Key Questions

Are Stocks Headed Higher for the Holidays?

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The holiday season is a time for giving, one that often uplifts our spirits. That same sentiment is present in the market, except it tends to give us gains in portfolios and uplifts stock price.

On Thanksgiving this year, U.S. equity investors had plenty for which to be thankful. A strong labor market, higher wages, and a confident consumer have created a lovely cornucopia to spur a booming stock market. Through November 30, the S&P 500 Index was up a robust +25.3%. With the first week of December in the books, the thick of peak shopping season is here and holiday parties have already begun. To get a sense of where the market may be headed as the end of the year approaches, let's examine the phenomenon of market seasonality.

Market seasonality can be defined as a feature of market performance that reflects regular and recurring fluctuations or patterns over time. The study of these market patterns has produced adages such as "sell in May and go away" and "as goes January, so goes the year." The latter is apt for 2019: The S&P 500 had a tremendous rally in January this year, advancing +7.9%. Since 1958, the average monthly return for January is +1.2%. Only eight other Januaries have had such a high deviation to the upside: 1961 (+6.3%), 1967 (+7.8%), 1975 (+12.3%), 1976 (+11.8%), 1985 (+7.4%), 1987 (+13.2%), 1989 (+7.1%), and 1997 (+6.1%).

S&P 500 Return			
Year	January	December	Annual
1961	6.3	0.3	26.6
1967	7.8	2.6	23.8
1975	12.3	-1.2	37.0
1976	11.8	5.3	23.8
1985	7.4	4.5	31.2
1987	13.2	7.3	5.8
1989	7.1	2.1	31.5
1997	6.1	1.6	33.1
Average	**9.0**	**2.8**	**26.6**
2019	**7.9**	**?**	**?**

Moreover, more than any other month, December has been associated with positive returns: The average return in December is +1.3%, and positive returns have occurred 73% of the time.

In the eight years with strong Januaries like 2019, the average December return was +2.8% and positive returns occurred 88% of the time. All years posted positive gains, with an average total return of +26.6% (see table above).

A contributing factor to a historically strong December may be what's known as the "Santa Claus Rally." This is another analysis of market seasonality that looks at the last five trading days of December and the first two trading days of January. The historical average return during these seven trading days is +1.7%, with positive returns occurring 76% of the time. In the eight years with strong Januaries, Santa Claus Rallies beginning in those years had an average return of +2.1% and occurred 88% of the time. What's more encouraging is that the market had an average return of +10.0% in the subsequent year and moved higher in five out of eight years.

Year	Santa Claus Rally Return
1961	1.1
1967	1.3
1975	3.8
1976	-0.9
1985	0.6
1987	3.0
1989	3.3
1997	4.8
Average	2.1

Year	S&P 500 Return
1962	-8.8
1968	11.0
1976	23.8
1977	-7.2
1986	18.7
1988	16.6
1990	-3.2
1998	28.6
Average	10.0

The holiday season is a time for giving, one that often uplifts our spirits. That same sentiment is present in the market, except it tends to give us gains in portfolios and uplifts stock price. And with three weeks left in 2019, if seasonality tells us anything, it's that the upcoming days should be merry and bright.

For more information, please contact your Key Private Bank Advisor.

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Sources: Table 1: Bloomberg, Table 2: DataTrek Research