

Sell in May and go away? Not today anyway…

The pernicious school of thought advocating selling in May and going away has, in these short sighted times, built up something of track record. In the last four years, equity markets have been shaken out of their complacency by any number of scare stories circulating around the markets in the first few weeks of spring.

There are some unavoidable seasonal factors penned in the diary at this time of year and the US earnings season, which we are halfway through, can be a tricky time despite the fact that it is arguably the least important of the four. But this year is different. On the last day of April, the S&P500, the main US index of leading shares, reached an all-time high. It effectively raises the stakes should any bad news break from left field during an otherwise positive earnings season sprinkled with mildly positive macroeconomic news. On the first day of May, the London FTSE100 followed the euphoria, posting a 0.4% gain to over 6,450.

This rise in the first few hours of May was bigger than the net rise of 0.3% in all of April but the

performance in April shouldn't be knocked for it marked the first 11th consecutive monthly rise in the history of the FTSE100 since its inception in 1984 (3rd of January, in fact, for those who remember it…).

And the records don't stop there. In the eurozone periphery, things are looking particularly rosy in the sovereign bond markets. Italian 2-year yields, for example, are now at a record low of 1.1%. Crisis? What crisis?

Whether one thinks that things can only go one way from here depends on how long one believes that massive quantitative easing can be maintained in the face of the unblinking eye of the global central banks. Judging by the sounds emanating from the various US Fed heads, QE is here to stay for a while as the fragile economic recovery limps on. In Europe, it is a racing certainty that the ECB will actually cut interest rates – not that this matters much; the market is way ahead of what little this would achieve. But for sentiment, it could be enough to get a betting man through the month of May. But whilst the expression of "Sell in May and go away" refers to equities, it is worth bearing in mind that both stocks and bonds have risen together this year, which sets up the uncomfortable possibility that they could both fall together.

But this is not how we see the market unfolding in the months ahead. Investors are more concerned with the relative valuations between the two asset classes rather than on the absolute levels. However unpalatable they may be, those seeking yield (pension funds for instance) are being pushed up the risk curve or, ultimately from bonds and into equities. This has the look and feel of a market feeling compelled to capitulate and buy just to keep up with benchmarks – something we do not believe in at TAM where we offer the flexibility to hold cash. Could global equities sell off by 5% or more based on any number of economic and geo-political threats around the world? Absolutely.

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