/1990-4/24/20. \*Total Return. Others are price changes.

\*\*Since 4/30/1995. Past performance is no guarantee of future results.

[https://customindices.spindices.com/?custom\\_client\\_name=cfra](https://customindices.spindices.com/?custom_client_name=cfra)

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an increase in compound annual growth rates (CAGRs), as well as a reduction in annual volatility, vs. its benchmarks, and beat its bogey from 68% to 77% of the time. Despite beating their benchmarks MTD, the four strategies lost slightly more than their benchmarks on a YTD basis, as a result of the atypical rotation due to the bear market triggered by the Covid-19 crisis.

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S&P Dow Jones Indices is the custom calculation agent for the CFRA-Stovall Seasonal Rotation indices, which embrace this investment strategy by owning cyclical sectors N-A and defensive groups M-O in the S&P 500, Equal Weight 500, SmallCap 600 and Global 1200. For information on these indices, please visit:

Seasonal Rotation Following Bears & Near-Bears					
Dates		Prior % Decline	May-Oct.		
Start	End		S&P 500	CS & HC	Beat?
4/30/1990	10/31/1990	(20)	(6.4)	10.1	1
4/30/1998	10/31/1998	(19)	(0.4)	5.7	1
4/30/2003	10/31/2003	(49)	15.6	7.3	0
4/30/2009	10/31/2009	(57)	20.0	18.7	0
4/30/2012	10/31/2012	(19)	2.2	6.6	1
4/30/2019	10/31/2019	(20)	4.2	7.1	1
<b>Average</b>		<b>(31)</b>	<b>5.9</b>	<b>9.2</b>	<b>67%</b>

Source: CFRA, S&P Global. Past performance is no guarantee of future results.

[https://customindices.spindices.com/?custom\\_client\\_name=cfra](https://customindices.spindices.com/?custom_client_name=cfra).

### Post-Bear Performances

If the bear market ended on March 23, some wonder if it would be better to invest in the market as a whole, rather than rotate into the consumer staples and health care sectors. History would imply, however, that it's best not to deviate from the strategy. In the six months following market declines of 19% or more since 1990, the average return for the S&P 500 consumer staples and health care sectors was 9.2% versus 5.9% for the S&P 500, with the defensive sectors beating the market in four of six observations.

### Presidential Election Years

Investors also wonder if it would be best not rotating defensively in the upcoming M-O period since 2020 is a presidential election year. History again advises sticking with the strategy. In the seven election years since 1992, while the S&P 500 declined an average of 2.4%, the average six-month return for the S&P consumer staples and health care sectors was a gain of 2.5%. Also, the defensive posture outperformed the market as a whole in 57% of these election years.

### Conclusion

So there you have it. Like white-water rafting, sometimes it's best to let the market take you where it wants to go. History shows that investing in cyclical sectors from November through April, and then gravitating toward defensive groups from May through October, has made the experience both thrilling and rewarding. What's more, this strategy works even following the conclusion of bear markets and during presidential election years. Finally, the strategy can be seen in the Pacer CFRA-Stovall Seasonal Rotation ETF (SZNE). Please visit [www.paceretfs.com](http://www.paceretfs.com) to learn more.

Periods	May-Oct. Price Returns		CS & HC Beat the S&P 500?
	% Change		
	S&P 500	CS & HC	
M-O 1990	(8.1)	8.6	1
M-O 1991	4.6	9.1	1
M-O 1992	0.9	0.1	0
M-O 1993	6.3	1.7	0
M-O 1994	4.8	14.2	1
M-O 1995	13.0	19.9	1
M-O 1996	7.8	13.2	1
M-O 1997	14.1	10.0	0
M-O 1998	(1.2)	5.0	1
M-O 1999	2.1	(3.5)	0
M-O 2000	(1.6)	21.4	1
M-O 2001	(15.2)	(0.6)	1
M-O 2002	(17.8)	(12.9)	1
M-O 2003	14.6	6.3	0
M-O 2004	2.1	(7.5)	0
M-O 2005	4.3	0.2	0
M-O 2006	5.1	8.3	1
M-O 2007	4.5	2.4	0
M-O 2008	(30.1)	(13.6)	1
M-O 2009	18.7	17.1	0
M-O 2010	(0.3)	2.6	1
M-O 2011	(8.1)	(3.1)	1
M-O 2012	1.0	5.2	1
M-O 2013	10.0	7.2	0
M-O 2014	7.1	10.8	1
M-O 2015	(0.3)	1.4	1
M-O 2016	2.9	(1.2)	0
M-O 2017	8.0	2.0	0
M-O 2018	2.4	8.7	1
M-O 2019	3.1	5.8	1
<b>Average</b>	<b>1.8</b>	<b>4.6</b>	<b>60%</b>
<b>Pres. Elec. Yrs:</b>	<b>(2.4)</b>	<b>2.5</b>	<b>57%</b>

Source: CFRA, S&P DJ Indices. Data: 4/30/90-4/30/19.

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### Glossary

#### ★★★★★ 5-STARS (Strong Buy):

Total return is expected to outperform the total return of a relevant benchmark, by a wide margin over the coming 12 months, with shares rising in price on an absolute basis.

#### ★★★★☆ 4-STARS (Buy):

Total return is expected to outperform the total return of a relevant benchmark over the coming 12 months, with shares rising in price on an absolute basis.

#### ★★★☆☆ 3-STARS (Hold):

Total return is expected to closely approximate the total return of a relevant benchmark over the coming 12 months, with shares generally rising in price on an absolute basis.

#### ★★☆☆☆ 2-STARS (Sell):

Total return is expected to underperform the total return of a relevant benchmark over the coming 12 months, and the share price not anticipated to show a gain.

#### ★☆☆☆☆ 1-STAR (Strong Sell):

Total return is expected to underperform the total return of a relevant benchmark by a wide margin over the coming 12 months, with shares falling in price on an absolute basis.

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