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MARKET FACTS

A Historical Look At The Markets

June 5, 2001

Seasonal Pattern Update

For those fans of seasonal patterns, June marks an important point during any given year.

Positive Seasonals for Treasuries

Chart 1 shows the monthly seasonal pattern for Long-Term Government Bonds. **Chart 2** shows the seasonal pattern for the 5-Year Treasury Note. These seasonal patterns were constructed using total return data.

June ranks as the third best month for both the Long-Term Government Bond and the 5-year Treasury Note. Only the September to November period has a better seasonal pattern.

This comes after four below average seasonal months, and is the first time since January that the Treasury market has a good seasonal pattern.

Poor Seasonals for Corporate Bonds

Chart 3 shows the monthly seasonal pattern for long-term corporate bonds. **Chart 4** shows the monthly seasonal pattern of long-term corporate bonds relative to Long-Term Government Bonds. These seasonal patterns were constructed using total return data.

June is also a good absolute return month for long-term corporate bonds, as it ranks fourth overall. However, relative to Long-Term Government Bonds, June is the **worst** performing month of the year for spread product.

Poor Seasonals for the S&P 500

Chart 5 shows the monthly seasonal pattern for the S&P 500 back to 1926. **Chart 6** shows the S&P 500 starting in 1981.

Wall Street folklore often talks about a "summer rally." Chart 5 seems to confirm this myth, as June,

July and August are three of the better months of the year. However, this seasonal pattern has not worked for almost 20 years! As Chart 6 shows, June, July and August are three of the worst performing months of the year. We would argue the last 20 years is the more relevant pattern to watch.

Poor Seasonals for Small Cap Stocks

Chart 7 shows the monthly seasonal pattern for small cap stocks. **Chart 8** shows the monthly seasonal pattern of large cap stocks relative to small cap stocks. These seasonal patterns were constructed using total return data. The definition of small cap and large cap is noted on these charts.

Like the S&P 500 (a large cap proxy), small cap stocks also have a poor absolute seasonal pattern in June, July and August. On a relative basis, June marks the end of small cap out-performance. From January through May, small cap stocks typically outperform large cap stocks. This again has been the case this year. From June through year-end, large cap stocks outperform small cap stocks **in every month**.

Conclusion

The intention of this *Market Facts* is not to present a forecast based on these seasonal patterns. Rather, we want to lay out the facts as to what the historical seasonal patterns are, and let the reader decide their usefulness.

If the markets follow the seasonal patterns, what will happen? Treasuries will do well. Spreads will widen. Stocks will falter with small caps doing worse. What story fits these patterns? An economy that continues to slow coupled with increased talk of a recession could be the story.

Chart 1

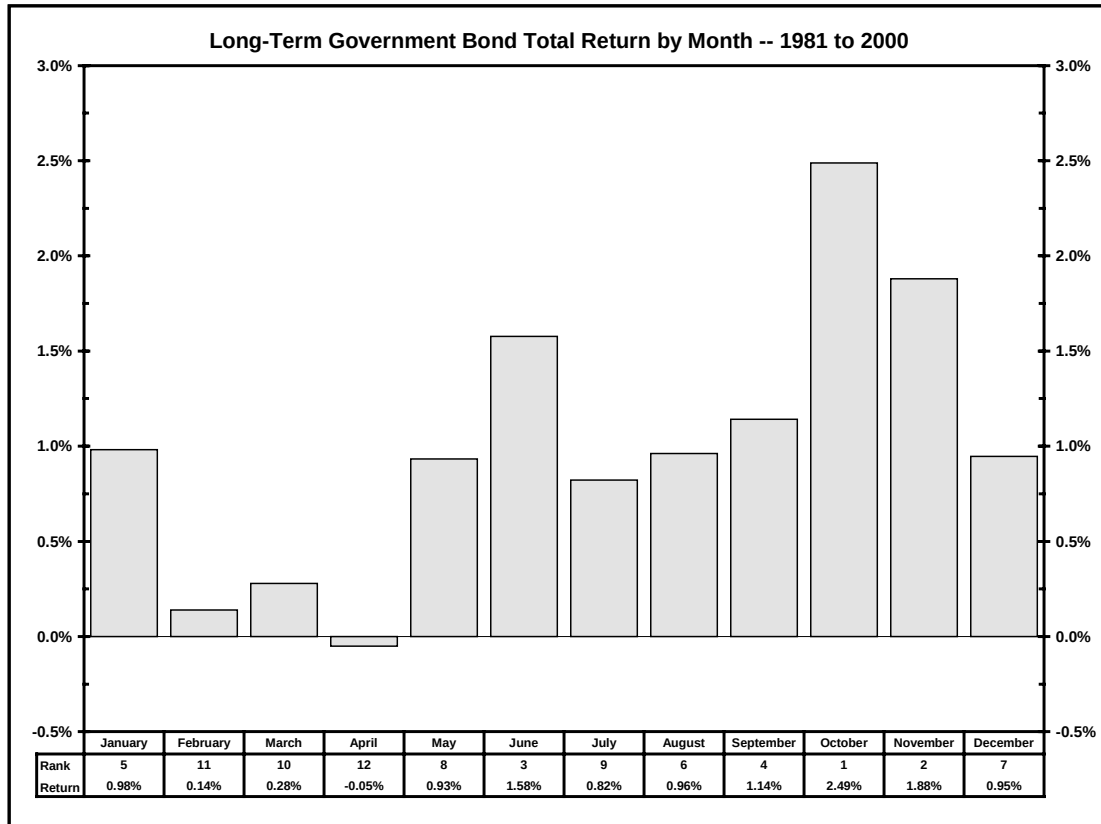


Chart 2

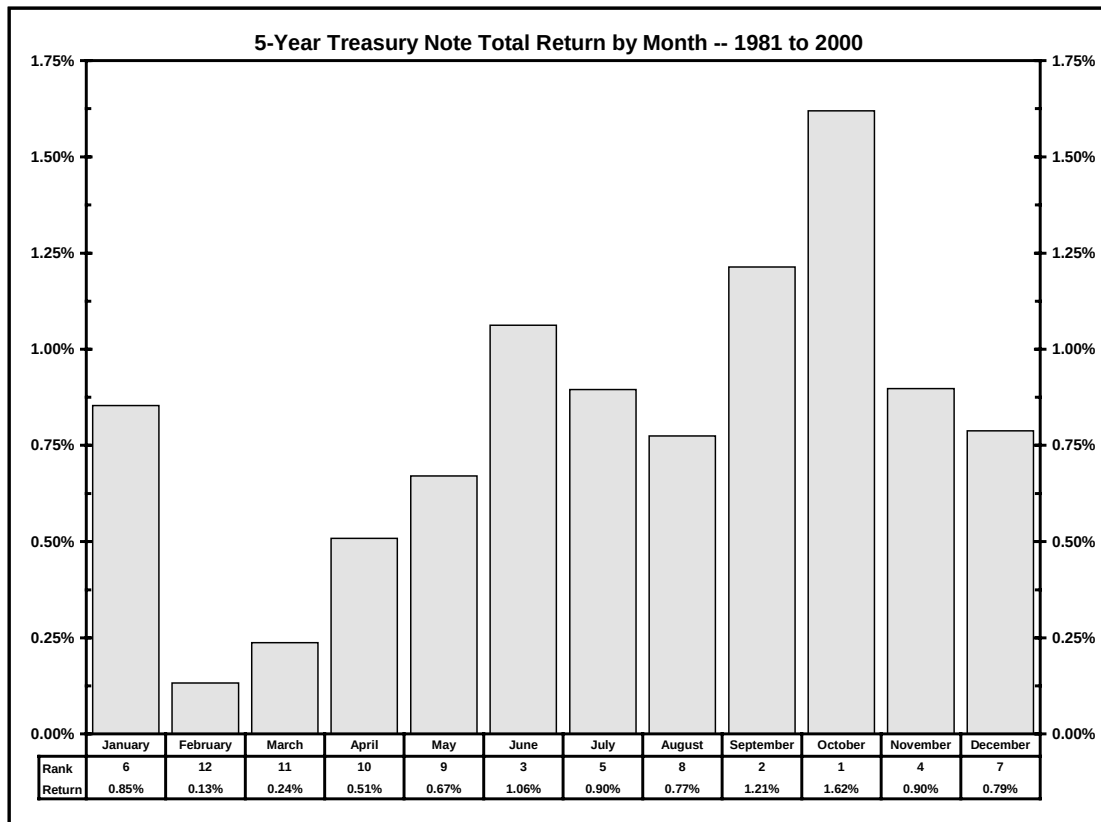


Chart 3

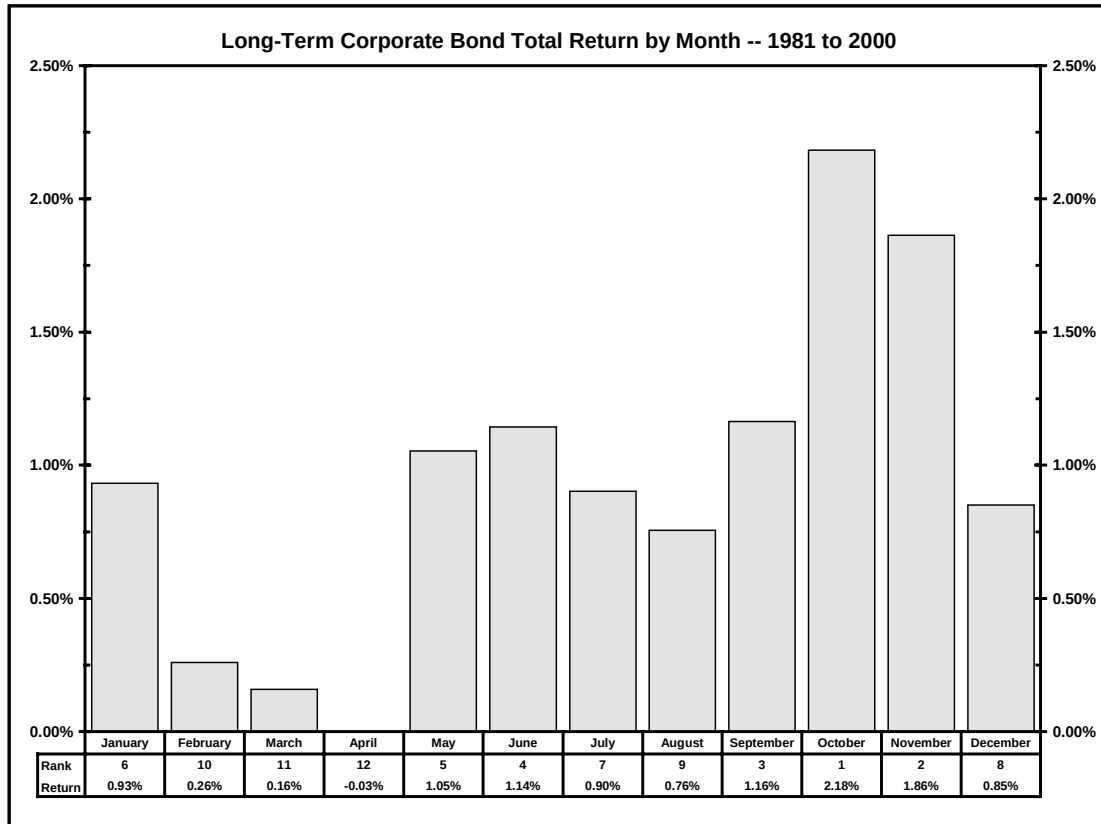


Chart 4

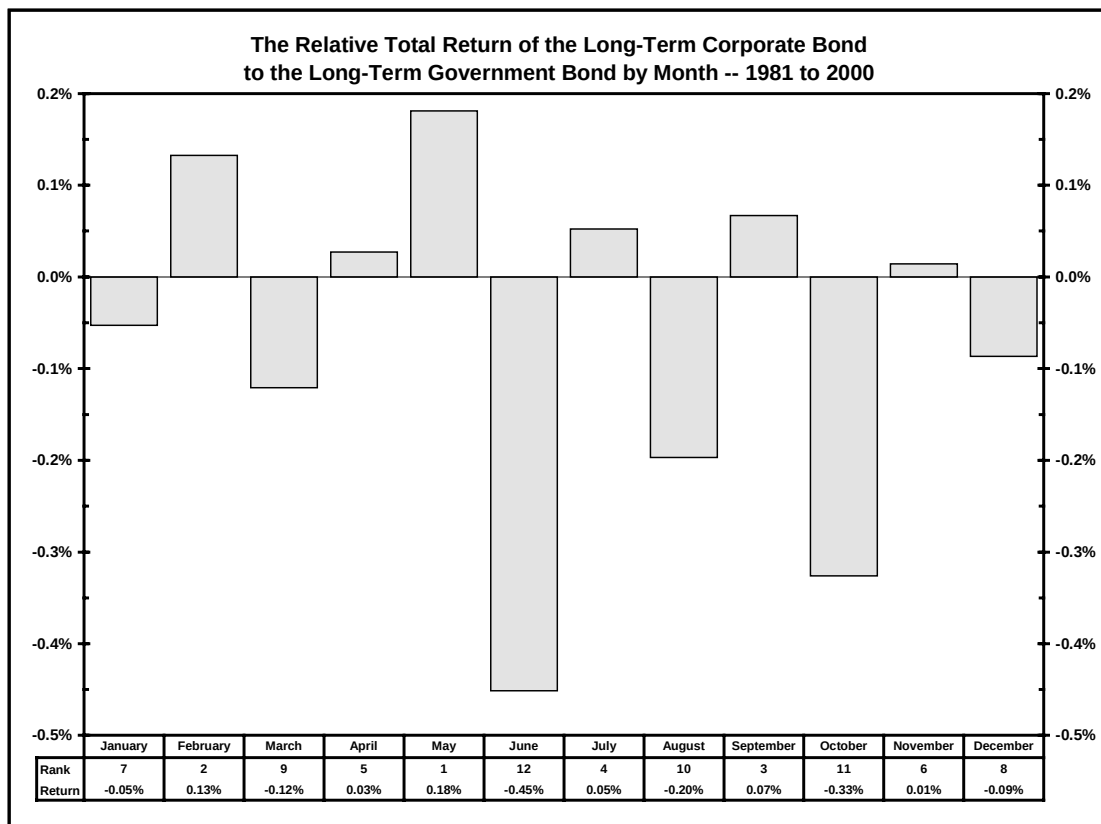


Chart 5

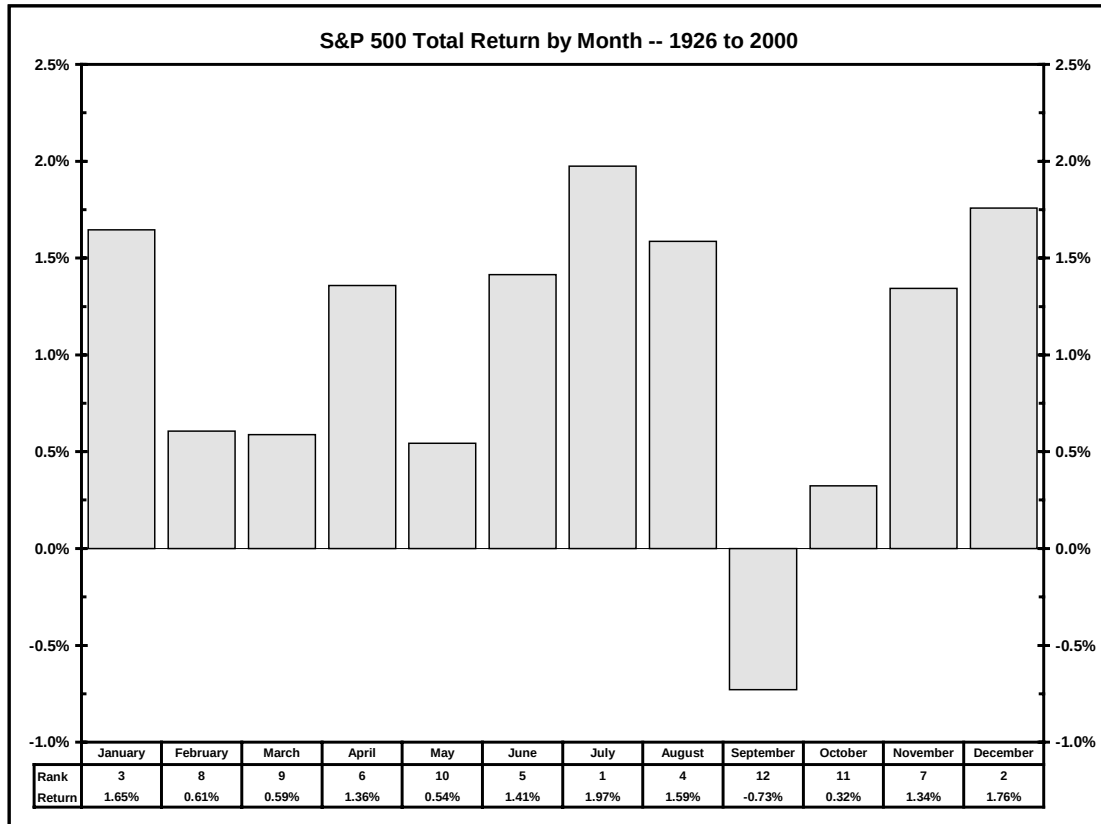


Chart 6

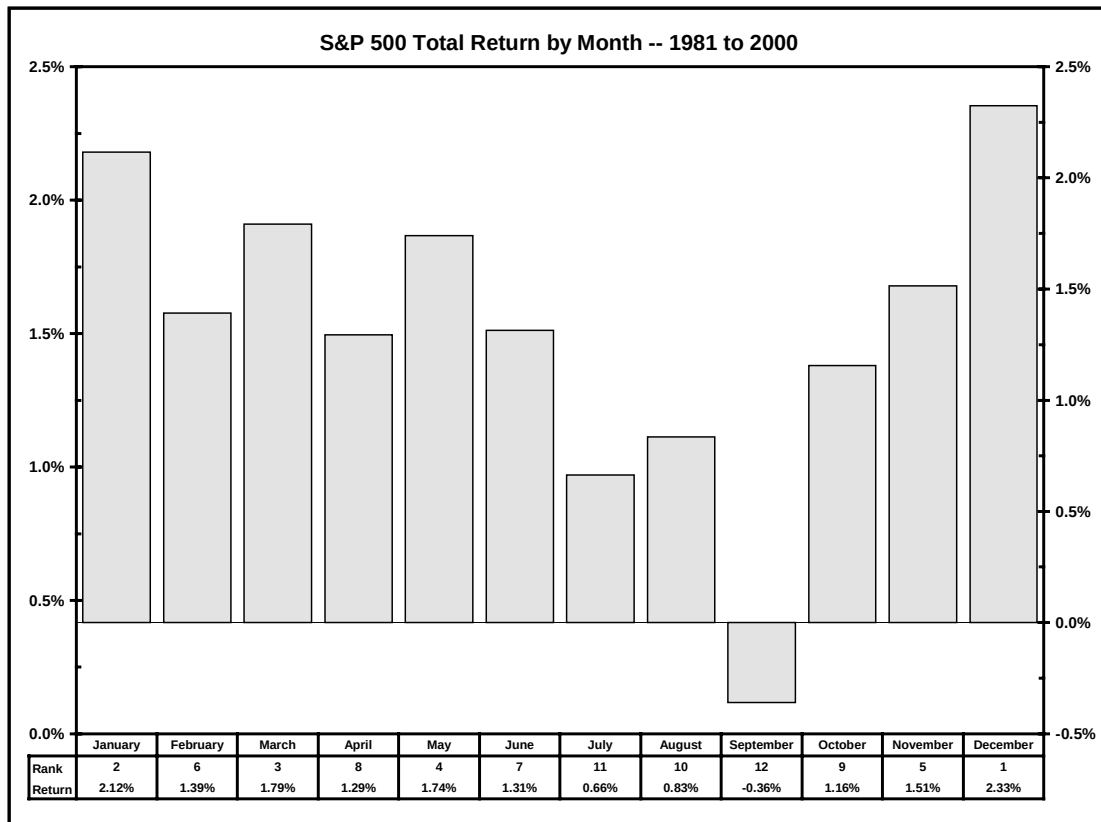


Chart 7

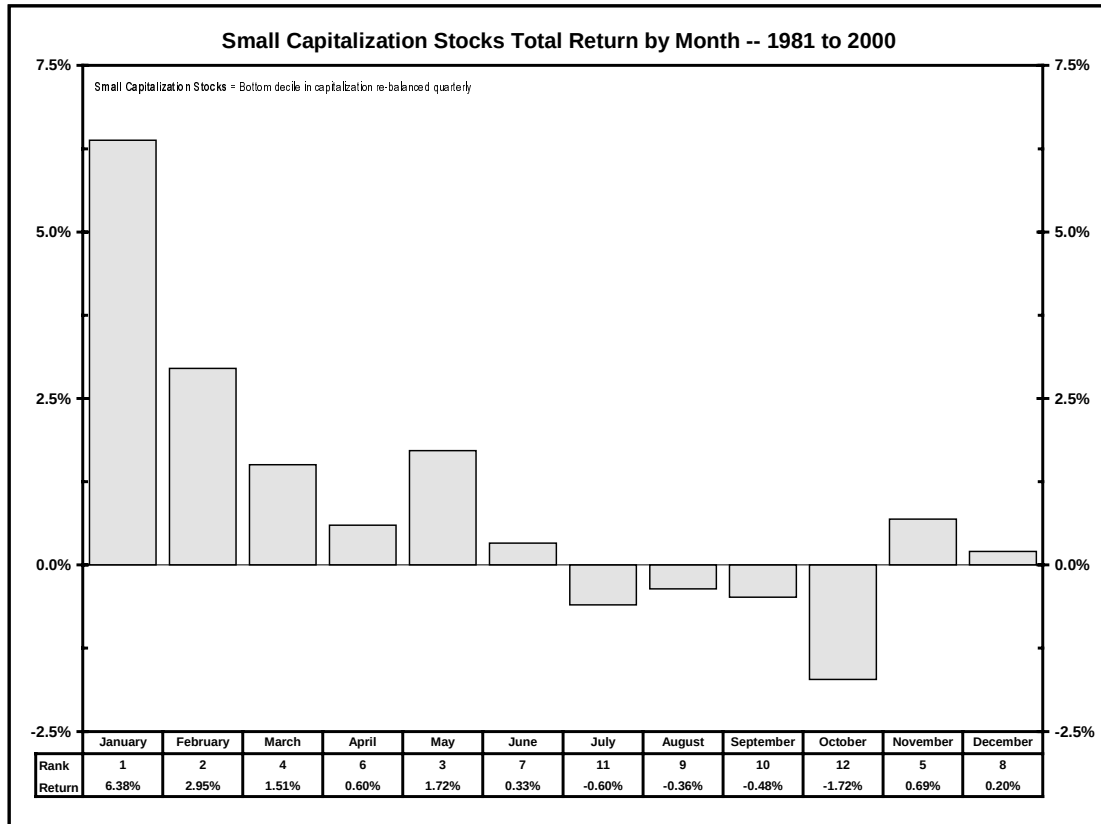


Chart 8

