

# Will 2021 see a Santa Claus Rally?

## What is the Santa Claus Rally and January Effect?

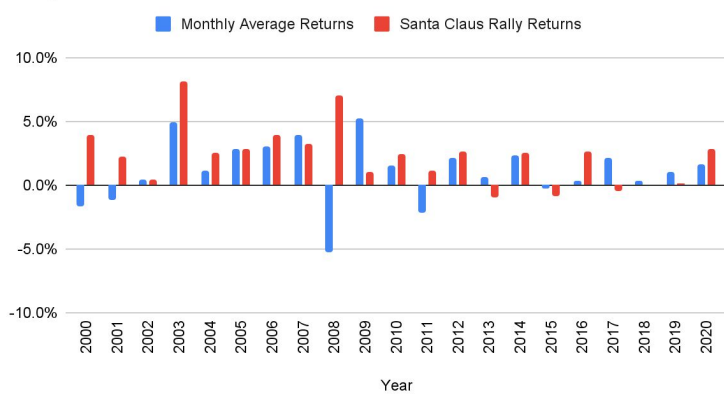
- A **Santa Claus** rally is a seasonal phenomenon that involves a **rise** in stock prices during the **last 5 trading days** in December and the **first 2 trading days in the following January**. It refers to the jump in stock prices in the week between Christmas and New Year's Day.
- Since 1950, the S&P 500 has gained an average of 1.3% during Santa Claus rally periods, according to The Stock Trader's Almanac.
- This phenomenon is usually discussed during the early weeks of December as people start to feel more optimistic about the upcoming year.
- The **January effect** is a hypothesis that there is a seasonal anomaly in the financial market where securities' **prices increase in the month of January** more than in any other month.

### Factors behind Santa Claus Rally

- Fund managers rebalancing their portfolios before the year end.
- Increased investor purchases in anticipation of the rise in stock prices during the month of January along with general feeling of optimism and happiness on Wall Street.
- Lighter volume due to holiday vacations makes it easier to move the market higher.
- A slow down in tax-loss harvesting that depresses prices at the beginning of December.

## Evidence from the Market

Nifty Returns Since 2000



Average Returns since 2000

Index	Monthly	Santa Claus Rally	# of +ve Returns out of 21 yrs
S&P 500	0.53%	0.83%	14
HANGSENG	0.29%	1.46%	15
NIFTY	1.12%	2.25%	18
CAC40	0.18%	1.12%	15
FTSE100	0.09%	1.01%	16
DJI	0.51%	0.72%	15

- Historical statistics show that the American markets have a higher probability of positive returns during Santa Claus rally periods. We tested this hypothesis on the Indian and other prominent equity markets.
- Since 2000, average monthly return of Nifty is 1.12% whereas average return during Santa Claus Rally periods is 2.25%. In last 21 years, Nifty gave negative returns just 3 times during this period.
- Similarly, some of the prominent global indices showed a similar picture where Santa Claus period returns outperformed the monthly returns.
- Though past results can never guarantee future performance, the data seems to support that rallies during these time periods happen more often. 2021 has already been a stellar year for equity, so will there be a Santa Claus rally this year as well? Let's wait and watch.

Source:- Wikipedia, Investopedia, Yahoo Finance