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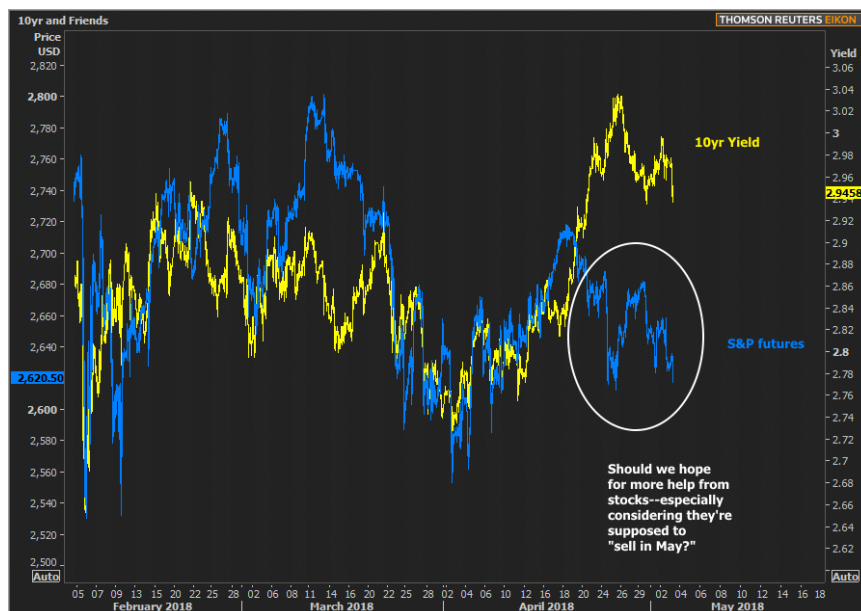
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The Day Ahead: Do Stocks Really "Sell in May?"

There has been at least **some** amount of correlation between stocks and bond yields in 2018 inasmuch as the major lows for stocks in Feb and April coincided with major lows for Treasury yields. And yes, the term "major" is used loosely when it comes to yields.

Moreover, we've talked about the **possibility of a bigger downturn** in stocks acting as safety valve for bonds. In other words, massive stock losses are one of the few things that could actually free up enough investor demand in the bond market for rates to make a meaningful move lower.

With all that in mind in addition to the generally weaker trend in stocks since mid-April, it **begs the question**: are we going to see the typical "sell in May" mentality in stocks?



Ah... but is it really that typical? Or is it something people just like to say because they heard other people say it? Or because it may have been relevant a few times in the past?

I'm sure you already know where I'm going with this, so I'll just cut to the chase. The following chart says it all:

Average Mortgage Rates

	Rate	Change	Points
Mortgage News Daily			
30YR Fixed	7.29%	-0.06	0.00
15YR Fixed	6.95%	-0.05	0.00
30YR FHA	6.91%	-0.08	0.00
30YR Jumbo	7.55%	-0.05	0.00
7/6 SOFR	6.88%	+0.02	0.00
30YR VA	6.92%	-0.08	0.00

Rates as of: 10/29



So why do people say "sell in May?" That's a bit more complicated. There have been studies that suggest there's something to the hypothesis, but they tend to include dividends and alternative investments (i.e. if an investor sells stocks, where are they going to park their money?). But for our purposes, we're just interested in stock price delta and its **potential to impact the bond market**. In that regard, "sell in May" hasn't been a thing for the past 5 years.

Now, to keep things balanced, we could consider that 5 repetitions of any phenomenon in financial markets speaks to old age and potential reversal. After all, it's after the 5-day mark that we begin to question the staying power of bond rallies or sell-offs. We could also consider that the average month is positive for stocks over the past 5 years, or that central bank accommodation makes it a **bad idea** to consider the post-crisis sample. In other words, this past precedent doesn't mean we're due for a 6th straight May that is #winning.

The point is that **you shouldn't ever assume** any given market will do something simply because there's a cute little catchphrase. What you can assume is that stocks would have to sell rather aggressively in order for bonds to reap much benefit. That fact was hammered home by the relatively tepid bond market response to the flash crash in stocks back in early February.

As for today's bond market considerations, there is one major economic report at 10am (ISM Non-Manufacturing). If this week's preceding data is any indication, investors aren't too interested in econ data. Perhaps that would change if a report came out WAY off the mark, for better or worse. **The other consideration** is the challenge of the 2.95% technical level in 10yr yields. We're starting the day with a bit of a lead-off in that race (10's at 2.946%), but we'll need to hold those gains--and ideally, improve a few more bps--in order to make a stronger case for a technical break.

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About Casey Sullivan

Casey is a dedicated and dependable mortgage loan officer. His clients count on him to be their skilled, experienced, and focused consultant, listening to their needs.

He skillfully assists his clients with both refinancing and home purchases in California and more specifically the San Francisco Bay Area.

His vision is to build lifetime relationships with each client as their mortgage consultant...for life! He stays connected with each client well after closing which includes loan reviews and dependable market updates.

Casey believes that everyone deserves to completely understand their mortgage financing options and that one size does not fit all when it comes to mortgages. Nor does it apply when it comes to mortgage lenders. All lenders are not made the same and they are not all equal.

For a free consultation, contact Casey Sullivan today at 925-395-4212 or Casey@TheSullivanGrp.com

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