THE SANTA CAUSE

Near the end of the year, investors look forward to what is called the “Santa Claus rally,” when the equity market often rallies through the last five trading days of the year and the first two trading days after New Year’s. Why this happens as often as it does is subject to explanations like increased holiday shopping, optimism fueled by the holiday spirit, the traditional end to most institutional tax selling by the middle of the month, or institutional investors settling their books before going on a year-end break. Whichever is the cause, it probably is wise not to look a gift “reindeer” in the mouth if the market does well late in the year.

In more than two-thirds of the Decembers in the past 72 years, the average cumulative return during the Santa Claus rally period was 1.3%, and returns on average were positive in each of the seven days of the rally.

Anyone that believes in the Santa rally had their conviction tested severely in 2018 when the S&P 500 fell from 2,800.18 on December 3, 2018, to as low as 2,346.58 (-16.2%) the day after Christmas.

On cue, however, the S&P 500 rallied off the intraday low to end the session up 4.96%, on its way to recapturing the December 3, 2018 high by mid-March and more than 3,000 by July 12, 2019.

Stretching the Santa myth to include the stock market makes for an interesting story, but seasonal patterns probably have the most influence on what happens late in December.

As Chart 1 below shows, December on average is one of the best months of the year. The market typically hits its December low around mid-month and then rallies into New Year’s.

Once a new year dawns, attention turns to how the market does in the first five days of the year and the entire month of January, as history suggests that both periods foretell what the equity market will do for the entire year. In the past 20 years, however, the S&P 500 posted a gain in only 10 years for an average 0.05% loss, but the S&P 500 was up for the entire year in 70% of all years 2000 through 2020 inclusive.
Optimism often pervades the stock market when Santa’s arrival is imminent. This year is no exception. The average 2021 targets for the S&P 500 from 11 major Wall Street firms was 4,073. The average from 12 major firms for 2022 is 4,976, extending from as low as 4,400 to as high as 5,300.

As indicated in the Investment Strategy Group 2022 Outlook report (available at Janney.com or from your Janney Financial Advisor), our view is that the S&P 500 optimistically could move up to as high as 5,200, with 5,000 as a reasonably attainable objective.

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