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# Wake Me Up When September Ends

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## Fed Economic Projections

It has been a rough September with the market down for three weeks in a row. To top things off, volatility has come back as investors try to digest comments from the Federal Reserve (Fed) as it relates to their future rate decisions. While the Fed held rates steady for now, the messaging appears to be that interest rates may be higher for longer, signaling they are likely to keep rates elevated further into 2024 than previously forecasted.

Additionally, the latest Fed meeting came with a set of updated economic projections (typically updated each quarter). Key updates and potential indications are as follows:

1. **Economic Growth, Real Gross Domestic Product (GDP).** The economy has been holding up better than recent expectations and this is reflected in more optimistic projections from the Fed. Projections were increased to 2.1% GDP growth rate in 2023 and modest cooling in 2024 to 1.5% before rebounding to 1.8% in 2025. **This would not indicate a severe recession is expected by the Fed.**

2. **Unemployment Rate.** Projections have been revised to lower rates of unemployment. The Fed is now projecting the rate to stay steady at 3.8% for this year, and only increasing to 4.1% in 2024 and 2025, well below the 10-year average of 5.0% unemployment. **This indicates the Fed expects the healthy job market to stay on course.**

3. **Inflation, Personal Consumption Expenditures (PCE).** Given the recent increase in energy prices and a bump in inflation, it's not surprising to see the Fed make a slight increase in inflation projections to 3.3% in 2023. They maintained their expectation for 2.5% inflation in 2024, and further decreasing to 2.2% in 2025. **This reinforces their "higher for longer" rhetoric in terms of keeping rates elevated until inflation is controlled.**

Again, the data points us in the direction of a softer landing in the case of a recession amid a strong labor market. Meanwhile, we're getting close to the end of the rate hiking cycle, with potential cuts in 2024 as inflation cools down.

## Goodbye September, Welcome Holiday Season!

There's an old investment expression that goes, "Sell in May and go away." It points to a generally held idea that stocks perform better in the winter months and underperform during the summer. This has, of course, never been proven to be true. But looking at monthly averages, there are a few interesting observations to point out:

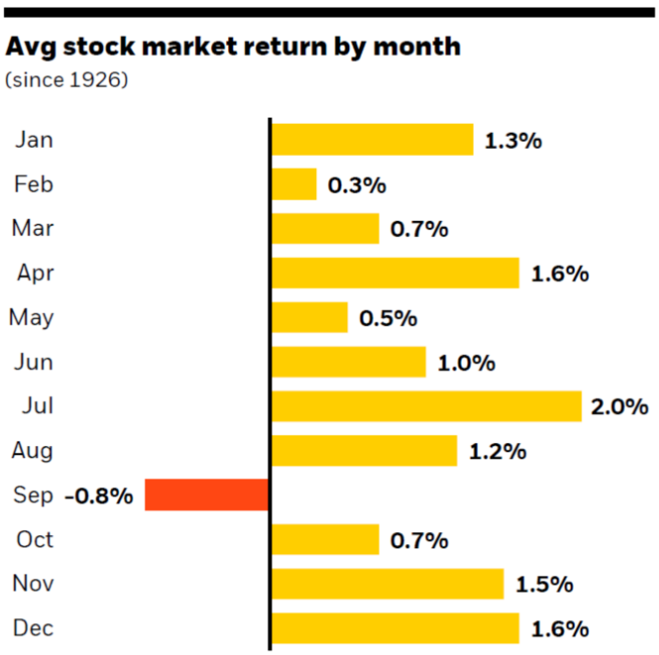
1. **The September Effect:** September tends to stand out as the lone month with a negative average return and the lowest probability of a positive return. There are some theories around why this may be, one common one being that students are returning to school and thus, spending less post summer break.

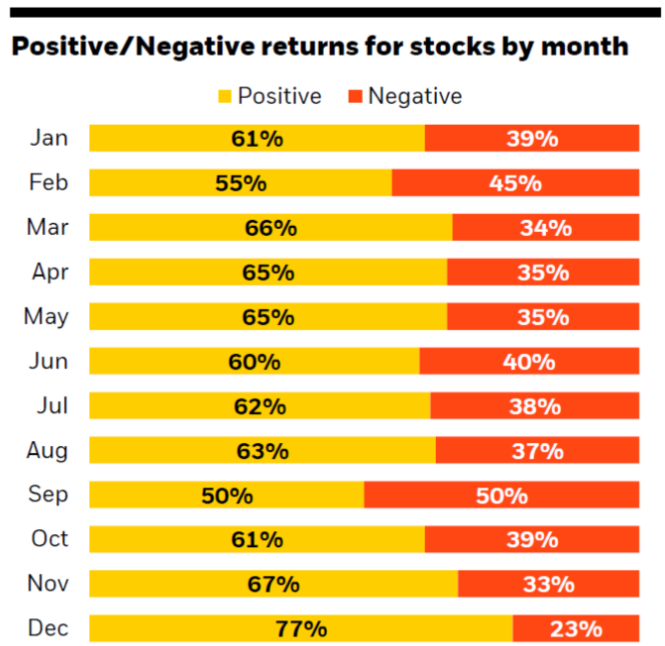
2. **Holiday Months:** November and December are a couple of the stronger average months and have the highest probabilities of positive returns. Regardless of what the economy or the Fed is doing, we know consumers are spending money on gifts throughout this period, propping up sentiment and overall joy.

3. **Market vs. Casino:** Perhaps the main takeaway from the following chart, "Stock Market Performance and Probabilities by Month," is 11 of the 12 months are positive on average and the probability of positive returns is generally more than 50%. Where else are you going to find odds like that? Definitely not in Las Vegas!

*Stay diversified my friends.*

**Stock Market Performance and Probabilities by Month**
**(S&P 500 Returns 1926-2023)**




*Sources: BlackRock Student of the Market, September 2023. Morningstar as of 8/31/23. U.S. stocks are represented by the S&P 500 Index from 3/4/57 to 8/31/23 and the IA SBBI U.S. Lrg Stock Tr USD Index from 1/1/26 to 3/4/57, unmanaged indexes that are generally considered representative of the U.S. stock market during each given time period. Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You cannot invest directly in the index.*

*Stay diversified my friends.*

As always, Dynamic recommends staying balanced, diversified and invested. Despite short-term market pullbacks, it's more important than ever to focus on the long-term, improving the chances for investors to reach their goals.



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