osaic

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The September Effect: From Fall Slowdown to Year-End Rally

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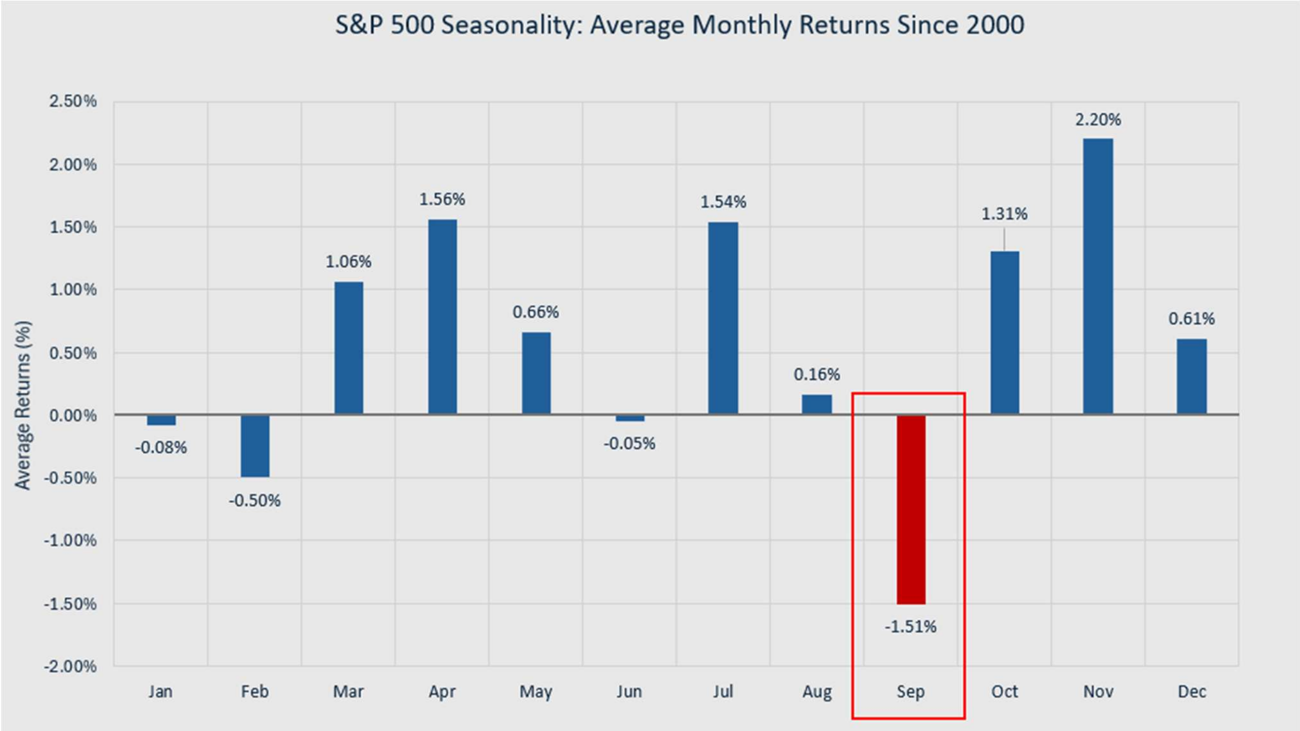
September has gained a reputation as the stock market's weakest month of the year; a seasonal pattern often referred to as the "September Effect." In fact, over the past 25 years, the S&P 500 has posted an average return of -1.51%[1] and finished negative 13 times, including recently in four of the last five years. What has historically driven September's underwhelming market performance?



While the exact causes of the September Effect are not certain, several factors have been identified as possible reasons for the weaker performance. First, many mutual funds end their fiscal year in September, so managers often sell losing positions for tax purposes, adding selling pressure to the market. At the same time, traders return from summer vacations and readjust portfolios, leading to a noticeable jump in trading volume and volatility. Additionally, some retail investors also sell to free up cash for back-to-school or tuition expenses. Finally, because September has a history of weak returns, investors sometimes anticipate declines and sell early, making the pattern somewhat self-fulfilling.

While September has often brought volatility and weaker returns, there is a silver lining in what tends to follow. Historically, the fourth quarter has been the market's strongest of the year, averaging a 4.11% gain over the last 25 years. A mix of stronger Q3 earnings, holiday spending, and year-end optimism often provides fuel for markets during this stretch. For long-term investors, September's bouts of weakness can even create attractive entry points ahead of the typically strong fourth quarter. Even though September often brings excess volatility, it's usually less of a lasting setback and more of a seasonal pause before the market gains momentum into year-end.

Index Definitions

S&P 500: The S&P 500® is widely regarded as the best single gauge of large-cap U.S. equities and serves as the foundation for a wide range of investment products. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.

Disclosures

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[1] S&P 500 PR Morningstar Data through 8.31.2025