Why A Seasonal Slump for Stocks Could Be Ahead

To everything (turn, turn, turn)
There is a season (turn, turn, turn)
– The Byrds

The psychedelic rock group The Byrds brought us this hit song in 1965, and it resonates with so many things in life, including the financial markets.

In fact, the actual lyrics go back much, much further than the ’60s. Thousands of years further – to the Old Testament book of wisdom, Ecclesiastes. The opening stanza of chapter 3 reads:

To everything there is a season, and a time to every purpose under the heaven.

Now, the study of seasonality in the financial markets may not go back *quite* as far as the Old Testament days, but possibly closer than you think.

And just as the Byrds *repeated* the Old Testament’s wisdom set to their song melody, so too do **market cycles tend to repeat over time.**

Ok, Sunday school class is dismissed.

But I think this observation is quite apropos considering where we are in the stock market cycle right now, and how it may repeat in the weeks and months ahead.

Let’s begin with the backstory.

In November 2023 several colleagues and I were telling *TradeSmith* members that the stock market had likely bottomed following a series of bullish breadth thrusts off the late-October low.

We arrived at this conclusion in large part thanks to ***Trade Cycles by TradeSmith*** seasonality tools, together with our Health and Trend indicators.

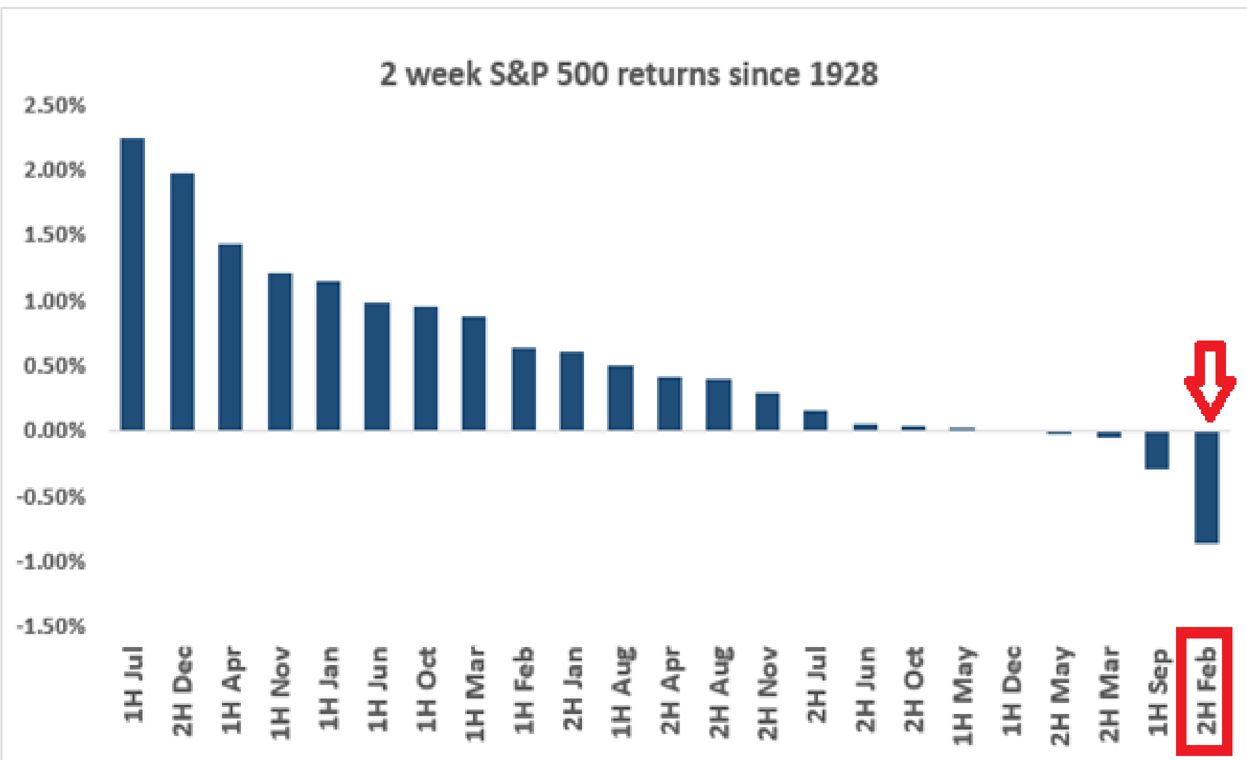
They were all still in the green despite a 10% pullback in the market at that time, with the S&P falling to around 4,100.

Meanwhile, the talking heads on CNBC were predicting recession, or worse. A widely held view at the time was that the early 2023 stock market rally had been nothing but a "*bear-market bounce and new lows would surely follow*."

Fast forward to the hear and now and the S&P 500 has just surged higher in 14 of the past 15 weeks, for a gain of 22%, hitting an all-time high above 5,000 this week.

Now, the consensus narrative has changed its tune to something like: "*Nothing but new highs and blue skies ahead*."

And that view arrives just in time for what has historically been a weak period in the market.



Since, 1928, the last two weeks in February have consistently been one of the weakest periods of the year for stocks, with index prices falling 1% or more on average over the period.

Add to this the fact that stocks are extended to the upside after a 22% rally in just 15 weeks, and things feel even more precarious going into March.

Again, history shows that, following similar powerful upside rallies in the past, stocks tend to take a breather. The S&P 500 falls nearly 4% on average over the following month.

Another concern is the market's internal breadth.

Just as a powerful upside breadth thrust signaled the start of the rally last November, today market breadth has turned negative – signaling the start of a new downturn.

This chart of the S&P 500 shows prices (top panel), plus the percentage of S&P stocks above their 50-day (middle panel) and 200-day (lower panel) moving averages.

As you can see at the two red arrows, while the index itself has been surging to new highs above 5,000, both of these key breadth measures have been steadily declining since December.

My take: Fewer and fewer stocks in the index are participating in the recent rally to new highs. Meanwhile, more stocks under the surface of the S&P are falling.

And this negative divergence between market price and breadth has been going on for almost two months now. Something's got to give — and most likely it will be prices.

Finally, let's take a closer look at seasonality itself with our latest ***Trade Cycles*** seasonality chart for the S&P 500 (SPX).

Trade Cycles or Platinum members will find these tools within their platform dashboard. (And if you don't see these tools in your *TradeSmith Finance* dashboard — and would like to — call 888-623-0858 to discuss.)

Log into *TradeSmith Finance*. Look for the market tiles at the top and click on **S&P 500** at the top left, bringing you to the Stock Analyzer page.

Now, to access your ***Trade Cycles*** chart and **Seasonality** graph for SPX, simply click on the **Trade Cycles** tab at far right and scroll down.

In this chart we're looking at the S&P 500 seasonal pattern for election years in each of the past 19 presidential-election cycles. That's where 2024 is in the four-year cycle. As you can see, we'll enter a seasonally weak period starting right about... now.

If we keep following the seasonal pattern, expect a stock market pullback from late February into mid-March or so. And that should be a great buying opportunity.

Mike Burnick's Bottom Line: Keep in mind, these seasonal patterns don't always repeat exactly, but **they often rhyme with what markets have done historically.** The good news is that, if you're patient enough to wait for a brief pullback, that should *turn* into a buying opportunity for the next high-probability seasonal rally in April.

Good investing,

Mike Burnick
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