

# Sell in May and go away?

May 2019

The strong performance of risk assets year-to-date has increased focus on the potential returns from a “sell in May and go away” strategy. We explain why such an approach may not be warranted this year for investors in emerging market currencies.

## Will lightning strike again?

“Sell in May and go away” is a phrase that originates from the historical observation that US stock markets have tended to rise most between the months of November to April. In particular, May is cited as a frequent turning point for a period of negative performance in risk assets.

TABLE 1: AVERAGE MONTHLY PRICE RETURN PER DECADE FOR S&P 500 (%)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	May-Oct return	Nov-Apr return
1960-1969	0.94	-0.63	1.03	1.79	-1.20	-1.89	0.53	0.78	-0.39	1.68	1.74	0.65	-0.48	5.52
1970-1979	1.24	0.11	1.38	-0.06	-1.53	0.59	-0.35	0.20	-0.80	-0.46	0.27	2.27	-2.35	5.20
1980-1989	3.38	0.58	0.34	1.67	0.83	1.58	0.58	2.48	-1.26	0.41	1.76	0.90	4.63	8.65
1990-1999	1.62	1.53	0.79	1.34	2.41	0.61	1.26	-2.18	0.83	1.77	2.31	2.95	4.69	10.54
2000-2009	-1.75	-2.85	1.43	2.26	1.32	-1.48	-0.51	0.90	-2.36	0.08	0.88	0.63	-2.04	0.60
2010-2018	0.40	2.27	1.70	0.92	-0.64	-0.43	2.28	-1.23	0.56	2.32	1.43	0.21	2.85	6.94
Average	0.97	0.17	1.11	1.32	0.20	-0.17	0.63	0.16	-0.57	0.97	1.40	1.27	1.22	6.24

Source: Bloomberg, J.P. Morgan Asset Management; data as of 30 April 2019. Past performance is not a reliable indicator of current and future results.

It is not the case that stock returns in the period May to October have been particularly negative historically (Table 1 shows that on average they have been positive). However, returns have lagged those recorded in November-to-April periods on average.

Whether this historical observation will continue to hold into the future is the subject of much debate. There are those who argue that one cannot draw statistically significant conclusions from this analysis, while others will argue that the market is efficient and once a profitable statistical pattern is recognisable, it will be meaningfully arbitrated away in subsequent years. ‘Seasonality’ divides investors like few other investment strategies, and shifting investor preferences and flows certainly provide good reason not to rely on past seasonal patterns to predict future returns.

Emerging market currency performance has historically been positively correlated to risk asset sentiment because of the pro-cyclical drivers of emerging market returns (commodity prices, the global export cycle etc). Therefore, it would make sense if historical returns on emerging market currencies displayed much of the same seasonality as stock market returns. Table 2 shows that this is indeed the case.

May has been a particularly challenging month for emerging market currency performance in recent years as a number of identifiable negative market events (the Greek debt crisis, the taper tantrum, Italian political instability etc.) have promoted US dollar strength and emerging market currency weakness. However, although lightning may have struck in May several times, there is no specific reason to anticipate another lightning strike this year. Also, as a number of market stresses that have occurred in May in recent years have originated in the Eurozone, it is notable that May does not represent the weakest month of emerging market currency returns when funded out of euros.

TABLE 2: TOTAL RETURN ON BASKET OF EMERGING MARKET CURRENCIES FUNDED OUT OF US DOLLARS (%)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	May-Oct return	Nov-Apr return
2003-2008	0.08	1.04	-0.15	0.97	-0.23	-0.04	0.80	-0.15	1.70	1.50	1.83	1.24	2.08	6.51
2008-2013	-0.20	0.92	1.28	2.36	-1.19	1.38	2.01	-1.17	-1.06	-1.05	-1.32	0.92	-0.02	2.91
2013-2018	-0.88	0.88	1.44	1.48	-1.64	0.56	-0.35	-1.09	-0.65	0.46	-1.85	-0.75	-3.16	0.78
Average	-0.33	0.94	0.86	1.60	-1.02	0.63	0.82	-0.80	0.00	0.31	-0.45	0.47	-0.06	3.10

Source: Bloomberg, J.P. Morgan Asset Management; data as of 30 April 2019. Past performance is not a reliable indicator of current and future results.

## Valuations and fundamentals remain supportive

We believe the backdrop for risk asset performance remains supportive. Global growth is recovering from the downturn at the end of 2018, and central banks globally have shifted to a more accommodative stance, which is likely to be maintained for some time given weak global inflation pressures. Stock market performance has been strong year-to-date, although this has not been matched by emerging market currency returns, where aggregate total returns are disappointing at only ~+1% year to date.

Reflecting these mediocre returns, we do not believe speculative long positioning in emerging market currencies is excessive and hence we are not entering May from a starting point of stretched valuations or positioning. It is also the case that emerging market currency fundamentals are, on aggregate, relatively sound compared to previous years (for example, external balances are healthy) and we anticipate future positive news on China/US trade negotiations and further evidence that Chinese stimulus measures are starting to promote stronger levels of Chinese growth. This backdrop should prove supportive for emerging market currency outperformance, with higher yields also attracting portfolio flows set against a backdrop of low yields in developed markets.

We are therefore cautious on the “Sell in May and go away” strategy as it relates to emerging market currencies in 2019 from a statistical, valuation and fundamental perspective. Instead, we prefer to position for emerging market currency outperformance against a diversified funding basket of developed currencies to help guard against further unanticipated US dollar strength.

## PORTFOLIO INSIGHTS

**Currency Management**

Since our first segregated currency overlay mandate funded in 1989, J.P. Morgan Currency Group has grown to manage a total of USD 356 billion in bespoke currency strategies. Our clients include governments, pension funds, insurance clients and fund providers. Based in London, the team consists of 20 people dedicated exclusively to currency management with an average of over 15 years of investment experience.

We offer a range of hedging solutions for managing currency risk as well as a tailored optimal hedge ratio analysis:

- Passive currency hedging serves to reduce the currency volatility from the underlying international assets. It is a simple, low cost solution designed to achieve the correct balance between minimising tracking error, effectively controlling transaction costs and efficiently managing cash flows.
- Dynamic 'intelligent' currency hedging aims to reduce currency volatility from the underlying international assets and add long-term value over the strategic benchmark. A proprietary valuation framework is used to assess whether a currency looks cheap or expensive relative to the base currency and the hedging strategy is adjusted accordingly.
- Active 'alpha' currency overlay strategy offers clients' passive currency hedging, if required, combined with an active investment process to deliver excess returns relative to the currency benchmark. Our approach is to build a global currency portfolio combining the output of fundamental models and incorporating the qualitative views of our strategy team.

**NOT FOR RETAIL DISTRIBUTION.**

This communication has been prepared exclusively for institutional, wholesale, professional clients and qualified investors only, as defined by local laws and regulations.

The views contained herein are not to be taken as advice or a recommendation to buy or sell any investment in any jurisdiction, nor is it a commitment from J.P. Morgan Asset Management or any of its subsidiaries to participate in any of the transactions mentioned herein. Any forecasts, figures, opinions or investment techniques and strategies set out are for information purposes only, based on certain assumptions and current market conditions and are subject to change without prior notice. All information presented herein is considered to be accurate at the time of production. This material does not contain sufficient information to support an investment decision and it should not be relied upon by you in evaluating the merits of investing in any securities or products. In addition, users should make an independent assessment of the legal, regulatory, tax, credit and accounting implications and determine, together with their own professional advisers, if any investment mentioned herein is believed to be suitable to their personal goals. Investors should ensure that they obtain all available relevant information before making any investment. It should be noted that investment involves risks, the value of investments and the income from them may fluctuate in accordance with market conditions and taxation agreements and investors may not get back the full amount invested. Both past performance and yield are not a reliable indicator of current and future results. J.P. Morgan Asset Management is the brand for the asset management business of JPMorgan Chase & Co. and its affiliates worldwide. To the extent permitted by applicable law, we may record telephone calls and monitor electronic communications to comply with our legal and regulatory obligations and internal policies. Personal data will be collected, stored and processed by J.P. Morgan Asset Management in accordance with our Company's Privacy Policy ([www.jpmorgan.com/global/privacy](http://www.jpmorgan.com/global/privacy)). For further information regarding our local privacy policies, please follow the respective links: Australia (<https://www.jpmorganam.com.au/wps/portal/aucc/PrivacyPolicy>), EMEA ([www.jpmorgan.com/emea-privacy-policy](http://www.jpmorgan.com/emea-privacy-policy)), Hong Kong ([www.jpmorganam.com.hk/jpm/am/en/privacy-statement](http://www.jpmorganam.com.hk/jpm/am/en/privacy-statement)), Japan ([www.jpmorganasset.co.jp/wps/portal/Policy/Privacy](http://www.jpmorganasset.co.jp/wps/portal/Policy/Privacy)), Singapore (<http://www.jpmorganam.com.sg/privacy>) and Taiwan (<https://www.jpmorgan.com/country/GB/en/privacy/taiwan>).

This communication is issued by the following entities: in the United Kingdom by JPMorgan Asset Management (UK) Limited, which is authorized and regulated by the Financial Conduct Authority; in other European jurisdictions by JPMorgan Asset Management (Europe) S.à r.l.; in Hong Kong by JF Asset Management Limited, or JPMorgan Funds (Asia) Limited, or JPMorgan Asset Management Real Assets (Asia) Limited; in Singapore by JPMorgan Asset Management (Singapore) Limited (Co. Reg. No. 197601586K), or JPMorgan Asset Management Real Assets (Singapore) Pte Ltd (Co. Reg. No. 201120355E); in Taiwan by JPMorgan Asset Management (Taiwan) Limited; in Japan by JPMorgan Asset Management (Japan) Limited which is a member of the Investment Trusts Association, Japan, the Japan Investment Advisers Association, Type II Financial Instruments Firms Association and the Japan Securities Dealers Association and is regulated by the Financial Services Agency (registration number "Kanto Local Finance Bureau (Financial Instruments Firm) No. 330"); in Australia to wholesale clients only as defined in section 761A and 761G of the Corporations Act 2001 (Cth) by JPMorgan Asset Management (Australia) Limited (ABN 55143832080) (AFSL 376919); in Brazil by Banco J.P. Morgan S.A.; in Canada for institutional clients' use only by JPMorgan Asset Management (Canada) Inc., and in the United States by JPMorgan Distribution Services Inc. and J.P. Morgan Institutional Investments, Inc., both members of FINRA; and J.P. Morgan Investment Management Inc. (In APAC, distribution is for Hong Kong, Taiwan, Japan and Singapore. For all other countries in APAC, to intended recipients only).

Copyright 2019 JPMorgan Chase & Co. All rights reserved.

LV-JPM52080 | 05/19 | 0903c02a82528d04