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May marks inflection month for markets

Global equities have posted a robust recovery this month, to the universal relief of investors everywhere. The TSX Composite's 32.5% surge from its March 23 low (as of close on April 28) has enabled it to claw back just over one-half of its 38% plunge from its February 20 peak, while the S&P 500's 30.6% rebound from its March 23 low has pared its 35% decline by a similar level.

The rebound has been driven by optimism about the reopening of the North American economy, as well as the tremendous amounts of stimulus that have been unleashed in Canada and the United States. As a result, investors have been willing to look past dismal economic data and corporate earnings to better times ahead, as we had noted in this publication a couple of weeks ago.

The trillion-dollar question is – what now?

The month of May marks the beginning of the six-month period when stocks have typically lagged their performance in the "better half" of the calendar (November to April). Or "Sell in May and go away," as this seasonal phenomenon is known in market parlance.

A cursory glance at the data in Figure 1, which displays monthly returns for the TSX for the past decade, would reveal that there is some truth to this seasonality. Over the past decade, May and June have been the worst months for the TSX. The index fell in May in seven of the past 10 years, with an average return of -1.2%; it declined in June in six of the past 10 years, with an average return of -0.8%. For the S&P 500, May and June rank second and third from the bottom in terms of monthly performance over the past decade, with an average return of -1.2% and +0.3% respectively (August is the worst, at -1.3%).

The conclusion is that May has historically marked an inflection point for the markets. But that seasonal behaviour occurred in the normal times of the past decade, not in the midst of a global pandemic.

Given the strength of the rebound from the March lows, May is likely to be even more of a pivotal month than it has been in the past. A steady flattening of the infections curve and a resumption of somewhat normal economic activity would continue to embolden investors, but any major setbacks in the worldwide battle with the coronavirus could result in a pullback in market indices.

The takeaway for investors is to be patient in putting capital to work. Having left the crater-strewn financial landscape of March behind, our view is that the road ahead for the markets could be smoother in comparison but may be a somewhat bumpy one just the same.

Figure 1: Monthly returns for TSX Composite: 2010 – 2019

Change (MoM%) -17.74 10.61

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
11 Year Avg	**0.9**	**1.2**	**-1.1**	**1.8**								
10 Year Avg	**0.8**	**1.9**	**0.6**	**1.0**	**-1.2**	**-0.8**	**1.0**	**0.2**	**-0.5**	**0.8**	**0.8**	**-0.3**
2020	1.5	-6.1	-17.7	10.6								
2019	8.5	2.9	0.6	3.0	-3.3	2.1	0.1	0.2	1.3	-1.1	3.4	0.1
2018	-1.6	-3.2	-0.5	1.6	2.9	1.3	1.0	-1.0	-1.2	-6.5	1.1	-5.8
2017	0.6	0.1	1.0	0.2	-1.5	-1.1	-0.3	0.4	2.8	2.5	0.3	0.9
2016	-1.4	0.3	4.9	3.4	0.8	-0.0	3.7	0.1	0.9	0.4	2.0	1.4
2015	0.3	3.8	-2.2	2.2	-1.4	-3.1	-0.6	-4.2	-4.0	1.7	-0.4	-3.4
2014	0.5	3.8	0.9	2.2	-0.3	3.7	1.2	1.9	-4.3	-2.3	0.9	-0.8
2013	2.0	1.1	-0.6	-2.3	1.6	-4.1	2.9	1.3	1.1	4.5	0.3	1.7
2012	4.2	1.5	-2.0	-0.8	-6.3	0.7	0.6	2.4	3.1	0.9	-1.5	1.6
2011	0.8	4.3	-0.1	-1.2	-1.0	-3.6	-2.7	-1.4	-9.0	5.4	-0.4	-2.0
2010	-5.5	4.8	3.5	1.4	-3.7	-4.0	3.7	1.7	3.8	2.5	2.2	3.8

Source: FactSet
