

## Sell in May and go away?

**By: Richard Maparura, Senior Portfolio Manager, Asset Management, Butterfield**

The investment adage “sell in May and go away” does not only refer to the month of May but rather the six-month period from May through October. During that period, the S&P 500 Index has recorded gains in eight of the last 10 years with an average annual gain of 3.8%. Last year saw an increase of 12.3%, the largest seen since 2009 when a bull market was just getting started.

Given the historical performance of the stock market during this period, investors may be curious as to whether the adage is relevant in the current market environment. Before taking a position there are three important factors to consider: inflation, COVID-19 variants and tapering.

### Interpreting inflation

In April this year the U.S. consumer price index (CPI) climbed the most since 2009, topping forecasts and intensifying the already-heated debate about how long inflationary pressures will last. The month-to-month gain from March saw an increase of 0.8% while the core CPI (which excludes volatile food and energy prices) rose by 0.9%, the biggest increase since 1982.

The annual CPI figure also saw its biggest increase since 2008, surging to 4.2%, although it is worth noting that this figure is somewhat distorted by comparison with a pandemic-depressed index in April 2020. With pent-up demand on the back of substantial fiscal stimulus and successful vaccination programs in the US and UK, investors expect inflation to continue to rise.

This year the FAO Food Price Index (FFPI), a measure of monthly change in the international prices of a basket of food commodities, averaged 120.9 points in April, which is 1.7% higher than March and as much as 30.8% above the same period last year. This marked the eleventh consecutive monthly rise and the highest level reached since May 2014.

Inflation worries have also been mounting against a backdrop of soaring commodities prices. Copper and lumber have rallied to all-time highs while potential supply deficits could push the pricing surge even further.

Major central banks across the globe have repeatedly stated they will treat any near-term price pressures as transitory. However, the market seems to disagree with fears of sustained inflation playing out across duration-heavy assets from bonds to growth stocks.



### The impact of COVID-19 variants

New infection rates in the US have sharply declined, with the lowest levels seen in eleven months. This is in large part due to the success of its vaccination programme, a trend also seen in other countries such as the UK.

However, worsening COVID-19 outbreaks and new variants in other parts of the world are creating headwinds for some of the emerging economies. While first quarter economic data has been reasonably strong, activity in Central Europe, Brazil and the Philippines is starting to slow, with downside risks to the economic outlook also mounting in other parts of Latin America.

India's recent surge in cases of a particularly contagious new variant saw the country record more than 300,000 cases per day. This not only put a huge amount of pressure on healthcare services, it also impacted vaccines produced by India's Serum Institute, which has a knock-on effect for other countries in South Asia and Africa who depend on these vaccines. By contrast, the Seychelles, which has vaccinated 60% of its population, still suffered a recent spike in cases, which raised questions about the effectiveness of the Chinese vaccine, Sinopharm, taken by the majority of residents.

It is a timely reminder that as long as the global vaccination coverage remains low, the threat of fresh outbreaks, more transmissible variants and the effectiveness of vaccines to combat them will remain, and a dark cloud therefore hovers over the global economic outlook.

### Tapering expectations

With the exception of the Bank of Canada, which recently began to pare back on its emergency measures, most central banks in developed nations have persuaded markets that tapering asset purchases and interest rate hikes will not happen anytime soon, although some scepticism remains.

Recently U.S. Treasury Secretary Janet Yellen spooked the market when she remarked that "interest rates will have to rise somewhat to make sure that our economy doesn't overheat", although she later explained she did not foresee any near-term rate hikes.

The long-awaited US employment report for May also rattled global markets with the largest downside miss on record. Payrolls were up by only 266,000 in April, missing the forecasted one million by a significant margin. In response to the payroll report, US treasury yields plunged and the dollar turned sharply lower.

While it is difficult to judge how much weight to give the payroll report when most other economic evidence suggests activity is rebounding quickly, it is a clear reminder that recovery in the labour market trails behind the rebound in consumption.



US stocks rose on expectations that monetary policy will remain conducive to economic growth for a sustained period. The euro dollar market pushed back its pricing for a Federal Reserve rate increase to mid-2023.

If the US labour market is used as a proxy for global labour market recovery, it may be many months before central banks believe their economies have made substantial progress towards returning to pre-COVID-19 employment goals. This suggests any talk of tapering, let alone interest rate hikes, may still be further away.

Given the historical performance of the stock market during this 'sell in May' period, combined with current levels of money printing and very low yields across the globe, it would be easy for investors to get carried away and, indeed, 'go away'. However, it will require more intuition and attention to detail for investors to decide whether the old expression holds true this time around.

*Sources*

*Bank of America Corporation, Bloomberg, US Department of Labor*

*Disclaimer: The views expressed are the opinions of the writer and whilst believed reliable may differ from the views of Butterfield Bank (Cayman) Limited. The Bank accepts no liability for errors or actions taken on the basis of this information.*