



Hope, meet expectation



Queen Elizabeth II
Getty Images/Carl De Souza

The world of investing is filled with clichés. Buy the rumour, sell the fact. Don't try to catch a falling knife. The trend is your friend. When the tide goes out, you'll see who's swimming naked. Don't fight the Fed.

And then, a saying which got even more airtime than usual earlier this year: sell in May and go away.

Using the S&P 500 index as a proxy for world markets, equities had already shed about 14% since the beginning of January when the first day of May rolled around this year. In the seven weeks that followed, we saw rapid losses of a further 11%, taking us well into bear market territory. This merely seemed to underscore the fact that most clichés end up being clichés for good reason: there is typically more than a grain of truth in them.

The advice to sell in May does indeed enjoy some statistical support. According to a 2021 paper by US-based LPL Financial, out of all consecutive six-month combinations going as far back as 1950, the period starting in May each year has produced the weakest average

return over time.

Of course, selling in May and going away does not represent the full story: there is a second half to the saying which is somewhat less well known, namely that one should in fact come back on St Leger's Day. This is a reference to the last leg of the British Triple Crown horse race, held every year in the second week of September, and with a history going back all the way to 1776 – the same year that 13 American colonies severed their political connections to Great Britain.

Traditionally, St Leger's Day signifies the end of summer in the UK, when families travel back from escapes in the country and holidays on the continent. With children going back to school, parents who happen to be investment professionals supposedly have time once again to monitor portfolios and buy some shares, providing at least a theoretical underpin to markets and ending the hiatus which began in the spring.

St Leger's Day was in the news recently, as it fell on the Saturday immediately following the death of Queen Elizabeth II. As was the case with a number of other events that week, a

decision was made to postpone the occasion out of respect for the queen, who had a lot of history with, and an affinity for, the St Leger's Stakes.

She first attended this horse race in 1955 and had hardly missed one since. A number of horses from her own royal stables have competed over the years, and Queen Elizabeth herself is listed as the winning owner of Dunfermline in 1977, the year of her Silver Jubilee.

Feeling bearish

When St Leger's Day was postponed, I couldn't help thinking: is there a message for markets in this? Does the cliché need to be qualified; should investors be a little more patient before expecting the traditional rally going into autumn and winter this year?

Someone who certainly thinks so is Jeremy Grantham, who has, for some time, made headlines with his bearish views. His latest GMO Viewpoint dated August 31 2022 was titled "Entering The Superbubble's Final Act". Grantham brushes off the relative strength in equity markets since the recent low in mid-June (a bounce of about 6% at the time of writing) as a bear market rally. He ends: "If history repeats, the play will once again be a Tragedy. We must hope this time for a minor one."

In response, Financial Times columnist Robin Wigglesworth pointed out how Grantham had made similar bearish pronouncements practically every year since 2010. There was one exception in 2018, when he called for a near-term "melt-up" in stock prices.

To use another cliché, only time will tell whether or not Grantham's worst fears do play out on this occasion. But, in the week of the queen's funeral, as I read about her love of horses, my eye caught this line in an article by Brough Scott in The Times: "The core of racing's attraction, and of the queen's so evident enjoyment of it, is that every day is a battle of hope against expectation."

Some might say this applies to horse racing and investing in equal measure. **Gouws is chief investment officer, Credo, London**