

Will 2022 see a Santa Claus Rally?

What is the Santa Claus Rally and January Effect?

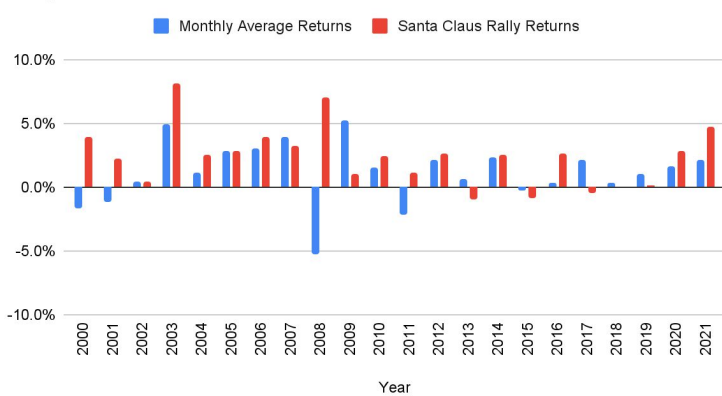
- A **Santa Claus** rally is a seasonal phenomenon that involves a **rise** in stock prices during the **last 5 trading days** in December and the **first 2 trading days in the following January**. It refers to the jump in stock prices in the week between Christmas and New Year's Day.
- Since 1950, the 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 22
S&P 500	0.48%	0.86%	15
HANGSENG	0.22%	1.41%	16
NIFTY	1.11%	2.36%	19
CAC40	0.18%	1.22%	16
FTSE100	0.11%	1.04%	17
DJI	0.50%	0.79%	16

- 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 1.11% whereas average return during Santa Claus Rally periods is 2.36%. In last 22 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. Returns of December, 2022 till now is -3.34%. so will there be a Santa Claus rally this year as well? Let's wait and watch.

Source:- Wikipedia, Investopedia, Yahoo Finance