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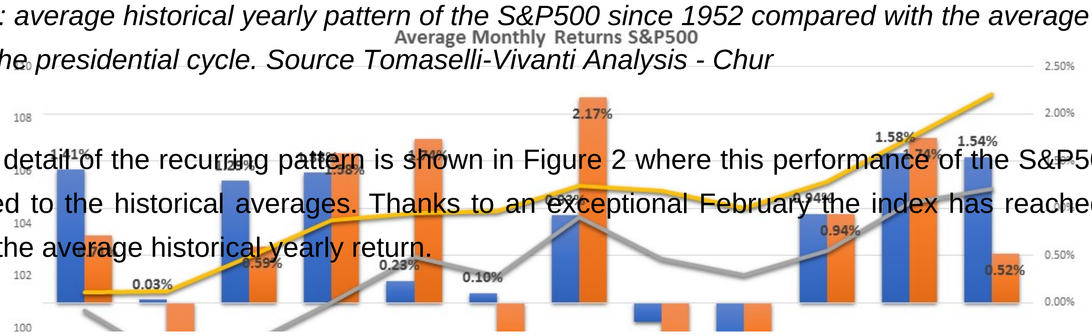
The New Presidential Cycle and the Recurring Patterns

by SAMT

**A new presidential cycle just begun in the USA** and the stock market has welcomed 2017 with a bullish note. The S&P500 rose about 7% in the first two months of the year, the month of March has started in a corrective mood and the market retreated a bit still leaving the progress around 5% year-to-date.

**It was a hefty start,** that could well lead to a seasonal top. At the moment, we see the recent high of March 1st, near 2’400, above 21’000 for the Dow Jones Industrial, as a strong resistance, but it is interesting to compare the bullish wave of these recent weeks with the recurring cyclical patterns. First, we note that a healthy February is not so common. **February is used to be a sluggish month for Wall Street,** even worse in the first year of the presidential cycle with an average return, for the 16 occurrences since 1953, of -1.83%. In figure 1 is shown the average historical yearly pattern of the S&P500 since 1952 compared with the average of returns in the first year of the presidential cycle. They are very similar, even if the first of the four years term tends to be a bit more volatile and less performing. **Usually, February and August are the worst months followed by June and September.**

*Figure 1: average historical yearly pattern of the S&P500 since 1952 compared with the average of returns in the first year of the presidential cycle. Source Tomaselli-Vivanti Analysis - Chur*




A better detail of the recurring pattern is shown in Figure 2 where this performance of the S&P500 so far this year is compared to the historical averages. Thanks to an exceptional February the index has reached in just a couple of months the average historical yearly return.

*Figure 2: average historical yearly pattern of the S&P500 since 1952 compared with the average of returns in the first year of the presidential cycle. The green line refers to 2017 performance until March 9th. Source Tomaselli-Vivanti Analysis - Chur*


**It is also interesting to observe the historical average trend in the four years term** and it is curious to note that the first year is usually better rewarding when the president is affiliated with the Democratic party. A Republican presidency is statistically less rewarding for the shareholders than a Democratic one, especially in the early stage.

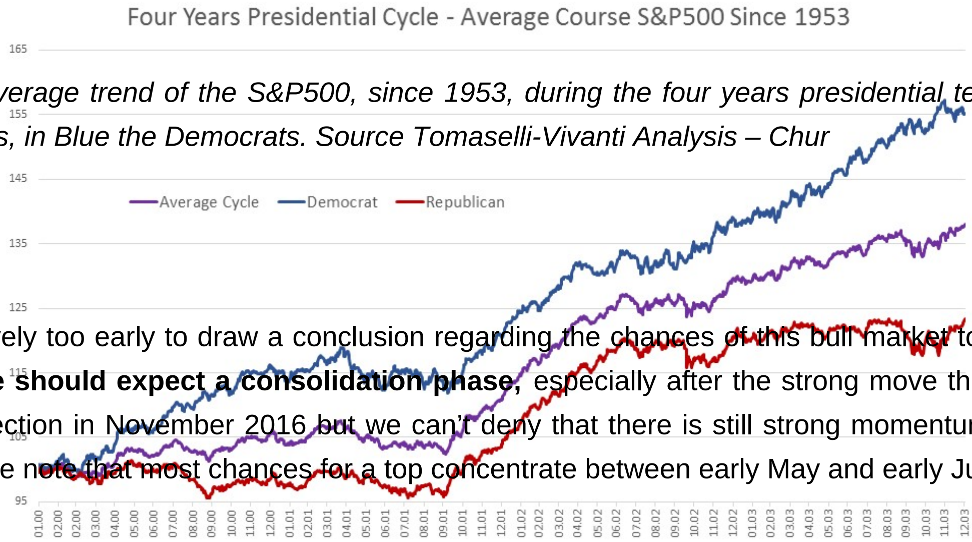
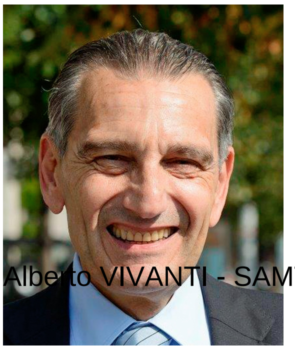



*Figure 3: Average trend of the S&P500, since 1953, during the four years presidential term. In red the Republican presidencies, in Blue the Democrats. Source Tomaselli-Vivanti Analysis – Chur*

It is definitively too early to draw a conclusion regarding the chances of this bull market to continue. **If we trust the statistic we should expect a consolidation phase,** especially after the strong move that had already started just after the election in November 2016 but we can't deny that there is still strong momentum in the market. Cyclically speaking, we note that most chances for a top concentrate between early May and early June.



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