

# 2023's Finale: Will the Santa Claus Rally Follow Indian Market Triumph?

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

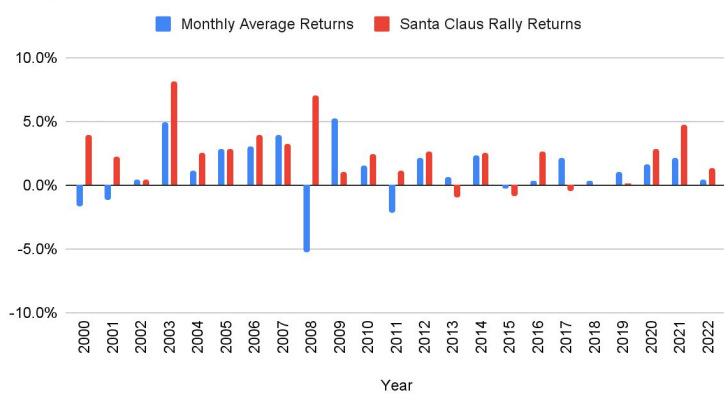
- A **Santa Claus** rally is a seasonal phenomenon that involves a **rise** in stock prices during the **last 5 trading days** in December and the **first 2 trading days in the following January**. It refers to the jump in stock prices in the week between Christmas and New Year's Day.
- Since 1950, the 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 23
S&P 500	0.50%	0.83%	16
HANGSENG	0.18%	1.61%	17
NIFTY	1.09%	2.32%	20
CAC40	0.21%	1.34%	17
FTSE100	0.10%	1.06%	18
DJI	0.50%	0.76%	17

- 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 1.09% whereas average return during Santa Claus Rally periods is 2.32%. In last 23 years, Nifty gave negative returns just 3 times during this period.
- Though past results can never guarantee future performance, the data seems to support that rallies during these time periods happen more often.
- In a remarkable symphony of gains, the Indian markets have soared, notching an impressive 17% increase this year. Nifty Returns of December,22 till now is 5.57%, so will there be a Santa Claus rally this year as well? Let's wait and watch.

Source:- Wikipedia, Investopedia, Yahoo Finance