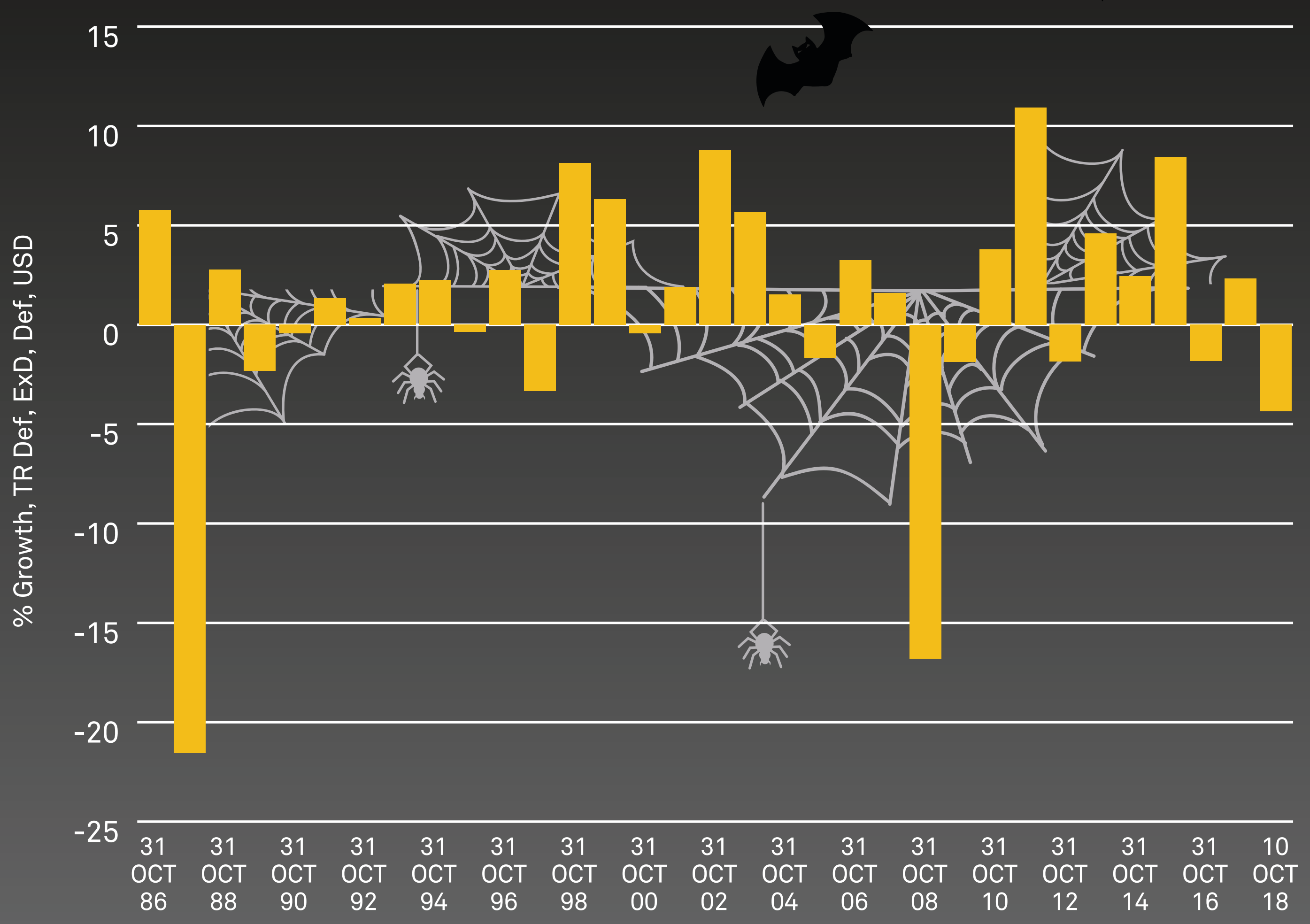
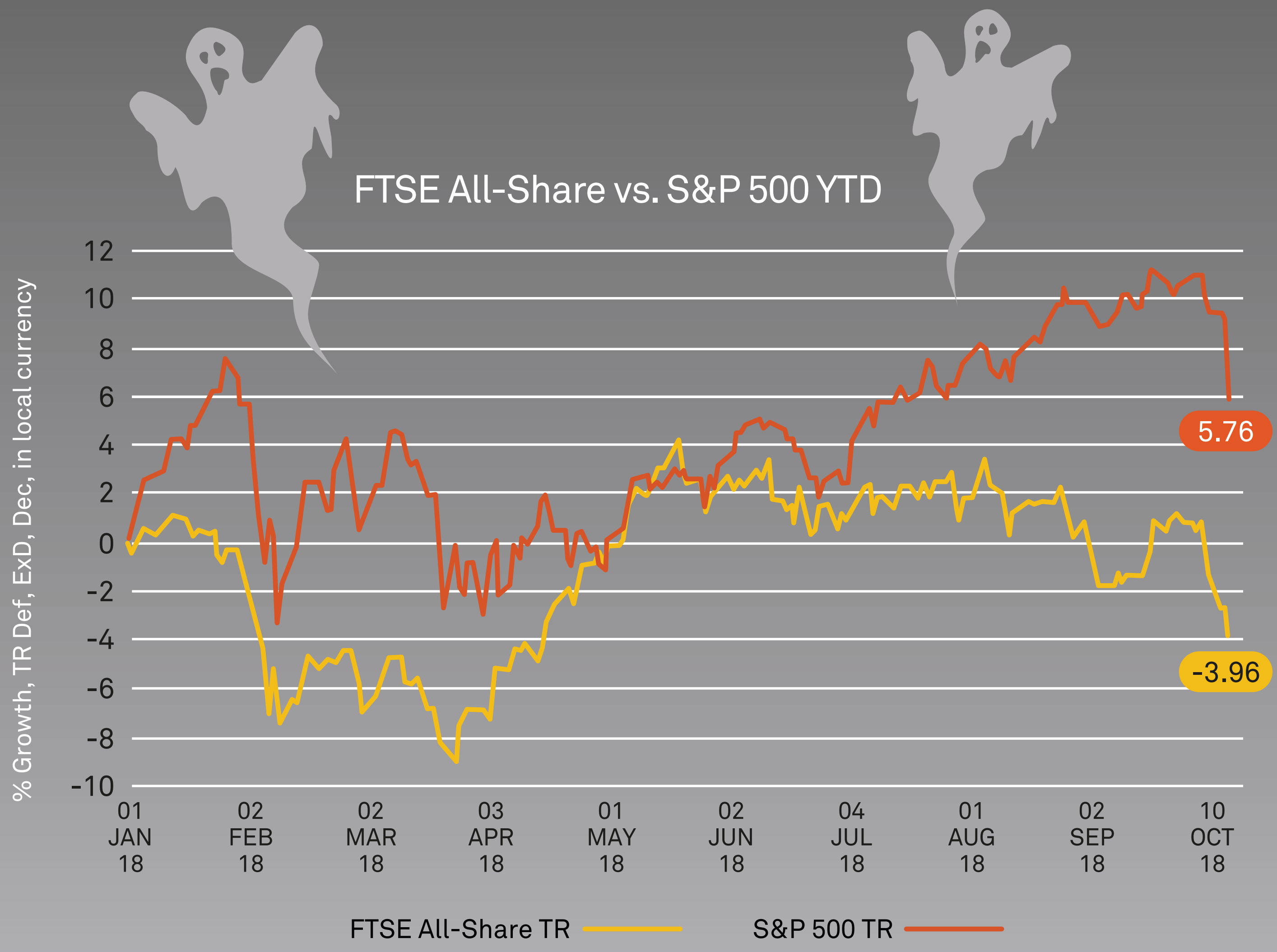
Scary October?

October S&P returns 1986 - 2018



Source: Lipper, as at 10 October 2018.

FTSE All-Share vs. S&P 500 YTD



Source: Lipper, as at 10 October 2018.

MARKET EYE
INVESTMENT IDEAS ILLUSTRATED AND SHARED

BNY MELLON

Keats called it the “season of mists and mellow fruitfulness”, but for the markets Autumn – and October in particular – can be a turbulent time. There were the crashes of 2008 and 1987 of course, when the market sold off by 16.9% and 21.8% respectively[1]. And while an efficient market like the S&P 500 shouldn’t be seasonal, it clearly is: the average S&P 500 monthly growth rate in October is just 0.5%, 7 basis points below the monthly average growth rate of the S&P 500 since 1928.

Don’t ask me why this happens – statistical irregularities like this ought not to occur in an efficient stock market. Maybe it’s just the onset of the Autumn blues (in the northern hemisphere at least). Certainly, the markets appear jittery at the moment, with a month-to-date fall in the S&P 500 of 5% (in dollar terms) in the first 19 days of October (-5.5% for MSCI World) and the VIX up over 19 (down from its peak on the 11th at 24.98). More fundamentally, some are focused on the prospects for US inflation, interest rates and bond yields, with a significant minority fearful that the Federal Reserve is about to make a policy error – allowing inflation to surprise upwards and having to scramble to contain it during 2019. For others, the Fed is moving too far, too fast irrespective of what happens to inflation – especially against a background of rising bond yields, trade conflict, de-globalization and high oil prices. That concern seems to have been the main driver of this month’s sharp falls.

Let’s not make too much of this though. There have been plenty of Octobers when the S&P 500 has done well – 48 out of 90 where October growth has outpaced the 90-year monthly average since 1928. And, September, February and May are worse months on average, statistically speaking. More fundamentally, my sympathies lie with the Fed. I think it’s far too early to call an inflation shock – the relationship between inflation and capacity has changed markedly since the financial crisis. Inflation expectations seem well-anchored and the very concept of capacity seems up for question, even in the US labor market. Moreover, should growth slow sharply – because of trade conflict, oil prices or anything else, the Fed will probably react by not raising rates at the pace currently indicated.

So maybe we should take a deep breath, channel our inner Keats and remember that other great poet and stock market predictor, T. S. Eliot. After all, October isn’t the cruellest month; April is. Or, as they say in the markets, ‘sell in May and go away’ – until October.

Shamik Dhar, Chief Economist, BNY Mellon Investment Management.

[1] Source for all data: Bloomberg, as at 10 October 2018 unless otherwise noted.

The Standard & Poor's 500 (S&P 500) Composite Stock Price Index is a widely accepted, unmanaged index of U.S. stock market performance. The MSCI World Index is a free float-adjusted, market capitalization-weighted index that is designed to measure the equity market performance of developed markets, including the United States, Canada, Australia, Europe, New Zealand and the Far East. The Volatility Index, or VIX, is a real-time market index that represents the market's expectation of 30-day forward-looking volatility. Derived from the price inputs of the S&P 500 index options. Investors cannot invest directly in an index.

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