

Is The Santa Claus Rally Myth a Reality or Not?

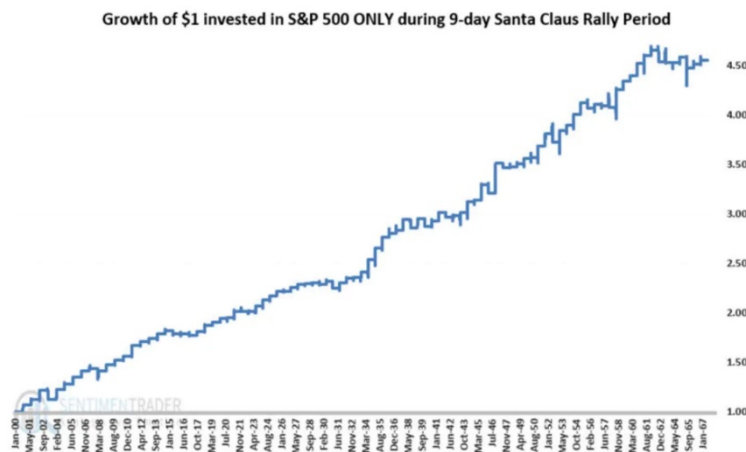
By Bob Deitrick, CEO of Polaris Financial Partners

December 28th, 2021

All of us parents know that Santa is real. He is embedded in our hearts as kids and in the hearts of our children and grandchildren as we mature. There is also a myth called the Santa Claus Rally; however, the Santa Claus Rally Myth is often real as well. The clock started ticking last Wednesday for a potential year-end Santa Claus Rally for the stock market and so far, it looks very good.

The Santa Claus Rally is defined, over nine trading days, where stocks climb higher in the final seven trading sessions of the year plus the first 2 trading days of the New Year. The precise origin of this rally has never been appreciably quantified though theories range from year-end tax considerations to people spending bonuses to buy stock, to even Santa sending us a gift from the North Pole.

Last Wednesday was the first day in this nine-session journey for the markets. Santa's rally so far has been a good one this year as stocks have risen across the board over the past five consecutive trading days as investors digest promising news on the Omicron variant cresting in South Africa. While a Santa Claus Rally may be tough in this volatile pandemic environment, the long-term data suggests there are strong, powerful forces at play that could ultimately win out – “something beyond science, perhaps something from above” as Dr. Seigel remarked in the Seinfeld episode titled “Junior Mint”.



This is relevant because It has paid off to be invested during the Santa Clause Rally four out of five times over the past 92 years. In fact, the S&P 500 has appreciated 78.9% of the time during the Santa Claus Rally period and the average gain in this nine-day trading window has tallied +2.66%. Not too shabby as one of our favorite clients, from the beginning of our practice in 1986, Bill Spiker might say!

The most significant Santa Claus Rally in this data set came in 1991-1992, when the S&P 500 rocketed 9.6%. The largest down period happened during the Great Depression in 1931-1932 where the S&P 500 dropped 7.24%. The most recent worst loss was just -2.78% in 1968-1969*.

If history is any gauge, the absence of a Santa Claus Rally has served as a portent of lower short term returns for the market. Going back to 1990, there have been six times when Santa failed to deliver in December. January was lower five of those six times, and the full year had a solid gain only once in 2016. Should Santa miss the mark this year, it could be a warning sign for 2022; however, as of the date of this letter, it appears as though Santa may make it down the chimney for us this year too!

Despite a volatile month in December, stocks closed out the pre-Christmas Eve session at fresh record highs before the holiday weekend. Rekindled concerns over the Omicron variant and the potential for tighter monetary policy weighed on risk assets. Prospects for more fiscal support from Biden's plan have dwindled, and inflation concerns spiked continue to spook the markets. However, if oil takes a drop in the New Year, which we believe may happen, that could bring inflation concerns to a halt. Some good news last week arrived as the Bureau of Economic Analysis reported core personal consumption expenditures (PCE) rose at a 4.7% year-over - the swiftest pace since 1983! This means that consumers are out spending some of the \$3.75 million they saved over the past 20 months.

If it were not for Omicron, U.S. stocks would be even higher. Nonetheless, we are very pleased with this year, and hope that you are as well. We predicted in May the S&P 500 would finish the year between 4600 and 4750 and we closed today at 4786. Time will tell over the next five days if the Santa Rally continues, but given the risks of Fed tightening, Chinese weakness, fiscal support ambiguity and COVID this December, we are very happy where we are as we close out 2021.

Steven and I wish you and your families a Joyous, Happy and Peaceful New Year in 2022! Please feel free to call us at anytime in the first quarter to set up your review or to go over any questions you have. We thank you for your friendship and your business. Bob and Steven



Santa Claus gestures on the floor at the closing bell of the Dow at the NYSE in New York.



Cuan Durkin performing live at our Christmas Celebration at Eddie Merlot's on December 12, 2021

Investment Advisory Services are offered through Cadaret, Grant & Co. Inc., or Polaris Financial Partners, LLC, Registered Investment Advisors. Securities are offered and sold through Cadaret, Grant & Co., Inc., Member FINRA/SIPC. Polaris Financial Partners, LLC and Cadaret, Grant & Co., Inc. are not associated entities. Past performance is not indicative of future results.

**** Taken from Seinfeld episode called the Junior Mint.***

****As was pointed out Sundial Capital Research***

**** Per the team at Sundial Capital Research.***