Home > Insights > Market views

Market View
Should investors still worry about the September slump?

from Jeremy Sterngold Deputy Chief Investment Officer

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At a glance

It is widely known that September is a difficult month for equities.

This year bucked this trend as lower interest rates buoyed the S&P 500.

Market moves are driven by expectations.

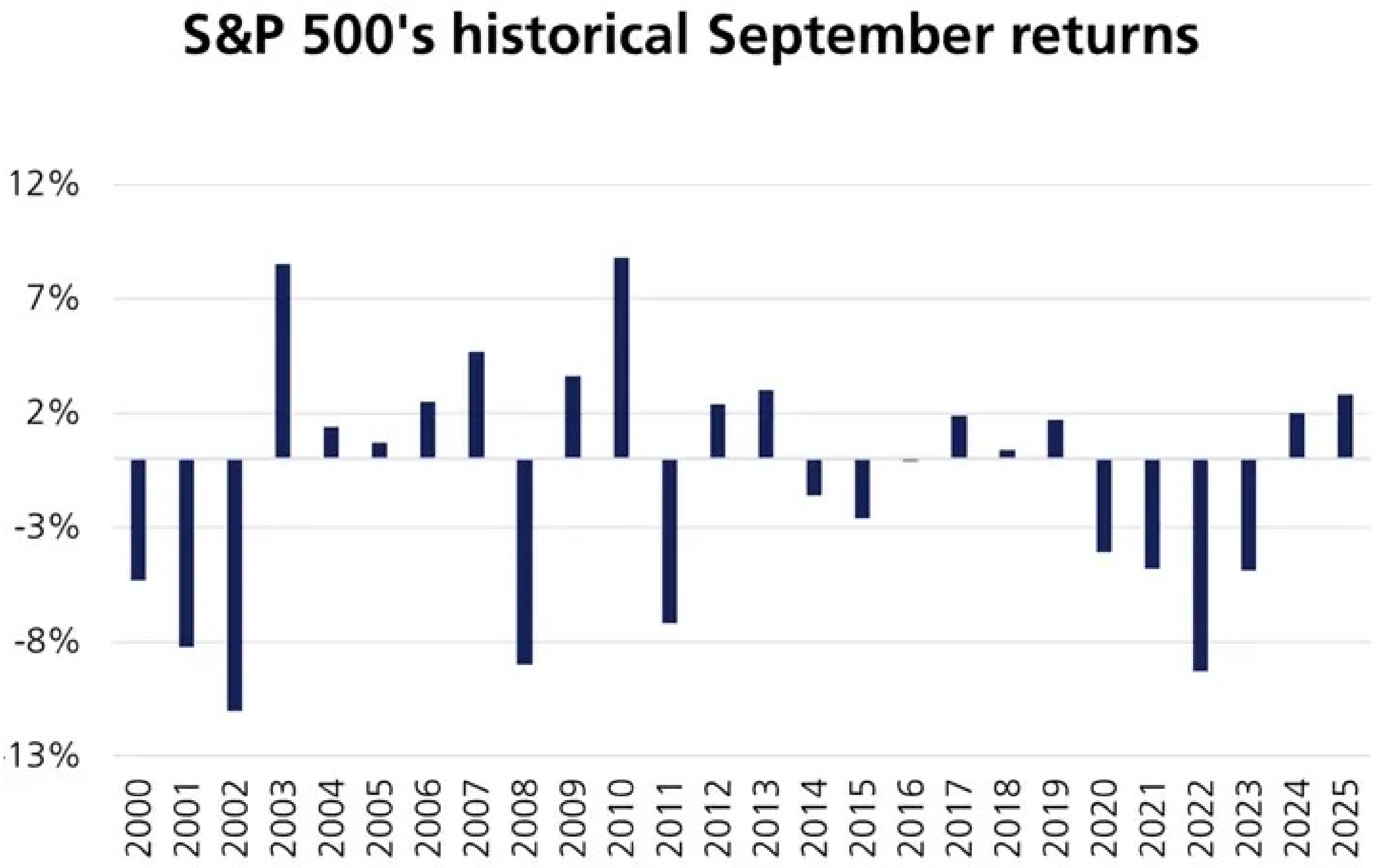
September has a reputation for being a challenging market for global stock markets. Going back nearly a century, equities tend to underperform in September more compared to any other month.[1]

This year has seen plenty of ups and downs, including tariff-related turbulence, followed by a strong rally in global equity markets. The S&P 500 rose 10.8% through the end of August while the MSCI World rose 5.5% in pound terms. Given September's reputation, many expected a reversal, but this year, equities bucked the trend, with the S&P 500 rising 2.3% and the MSCI World up 3.1% in sterling terms through 25 September.

What is the "September Effect"?

There are several reasons why September has historically been a difficult month for equities. One is seasonality. There is the longstanding theory that investors return to work from the summer holidays and rebalance their portfolios or take profits, which results in selling pressure. Tax and fiscal year dynamics have also played a role. In some jurisdictions, mutual funds and institutions may sell holdings before fiscal year-ends – for example, the tax year ends in September for mutual funds in the US – contributing to downward pressure. There is also a belief that individual investors liquidate stocks going into September to offset school fees.

Now, most economists believe the so-called September Effect has faded. Market participants are aware of it and may adjust their behaviour accordingly, such as selling in August instead. Notably, major September selloffs have become rarer since the 1990s.[2]



Source: Bloomberg

Why was this September different?

The 2.3% jump in the S&P 500's performance this September can be partly attributed to expectations ahead of the Federal Reserve (Fed) most recent rate cut and the belief that it will lower rates further in 2025. Interest rate cuts benefit equities for several reasons:

1. Lower interest rates make it less expensive for companies to borrow money for investment, expansion and share buybacks, which improves earnings and boosts share prices.
2. Companies generally benefit from improved profit margins when financing costs are lower.
3. Stocks become more attractive than bonds, as investors seek higher returns. This means more capital is allocated to equity markets.
4. Lower rates eventually trickle down to consumers, who pay less interest on loans and mortgage rates, freeing up more cash to spend.

Conclusion

While historical trends like the "September Effect" can influence short-term sentiment, they are only one piece of a much larger puzzle. Economic fundamentals, monetary policy decisions, and investor psychology all drive equity performance. Markets are forward-looking. When investors anticipate a shift in central bank policy, such as cutting interest rates, they often react in advance. This is evident as major market moves are often driven more by expectations. This brings to mind the old phrase “buy the rumour, sell the fact.”

Seasonal patterns and historical averages provide helpful context, but making investment decisions based purely on the time of year can lead to undesirable outcomes. Underlying economic trends, fiscal and monetary policy direction, and individual portfolio objectives are far more important. Diversification and a disciplined approach are crucial when navigating market cycles, whether we witness a slump or a surprise rally in September.

[1] September Effect: Definition, Stock Market History, Theories

[2] September Effect: Definition, Stock Market History, Theories

About the author

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Jeremy is our Deputy Chief Investment Officer. He sits on the Investment Committee and chairs the Fixed Income Committee. His coverage encompasses both rate and credit products and works closely with the funds team.

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