BlackRock

Will Selling in May Work This Year? Maybe Not

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Key takeaways:

- With stocks struggling to break out of their range, rates climbing, and valuations stretched investors are rightly asking whether it's time to sell.

Russ Koesterich, CFA, JD, Managing Director and Portfolio Manager of the Global Allocation team explains why "sell in May and go away" may not work this year.

With stocks struggling to break out of their range, rates climbing, and valuations stretched investors are rightly asking whether it's time to sell. The calendar only adds to these concerns. But while there is some truth to the adage, 'Sell in May and go away,' seasonality tends to be less relevant than market momentum, which currently favors stocks.

Although the effects are often exaggerated, seasonality is worth watching. Over the long term, there is ample evidence that returns are impacted by the time of year. For example, the S&P 500's average monthly price return since its origin in the 1920s between May and September is 0.40%, roughly half the average of the other months.

The seasonal effect has become even stronger in the modern era. Since 1987, monthly returns have averaged approximately 0.20% between the end of April and end of September. In contrast, other months produce average price returns of 1.10%.

The relationship is also evident outside of the United States. Using the MSCI World Index of developed countries, average monthly price returns were nominally negative between May and September. For the other periods, monthly returns averaged slightly more than 1%.

Momentum typically overcomes seasonality

All that said, there is one important caveat: The seasonal effect tends to be weaker than market momentum. As I have discussed in previous blogs, weak summer seasonality is less obvious in years when stocks are up going into May.

When year-to-date returns are negative through April, there is some benefit in trimming equity positions. In negative years the market generally treads water over the summer, producing an average price return of about -1%. However, in years when the S&P 500 is up coming into May, the S&P 500 averages a 3% advance between May and September. With virtually every stock market up solidly year-to-date, momentum is favoring stocks.(see Chart 1).

Source: Refinitiv Datastream, MSCI and BlackRock Investment Institute. May 29, 2023.Notes: The bars show the performance of MSCI country indexes in U.S. – dollar terms to date. The dots show the performance in local currency. The markets shown are the largest 25 by market cap as of June 2015.

The difference between up and down years also seems to impact how often the market advances during the summer months. In years when the market has posted a negative return during the first four months of the year, stocks advance less than 60% of the time during the subsequent five months. However, if stocks are up into May, the market advances nearly 80% of the time during the summer.

Volatility doesn’t mean exit

Nuances in seasonality coupled with longer-term trends suggest managing risk rather than abandoning stocks. As I discussed back in January, years following down ones tend to be volatile, with the market either rising or falling more than average.

So far, it’s been a good year for investors. And while the summer months are rarely the best ones, if history is a guide, both last year’s sell-off and this year’s momentum suggest maintaining equity exposure.

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