What Can Year-to-Date Gains Tell Us About the Fourth Quarter?

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Last Updated: September 24, 2024

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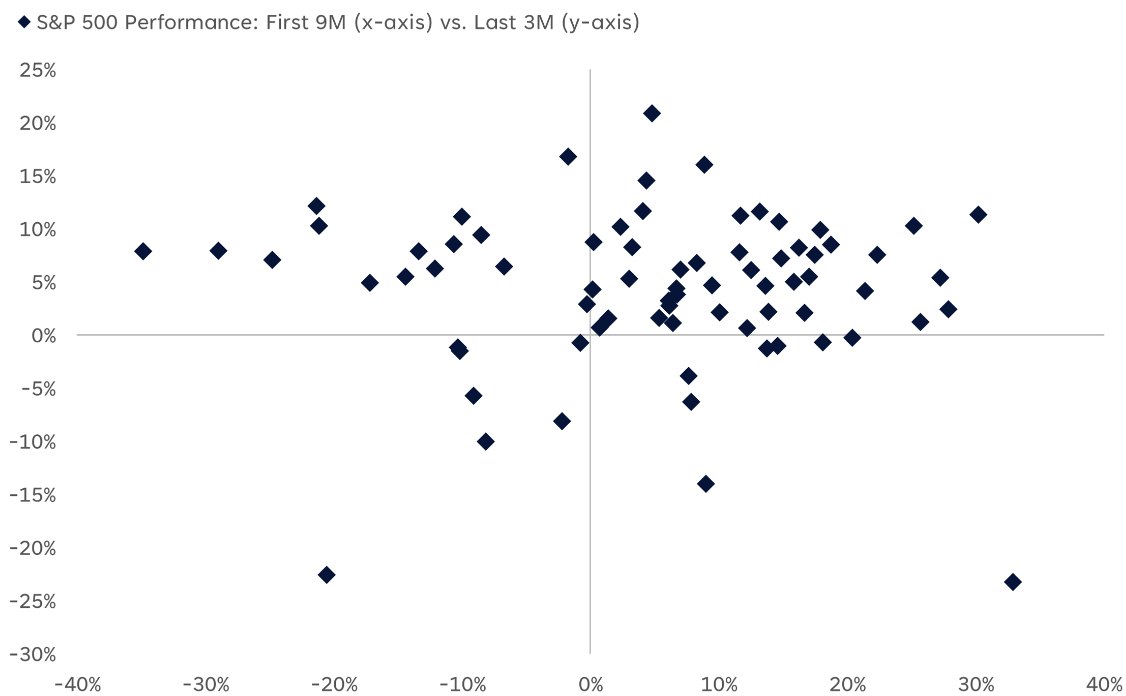
As the morning breeze grows slightly cooler, pumpkin spice-flavored coffees return to menu boards, and the college football rankings begin to heat up, it is clear fall has arrived. September 22 marked the first day of autumn, and for capital markets this means the historically rough month of September is nearly over and the fourth quarter is around the corner. With less than five trading sessions remaining before October, stocks are on track to outperform historical averages for September, barring any major market-moving events. The S&P 500 is up 1.2% month to date, compared to the average decline of 0.7% since 1950 and declines the past four years of 4.9%, 9.3%, 4.8%, and 3.9%, which we wrote about in "Is September Seasonality a Headwind for Stocks?"

Based on historical performance for the S&P 500, strong performance and momentum in the first nine months of the year could signal more gains ahead. Over the last 75 years, the final three months of the year have resulted in negative returns only eight times when momentum was strong during the first three quarters. In four of those eight years, returns in October–December were only slightly lower, between 0% and -1.5%. The largest fourth quarter decline after positive performance through September came in 1987, which includes the infamous “Black Monday” market crash on October 19, when the S&P 500 famously shed over 20% in one day.

S&P 500 First Nine Months Returns vs. Last Three



Source: LPL Research, Bloomberg, 9/23/24
Disclosures: All indexes are unmanaged and cannot be invested in directly. Past performance is no guarantee of future results.

Top Quintile Performance So Far in 2024

When segmenting year-to-date returns through September into five groups, this year's 20% gain by the S&P 500 earns a spot in the top quintile, as well as in the top 10 best for the period over the last 75 years. When returns for the first three quarters have exceeded 16.4% (top quintile), the S&P 500 has achieved positive results in the fourth quarter 80% of the time. However, the average return of 3.5% in the final quarter lags compared to the other four quintiles. After a positive first nine months, 1998 experienced the best performance with a 20.8% rally after a 4.8% gain through September. Returning to the segmented data, the highest average return for the final three months of the year has come when January–September returns fall between 9.4% and 16.4%, achieving an average return of 5.3% with positive performance 86.7% of the time.

Ranked First Nine Months S&P 500 Returns

Quintile	Quintile Return Range (Jan–Sep)	Average Return (Oct–Dec)	Percent Positive (Oct–Dec)
1	> 16.4%	3.5%	80.0%
2	>9.4% <=16.4%	5.3%	86.7%
3	>4.1% <=9.4%	4.1%	78.6%
4	>8.8% <= 4.1%	4.5%	80.0%
5	<= -8.8%	3.9%	73.3%
	Average (all)	4.3%	79.7%

Source: LPL Research, Bloomberg, 9/23/24
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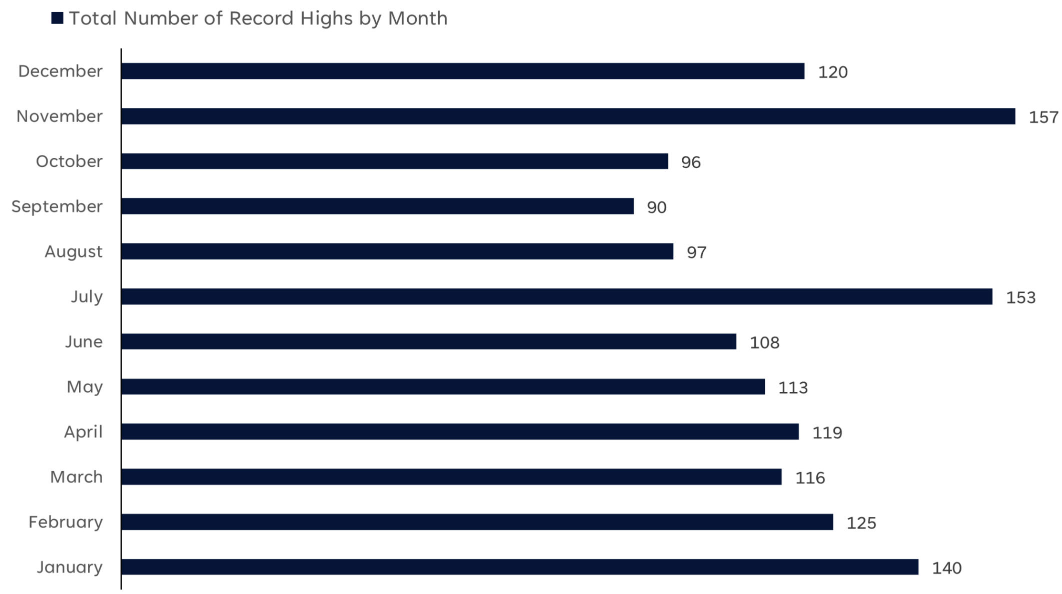
New Records Support a Solid Fourth Quarter

This year has been one for the history books, as the S&P 500 has secured 39 new all-time highs since the start of the new year. Most recently, on September 19, the S&P 500 climbed over the 5,700 mark following the Federal Reserve's (Fed) jumbo half-percent rate cut, marking the first cut in four years. While it's no secret that September is historically the worst month for stock performance, when the S&P 500 notches a new high during September, the index produced positive results in the fourth quarter 91.3% of the time. Following an all-time high in September, the average S&P 500 return in October–December is 4.8%, with 21 out of 23 years producing positive results. The strongest fourth quarter performance came amid the post-COVID rally in 2020 when the S&P returned 11.7%, while the weakest performance of -14% came in 2018, a year when the index closed the full year in the red.

S&P 500 Record Highs by Month



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Summary

Strong momentum through September, underlying positive sentiment based on soft-landing traction, and continued earnings growth have been welcomed by investors. While historical trends point to a solid likelihood of positive returns for the S&P 500 in the final three months of 2024, Fed policy decisions, a much-anticipated Presidential election, and fourth quarter earnings loom on the horizon as major market catalysts.

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For fixed income, the STAAC recommends a modest overweight, funded from cash, with an up-in-quality approach and benchmark-level interest rate sensitivity.

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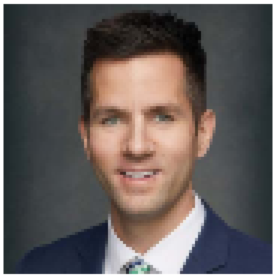

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