## *Push and Pull.*

The dog days of summer are technically behind us, but the second half of the month of August has certainly felt the most dog day any stretch of days could possibly feel. A confluence of coincidental seasonal variables has aligned, along with a significant rally in stocks in the first half of the year, which has handed investors the first sign of turbulence for 2023. A closer look at seasonal trends, and where the first half leaders stand today should be useful for investors to shape their expectations as we inch closer to fall.

**The Dog Days Are Not Over**

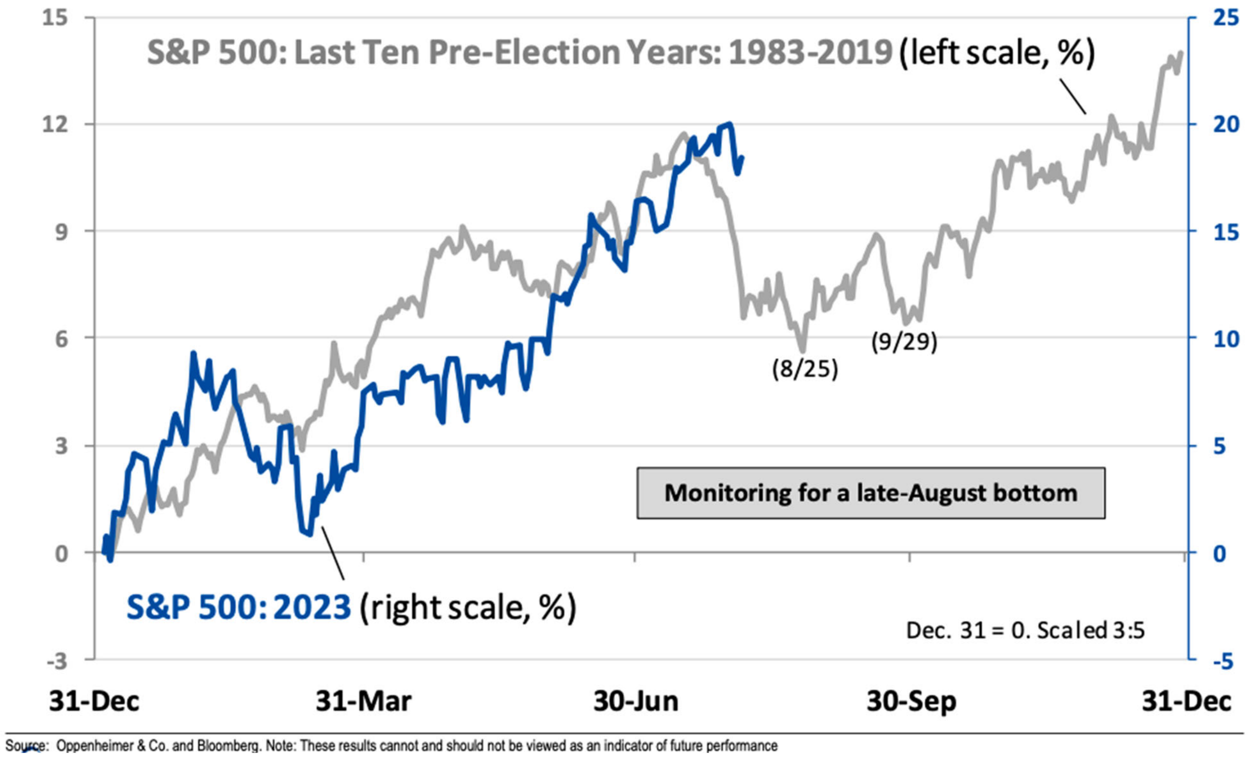
Often, when you hear something pertaining to the market that sounds like it's purely an anecdote, it tends to be simply that. But when investors explain the doldrums of summer in the market by referencing summer holidays in the Hamptons, there's a bit of truth to that. Which is why we tend to see lower trading volumes and volatility in the first couple of months of the season. Here's a look at historical trading data over a 115-year period ending in 2003 from the NYSE[1]:

| Month | Ratio of month's NYSE trading volume relative to 12-month moving average (data from 1888 to 2003) | Average VIX (since 1990) |
|---|---|---|
| January | 1.13 | 19.33 |
| February | 1.07 | 19.60 |
| March | 1.06 | 20.24 |
| April | 1.10 | 18.89 |
| May | 1.06 | 18.31 |
| June | 0.97 | 18.36 |
| July | 0.95 | 17.82 |
| August | 0.94 | 19.24 |
| September | 1.05 | 20.45 |
| October | 1.08 | 21.77 |
| November | 1.13 | 20.44 |
| December | 1.12 | 19.45 |

[1] Chart provided by TheStreet.com, data provided by NYSE. The analysis is cut off in the early 2000s, since that's when computer-driven trading (such as high frequency trading (HFT)) began to skew the trading volume data.

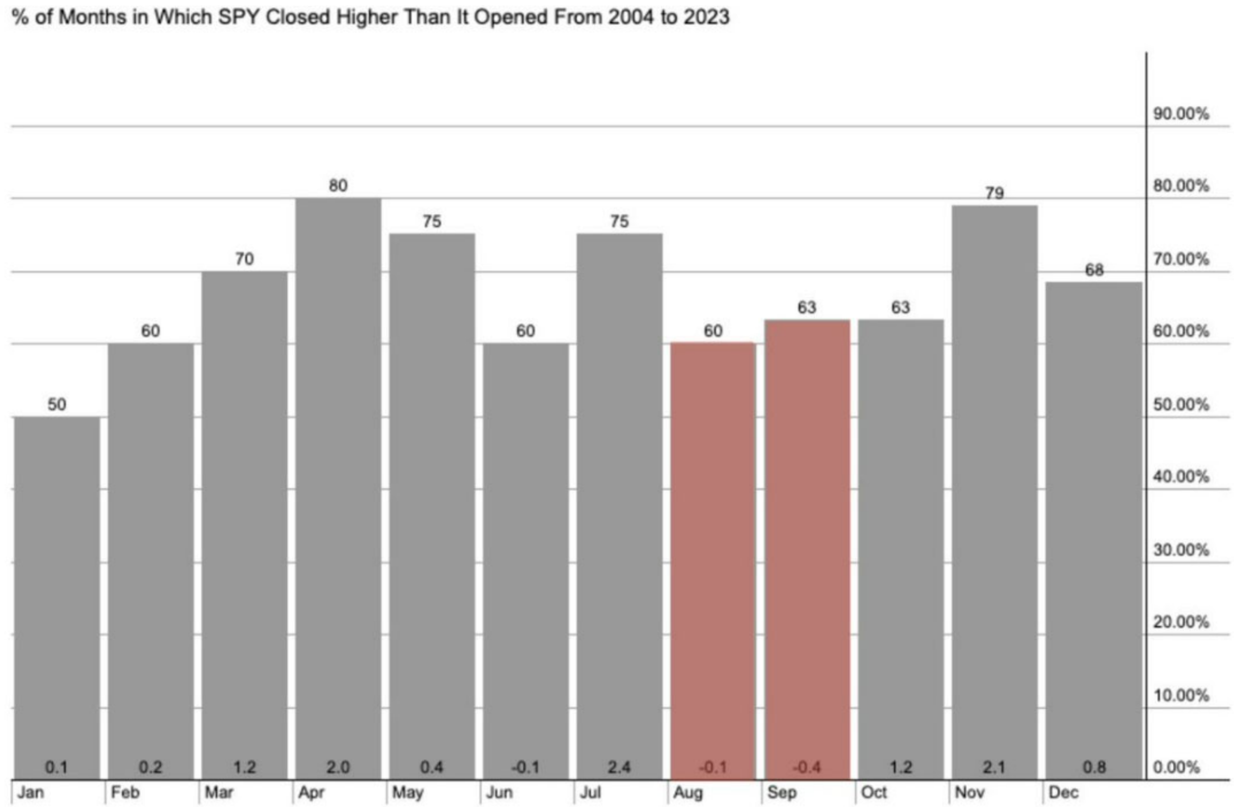
A ratio above 1 in the table means that the month's volume is higher than the previous 12-month average, whereas a reading below 1 means that it is lower.

When you combine the annual season quiet period with the four-year presidential cycle, when we entered August, we embarked on the beginning of the worst stretch of time for stocks based on this historical data. The August-September window in the year prior to a general election[2]:




Through August 24th, the S&P 500 had posted a -4.5% return for the month. In the same way one could argue markets pulled forward gains in the first 7 months of the year, with SPX down -1.59% in August alone, it may have pulled forward the average, seasonal monthly decline for September[3]:

[2] Chart provided by Oppenheimer, as of 8/17/2023.
[3] Chart provided by Finom group.




So now that we understand where the calendar has brought us in terms of seasonal expectations, let's take a look at some of the strongest parts of the market in the first 7 months of this year, and where they stand on a technical level.

Let's start with the broader market as a whole. Take a look at where the August selloff has brought the S&P 500: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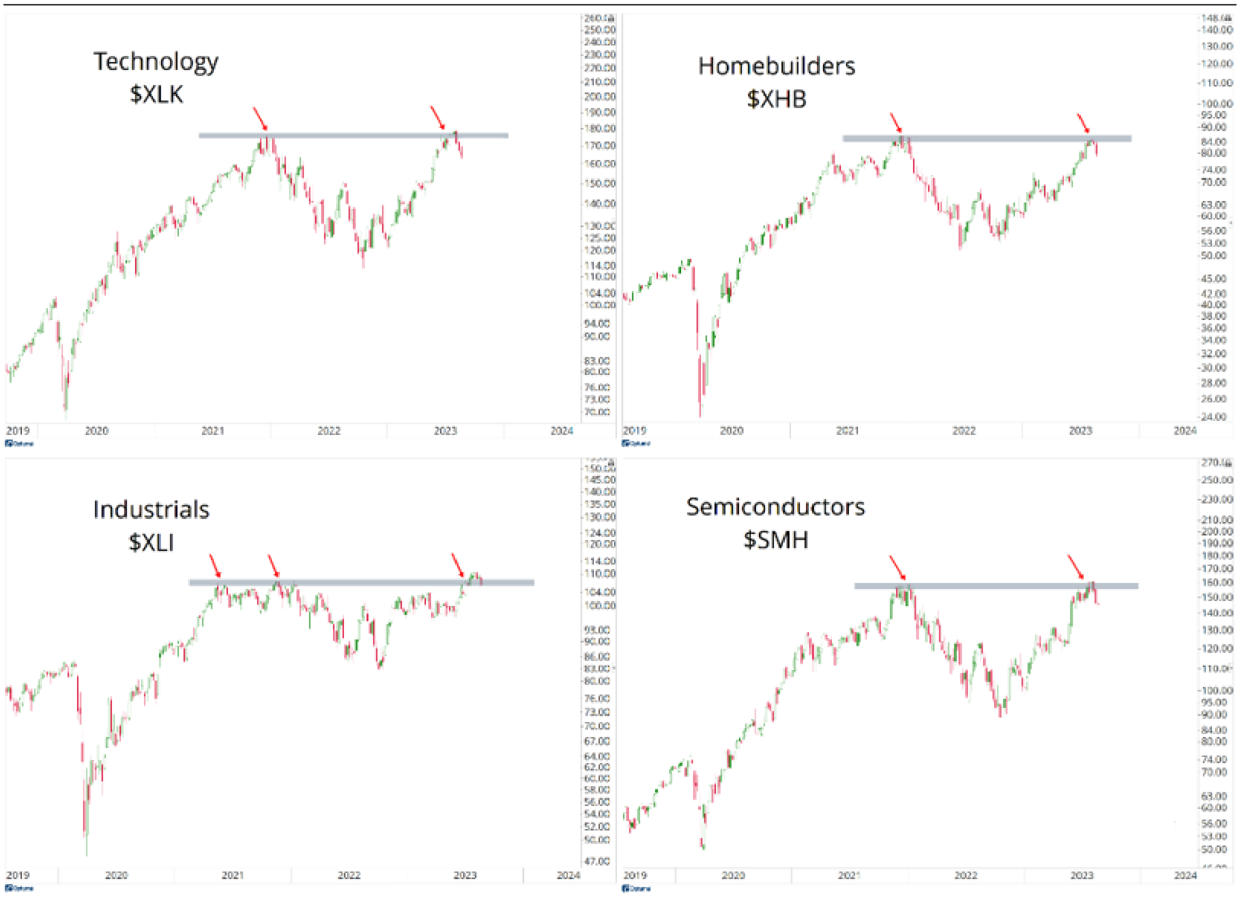
Now, a look under the hood at some of the strongest industry groups to start the year:

4 Chart provided by AllStar Charts, Date Range: Oct 2022-Aug 2023.



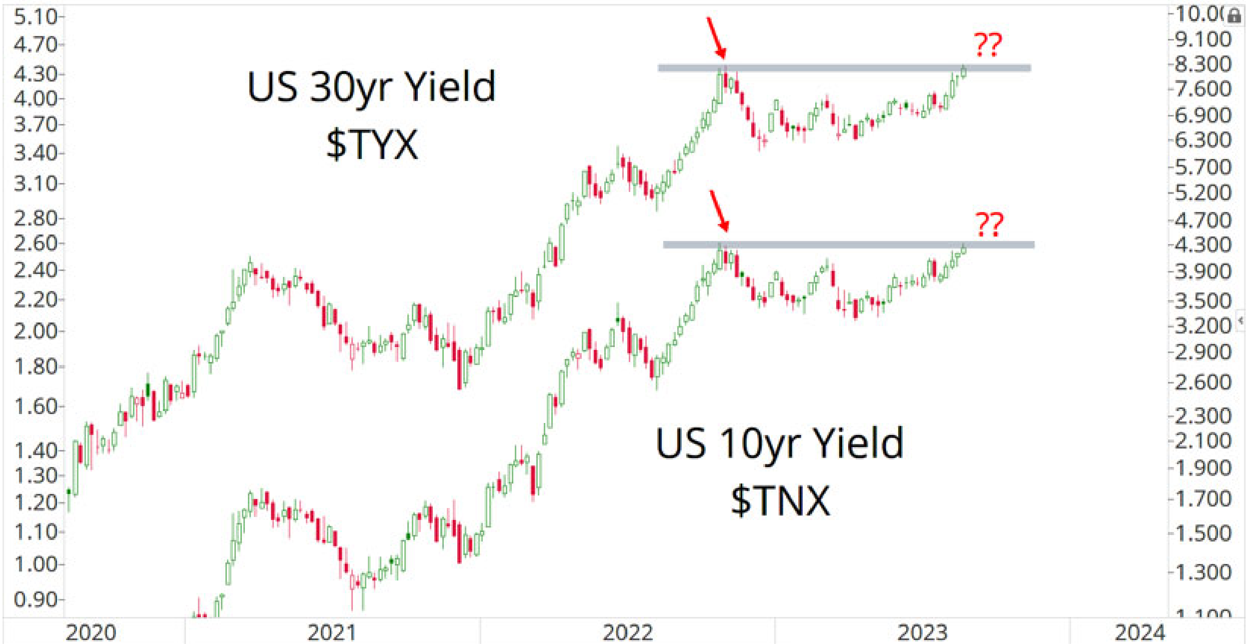

[5]

Each of these four segments of the market that not only have been leaders for the year but are tied tightly to the cyclical nature of the market have rallied right up into their 2021 highs as of the end of July. This is also referred to as overhead supply. With these pockets of the market trying to digest the overhead resistance, it's logical to connect the dots that further consolidation is in the cards for the next couple of months as seasonality, and gains from the beginning of the year are further digested.

What should investors be on the lookout for through the rest of the summer?

On the equity side of the conversation, you'd like to see some leadership from laggards in the first half of the year. Energy might be best suited to carry the baton into fall. But you also will need to keep a close eye on yields across the Treasury curve. It will be difficult for the market to recapture its highs from the year with continued upward pressure across the belly and long end of the curve. Take a look:

[5] Charts provided by AllStar Charts, Date Range: Aug 2019 - Aug 2023.




[6]

Even when you consider the recent Atlanta Fed GDPNow Tracker estimating a 5.9% GDP figure in Q3, it isn't easy to just assume that the two rates on the chart above resolve higher above the current range. Keep in mind that these rates are more sensitive to growth expectations and inflation expectations, and that both of those have been cooled significantly in recent months.

Perhaps what is the leading indicator for the longer ends of the curve, is the behavior of the short end:


[7]

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[6] Chart provided by AllStar Charts, Date Range: Jan 2020 – Aug 2023.

[7] Chart provided by AllStar Charts, Date Range: Jan 2023-Aug 2023.

While yields further out on the curve have picked up since July, the front end of the curve has continued to trend lower, creating the first appearance of divergence between shorter- and longer-term rates in about a year. The 2-year yield is generally interpreted as a shadow Fed Funds Rate and has been a leading indicator for the rest of the curve for the entirety of the current monetary cycle. It would be brash to assume that this relationship will change on a dime, right here, right now.

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