

SANTA CLAUS RALLY

C U R R E N T O U T L O O K I N 2 0 2 2

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What is a “Santa Claus Rally”?

Santa Claus Rally describes a sustained increase in the stock market that occurs in the **last week of December** through the **first two trading days in January**.

There are numerous explanations for the causes of a Santa Claus Rally:

- ❖ Tax considerations.
- ❖ General feeling of optimism and happiness on Wall Street.
- ❖ Investment of holiday bonuses.
- ❖ Large institutional investors (such as JP Morgan and Goldman Sachs) tend to go on vacations – leaving the market for optimistic retail traders, who are generally more bullish.



Tax Considerations (key reason) – Profits attained over the course of the year are taxable by **Internal Revenue Service (IRS)** of U.S. at the end of the year.

Large institutions and market participants can cover tax payments by purchasing stocks before Christmas, which is a wise strategy that supports the **Santa Claus Rally** by:

- Completing tax forms and paying taxes on remaining profits.
- Selling these stocks after the new year and keeping otherwise taxable earnings for themselves.

This is the main driver behind Santa Claus Rally's occurrence and the cause for its long history of success.

History of Santa Claus Rallies on S&P500

Santa Claus Rally

How This Seasonally Bullish Period Could Foreshadow The Future

Santa Comes To Town	Santa Goes Back To North Pole	Santa Claus Rally	January	Calendar Year
12/22/2000	1/3/2001	5.7%	3.5%	-13.0%
12/24/2001	1/3/2002	1.8%	-1.6%	-23.4%
12/24/2002	1/3/2003	1.2%	-2.7%	26.4%
12/24/2003	1/5/2004	2.4%	1.7%	9.0%
12/27/2004	1/4/2005	-1.8%	-2.5%	3.0%
12/23/2005	1/4/2006	0.4%	2.5%	13.6%
12/22/2006	1/4/2007	0.0%	1.4%	3.5%
12/24/2007	1/3/2008	-2.5%	-6.1%	-38.5%
12/24/2008	1/5/2009	7.4%	-8.6%	23.5%
12/24/2009	1/5/2010	1.4%	-3.7%	12.8%
12/27/2010	1/4/2011	1.1%	2.3%	0.0%
12/23/2011	1/4/2012	1.9%	4.4%	13.4%
12/24/2012	1/3/2013	2.0%	5.0%	29.6%
12/24/2013	1/3/2014	0.2%	-3.6%	11.4%
12/24/2014	1/5/2015	-3.0%	-3.1%	-0.7%
12/24/2015	1/5/2016	-2.3%	-5.1%	9.5%
12/23/2016	1/4/2017	0.4%	1.8%	19.4%
12/22/2017	1/3/2018	1.1%	5.6%	-6.2%
12/24/2018	1/3/2019	1.3%	7.9%	28.9%
12/24/2019	1/3/2020	0.3%	-0.2%	14.4%
12/24/2020	1/5/2021	1.1%	-1.8%	19.6%
12/24/2021	1/3/2022			

All indexes are unmanaged and cannot be invested into directly. Past performance is no guarantee of future results.

The Santa Claus Rally is the final 5 trading days of a calendar year and the first two of the following year.

- A Santa Claus Rally is a seasonal phenomenon, according to **The Stock Trader's Almanac**, a long time provider of analysis of both cyclical and seasonal market tendencies by Yale Hirsch.
- According to the 2016 edition of the Almanac, "since 1969, the Santa Claus Rally has yielded positive returns in 34 of the past 45 holiday seasons—the last five trading days of the year and the first two trading days after New Year's.
- The average cumulative return over these days is 1.4%, and returns are positive in each of the seven days of the rally, on average."

Technical Outlook

- Bullish sentiment created by Santa Claus Rally tends to spill over to other assets as well.
- Over in the same 10-day timeframe of the rally, the safe-haven asset of Gold has generated returns in line with both the stocks and indices.

Year	S&P 500	The Dow	Nasdaq Composite
2017-18	1.1%	0.6%	1.4%
2018-19	1.3%	1.1%	2.1%
2019-20	0.3%	0.3%	0.8%
2020-21	1.0%	0.9%	0.4%
2021-22	1.4%	2.4%	-0.2%

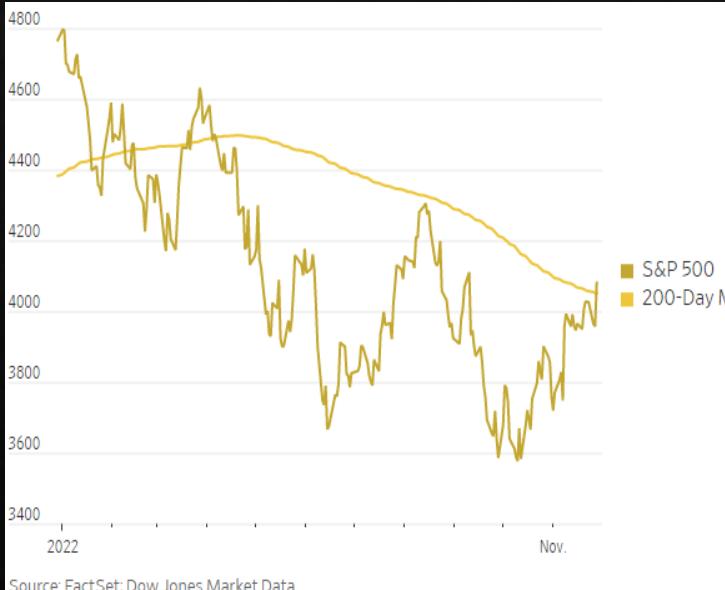
Source: Dow Jones Market Data, The Wall Street Journal

The **S&P 500** and **Dow Jones** both had increases during the Santa Claus Rally periods **from 2017 to 2021**, as shown above. During the same time period, only the Nasdaq Composite reported a minor loss in a single year.



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Key Fundamental Events



- **FED Pivot Decision looming for December**

With the Consumer Price Index (PCI) and Nonfarm Payrolls(NFP) showing promising results, FED chair Jerome Powell signalled a pivot decision for the interest rates, lowering the increasing rate from 75 base points to 50 points.

Increasing interest rates to the highest levels of last 28 years to control the inflation so far has caused stock market to drop by ~21% since January. Currently the market is waiting for the Interest Rate Decision to be announced in 14th of December.

Signals of a pivot affected the stock market, as the S&P500 is currently above the level of \$4000, along with price prompting above the 200-day Moving Average.

- **The Fed pivot will be good for gold in 2023, says Bank of America**

The recent declines in bond rates and the dollar, developments that are unmistakably related to Fed views, have supported the **S&P 500's 14% rebound** from its mid-October low.

The 10-year Treasury yield, 3.531% is in danger of breaching the floor of an upward channel that has been in place for a year while the **dollar index DXY, -0.05%** has fallen **below its 200-day moving average**.

The yellow metal on Thursday, as measured by the COMEX front month futures contract, **jumped 3.1%** to recover the **\$1,800 an ounce level**. That was the **biggest daily gain since April 2020** and took bullion to its most **expensive since August**.

Bullion bounces back

Gold Continuous Contract



Santa Claus Rally – Trade Examples : S&P 500 (US500)

Investment of \$25,000

Trade panel: US500pro

Instant execution	Pending order
Bid: 4055.45	Ask: 4060.60
Volume (Lots):	35
Stop loss:	<input type="checkbox"/>
Take profit:	<input checked="" type="checkbox"/>
Price	4176
Profit: 4039.00 USD	
Quantity:	35.00 Units
Margin:	0USD
Free margin:	165549.97USD
Required margin:	710.61USD
Spread:	-180.25 USD
Commission:	0 \$ for 1 lot
Pip value:	0.3500 USD
BUY 4060.60	

Investment of \$50,000

Trade panel: US500pro

Instant execution	Pending order
Bid: 4055.65	Ask: 4060.80
Volume (Lots):	55
Stop loss:	<input type="checkbox"/>
Take profit:	<input checked="" type="checkbox"/>
Price	4176
Profit: 6336.00 USD	
Quantity:	55.00 Units
Margin:	0USD
Free margin:	165549.97USD
Required margin:	1116.72USD
Spread:	-283.25 USD
Commission:	0 \$ for 1 lot
Pip value:	0.5500 USD
BUY 4060.80	

Investment of \$100,000

Trade panel: US500pro

Instant execution	Pending order
Bid: 4056.25	Ask: 4061.40
Volume (Lots):	100
Stop loss:	<input type="checkbox"/>
Take profit:	<input checked="" type="checkbox"/>
Price	4176
Profit: 11460.00 USD	
Quantity:	100.00 Units
Margin:	0USD
Free margin:	165549.97USD
Required margin:	2030.70USD
Spread:	-515.00 USD
Commission:	0 \$ for 1 lot
Pip value:	1.0000 USD
BUY 4061.40	

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Santa Claus Rally – Trade Examples : GOLD (XAUUSD)

Investment of \$25,000

Trade panel: XAUUSDpro

Instant execution	Pending order
Bid: 1793.53	Ask: 1796.16
Volume (Lots):	0.5
Stop loss:	<input type="checkbox"/>
Take profit:	<input checked="" type="checkbox"/>
Price	1864
Profit: 3392.00 USD	
Quantity:	50.00 Units
Margin:	0USD
Free margin:	165549.97USD
Required margin:	449.04USD
Spread:	-131.50 USD (263.0 pips)
Commission:	0 \$ for 1 lot
Pip value:	0.5000 USD
BUY 1796.16	

Investment of \$50,000

Trade panel: XAUUSDpro

Instant execution	Pending order
Bid: 1793.79	Ask: 1796.45
Volume (Lots):	1.2
Stop loss:	<input type="checkbox"/>
Take profit:	<input checked="" type="checkbox"/>
Price	1864
Profit: 8106.00 USD	
Quantity:	120.00 Units
Margin:	0USD
Free margin:	165549.97USD
Required margin:	1077.87USD
Spread:	-319.20 USD (266.0 pips)
Commission:	0 \$ for 1 lot
Pip value:	1.2000 USD
BUY 1796.45	

Investment of \$100,000

Trade panel: XAUUSDpro

Instant execution	Pending order
Bid: 1793.97	Ask: 1796.63
Volume (Lots):	2.2
Stop loss:	<input type="checkbox"/>
Take profit:	<input checked="" type="checkbox"/>
Price	1864
Profit: 14821.40 USD	
Quantity:	220.00 Units
Margin:	0USD
Free margin:	165549.97USD
Required margin:	1976.29USD
Spread:	-585.20 USD (266.0 pips)
Commission:	0 \$ for 1 lot
Pip value:	2.2000 USD
BUY 1796.63	

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Here the details for an example portfolio with the selected stocks can be reviewed

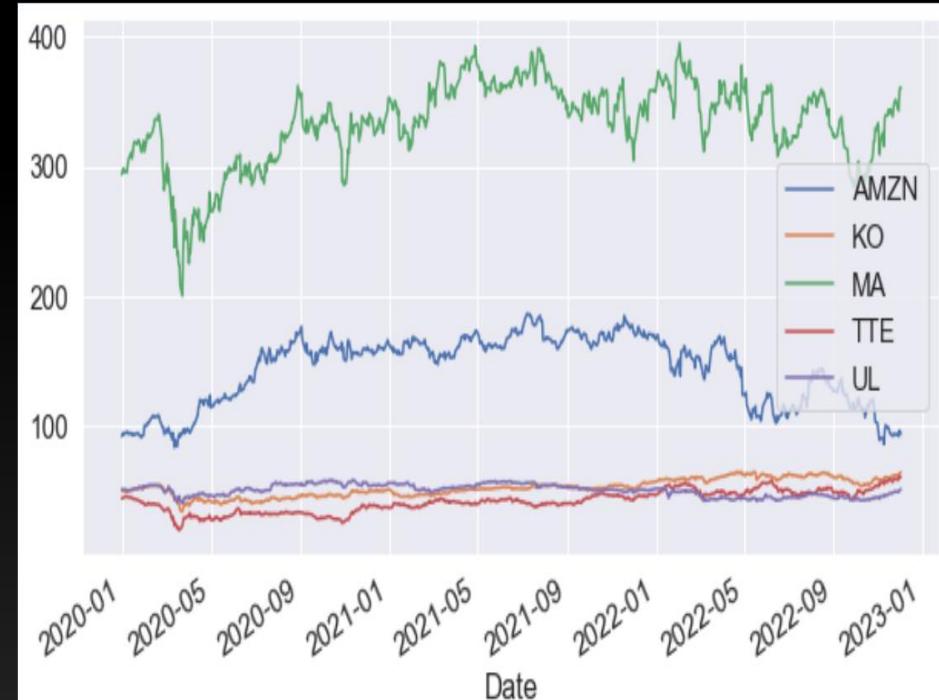


Change in price for the stocks on 2 years of data

Investment Amount:						\$100,000		Allocation:		50%			
Name Of Stock	Ticker	High	Low	Close	Pivot	Allocation to %	Units	Price	Margin	Take Profit	% Increase	Profit up to	
AMAZON.COM, INC. (XNAS:AMZN)	AMZN	\$ 95.36	\$ 93.78	\$ 95.50	\$ 94.88	15%	398	\$94.13	\$7,500	\$99.78	6%	\$2,250	
MASTERCARD INCORPORATED. (XNYS:MA)	MA	\$ 362.29	\$ 356.06	\$ 360.80	\$ 359.72	20%	139	\$360.01	\$10,000	\$385.21	7%	\$3,500	
THE COCA-COLA COMPANY (XNYS:KO)	KO	\$ 64.52	\$ 63.40	\$ 63.79	\$ 63.90	25%	971	\$64.35	\$12,500	\$67.57	5%	\$3,125	
TotalEnergies SE (XPAR:TTE)	TTE	\$ 59.22	\$ 58.52	\$ 58.89	\$ 58.88	15%	634	\$59.14	\$7,500	\$62.10	5%	\$1,875	
UNILEVER PLC (XNYS:UL)	UL	\$ 51.54	\$ 50.63	\$ 51.15	\$ 51.11	25%	1214	\$51.50	\$12,500	\$54.59	6%	\$3,750	
Total						100%		Total Margin	\$50,000	Total Potential Profit	\$14,500		

Source: Yahoo Finance

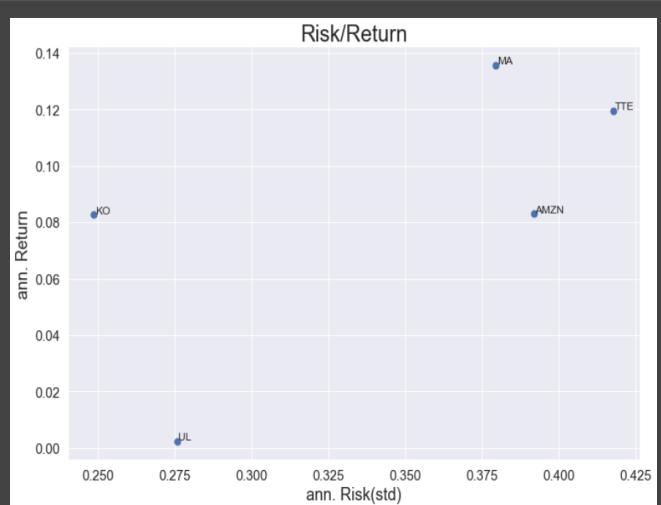
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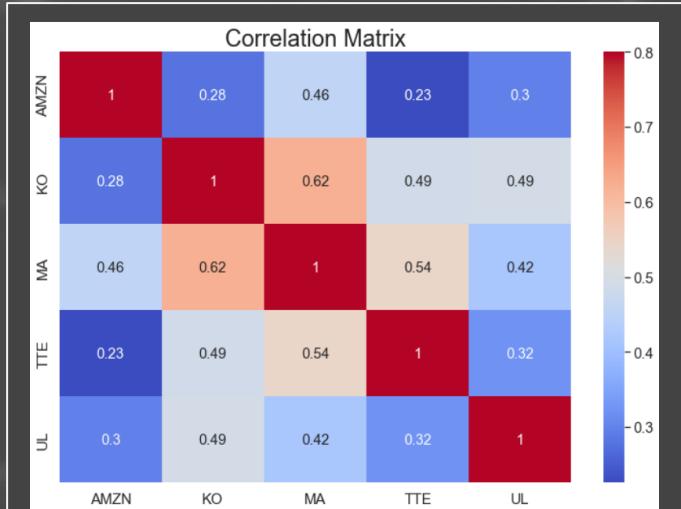
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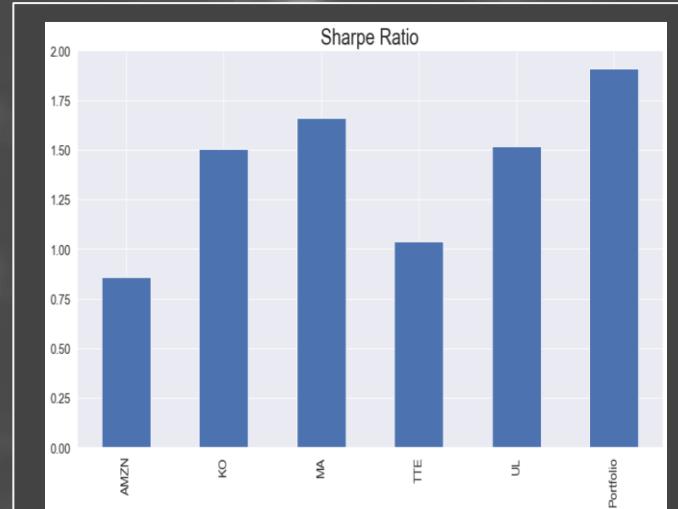
Portfolio Calculations and Chart Outputs



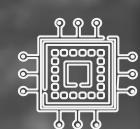
Annual
Risk/Return



Correlation
Matrix
Heatmap



Sharpe Ratio
> 1.9



Selection of Individual Assets

Percentage Movements



Important Note: Stock data usually shows gaps in short timeframes, mostly caused by fundamental events that cause major changes in price when markets are typically closed. Such gaps in data are generally disregarded, bearing in mind that past performance doesn't guarantee future results.

We will utilize the assets below in this example, also explaining the reasons for their selection in 4 years of data:

Amazon (AMZN) : Largest online retail and **#2 most valuable brand** ranked by Interbrand in 2021, with a market cap of \$1 trillion. Expected to be a strong driving force in this year's rally.

Coca-Cola (KO) : Being the largest and most well-known non-alcoholic beverages producer, Coca-Cola's stock value shows strong bullish signals on both long-term and short-term moving averages.

Mastercard (MA) : One of the global leaders in online payment services and technologies with a market cap of \$326 billion, prompted an impressive increase in line with retail on the Black Friday season.

TotalEnergies (TTE) : One of the seven major integrated energy and petroleum companies worldwide, posted record profits on Q3 Earnings Season as EU paid up to avoid higher oil and gas prices.

Unilever (UL) : Another strong conglomerate in fast-moving consumer goods with a market lead in both personal care, food & refreshments and home care segments. Currently stands at a cheap stock price with an already realized upside movement.

Portfolio : Utilizing this basket of stocks that is **diversified on consumer goods, retail and financial services** has shown to be effective in limiting the drawdown of market overall and aims to make use of the discount on **TotalEnergies, Unilever and Coca-Cola**. Portfolio is proven to be able to limit the downside volatility of Covid-19 crash of 2020.

Overall: Unsystematic risk is hedged to the point of holding **~10% in profits** as of December, also proving successful in limiting the drawdown on **Unilever, TotalEnergies and Mastercard** at the start of Covid-19 pandemic. Expected to provide further gains in short term.

Any downward movement in the current market conditions can be dynamically hedged with **dollar index and Gold** to keep the overall drawdown of portfolio to minimum and extend the period that investors would hold their positions.

Sources for Information



Libraries Used (Python 3.9)

Yfinance, Numpy, Pandas, Matplotlib, Plotly, Seaborn

Provided by Emir E

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