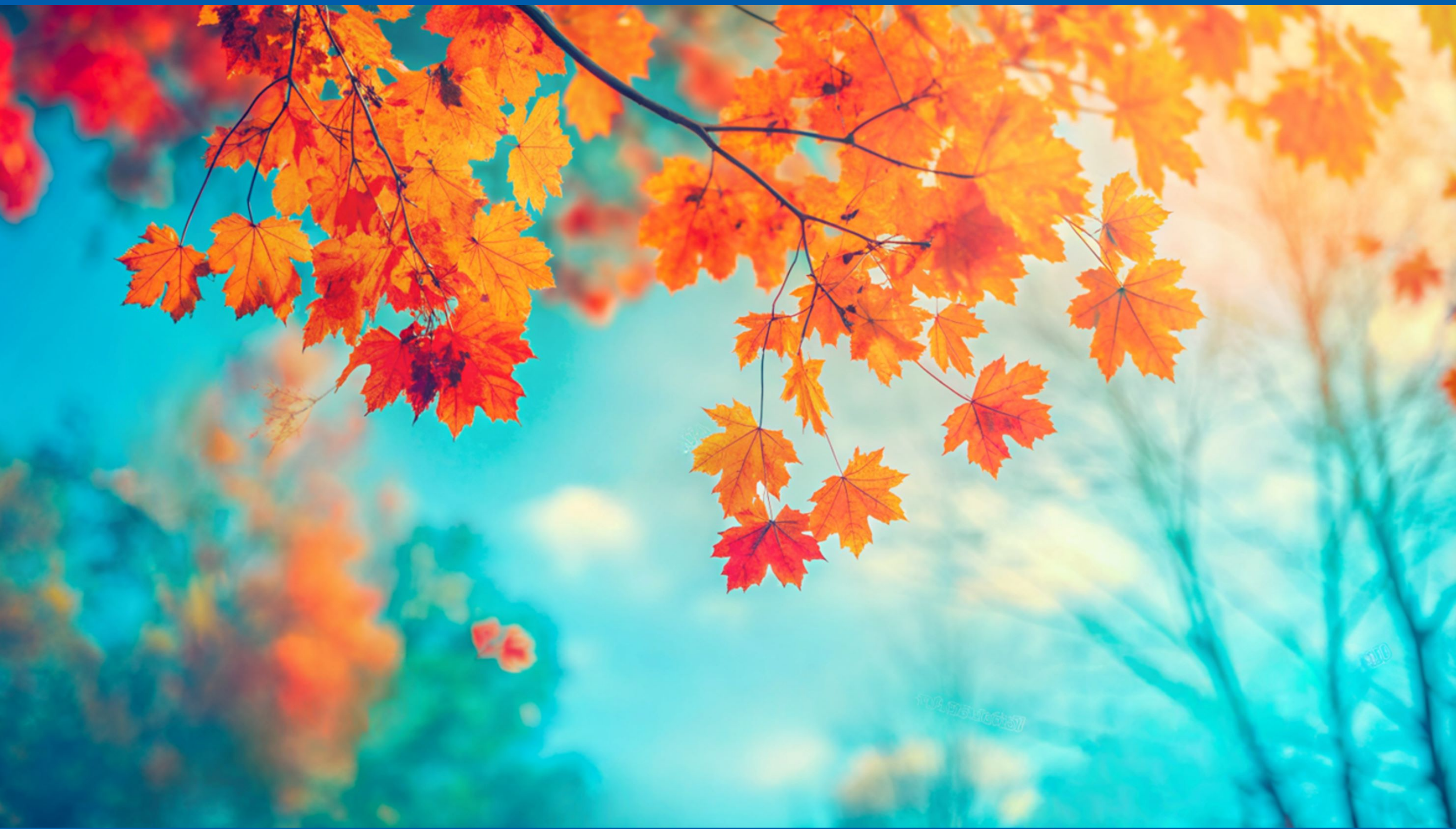

Wake me up when September ends

By James Penny, chief investment officer at TAM Asset Management

September, much like the number 13, holds a somewhat precarious position in people's minds. It's the month in which the summer holidays end, so it's not a favourite with kids. Likewise, it's the month in which most people perceive summertime drawing to a close, with it getting darker in the evenings. In its extreme, the Romans believed the month to be ruled by "Vulcan", the god of fire and forge, giving rise to the expectation that large fires, volcanic eruptions and earthquakes usually happened in September. Weirdly, the great fire of London started on the 2nd of September, 1666. A cheery thought.

Some of you with a taste for 2000s music will note the title of this update is a track on Greenday's 2004 album. But what do markets think of September? Well, as always in the stock market, it's about statistics, and the stats for September are not great. History shows that 55% of the Septembers going back to pre-World War II have the US S&P 500 finishing the month in more negative territory than positive. This culminated with 2022's September losing 9.3%, which still remains a sore point for many a fund manager.

Whilst we could chalk it up to Roman superstition and spurious correlation, there is a far more logical explanation. Primarily, as many parents will know, September marks the end of the summer holidays, during which many traders and portfolio managers are away on holiday and thus have been eyeballing their fund investments with much less scrutiny. This all changes in September when managers return and ask, "do I own too much tech?", "do I own too many large cap US stocks?", "do I have enough bonds?", or finally, the major question on everyone's minds this September, "do I own too much Nvidia?".

The collective fund management community all assessing these points at the same time often causes quite a large spike in trading. Research shows average trading volume (value of shares being bought and sold) tends to be around 15 billion dollars in the summer months, which rises to 17 billion dollars in September, so the trading volumes certainly back up the "rebalancing" notion.

What is interesting this time around is that we have some watershed moments in September 2024 to put a different tilt to the month. Firstly, September 18th is when the Federal Reserve (the FED) is slated to announce their first interest rate cut. Some think they (the FED) will cut by just a quarter of a percentage point, and others believe a larger half percentage point cut is on the cards. Markets today are of the idea that each economic data point, such as inflation and employment, is going to swing the balance in favour of one of these two cutting options. What this means is that the market is going to become "choppy" as it swings between these two outcomes ahead of the meeting on September 18th.

Likewise, markets will become ever-more reactionary to the US presidential election in November as the race gets tighter. Polls had Trump in the lead, but have now reordered to a much more level playing field, meaning it's going to be, once again a race to the wire. In the run up, we see markets reacting positively to Trump's more pro-growth, low tax policies and slightly negatively to Kamala Harris's focus on austerity, taxes and balancing the books.

Whilst September 2024 could be negative, it might not. We don't see a sell-off as a major issue and certainly not a knee-jerk reason to start buying and selling based on fear or conjecture.

On the margin, we think the global economy remains on a good footing, and any negativity should likely be seen as an opportunity to buy stocks and bonds we like, at a relative discount to the summer months and that's great for your longer-term portfolio prospects.

We have been topping up on investments which focus on paying a dividend back to clients in both the UK and the US. Owning dividend paying companies helps us pivot nicely away from large tech companies, which dominate the market right now but remain expensive and open to September negativity surrounding these lofty expectations vs. reality. We also like the idea of owning cheap stocks throwing off additional cash at a time when interest rates at the high street banks are starting to come down.

Additionally, we see great levels of value in the likes of UK, US and indeed global smaller companies, which have been losing ground to the likes of US tech for quite some time, and have now reached a point where the quality of these companies often surpasses their stock price, which is always an interesting opportunity.

Bonds are in their ascendancy! Finally, after years of waiting, we are starting to see the bond market react positively to income rate cuts, so we have been increasing our investments here, which should be a positive development into September and the last quarter of the year. Yes, the conundrum around a quarter vs. half percentage point cut to interest rates will create some turbulence but the direction of travel is more positive than negative, we think.

So what's the message here? September might succumb to history and be a negative month, but that's no bad thing! Negativity within the ebb and flow of daily markets is nothing to worry about, indeed, it's something to be embraced because often it's the markets way of giving investors high-quality investments at a discount.

It's certainly not something clients invested into a well-balanced portfolio of high-quality investments should be worried about; and if it is, let us do the worrying for you because ultimately, that's our job as your managers. I would even venture that TAM's hallmark of low volatility performance might well fare better than a negative market with our underweight to large US tech companies, which is a bonus our clients routinely benefit from.

So, in contra to Greenday, we will stay awake until September ends! Because markets in a negative direction will always throw up opportunities to increase the wealth effect within our clients' portfolios.

If you would like to speak with us about anything in this note, or to discuss our discretionary investment management services in general, please get in touch with our UK business development manager David Terry today.

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