



# February could be rough for stocks

Adam Shell , USA TODAY Feb. 1, 2017

Investors beware: February, already known as a blah month for the stock market, has an even more dreary performance record when a new president is in his first term.

Since 1928, February has been the third-worst month of performance for the Standard & Poor's 500 stock index, with an average loss of 0.05%, according to Bank of America Merrill Lynch data. But February morphs into the worst month of the year and the losses mushroom to nearly 4% when freshly elected presidents like Donald Trump are early in their first term at the White House. The large-company S&P 500 has finished lower more than 75% of the time in February during presidents' first terms.

Wall Street is typically hit with a plethora of new policy proposals from an incoming president's new administration that creates uncertainty, lots of change and many unanswered questions on issues related to the economy, trade, jobs, taxes and financial markets.

This year is no different. The early Wall Street euphoria and resulting stock rally since Election Day powered by Trump's proposals to boost U.S. businesses by slashing corporate taxes and reducing red tape has given way this week to an emerging investor caution and concern over President Trump's protectionist and isolationist tendencies. The rise of policy risk under Trump has gained credence following his temporary immigration ban on a handful of Muslim-dominated countries and his fight with Mexico over who will pay for a wall along the USA's southern border.

"February is historically a tough month where we typically see selloffs," says Bill Stone, chief investment strategist at PNC Asset Management. "The market weakness tends to coincide with the reality of the new president getting down to governing versus all the good feelings prior."

Wall Street's retrenchment so far this week, with two straight 100-point-plus losses for the Dow illustrates how investors can reassess the potential impact that a president's policy decisions can have on the outlook for the economy and stocks.

Trump's controversial decision to ban refugees and immigrants from Muslim-majority countries, for example, has raised fears that some of his policies will actually hurt the economy by taking his focus off moves like lowering the corporate tax rate, rolling back regulations and pushing through fiscal spending that are viewed as more market friendly.

"Could Trump's 'ready, fire, aim' management style and ... his contentious policy directives endanger the U.S. economy?" **Bernard Baumohl, chief global economist at The Economic Outlook Group**, wondered in a report to clients.

The stock market's recent struggles come at a time when it is expensive relative to history and, therefore, prone to falling if Trump is unable to fast-track his market-friendly moves. The market has gone 75 days without a 1% daily drop, its fifth-longest streak since 1980, according to Choice Investment Management, which says a 5%-plus market drop is possible.

The market could also be vulnerable due to investor complacency since the so-called "Trump Rally" began more than two months ago, adds Stephen Suttmeier, a technical research analyst at BofA Merrill Lynch.

Still, while seasonal forces suggest there's a possibility of a "February dip," according to Suttmeier, the stock market might also be setting up for a "rip" higher during what has historically been a very bullish March-through-July period. Gains in that span during a president's first term have averaged more than 11% going back to 1928, Bof A data show.

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