Heartwood
Investment Management

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Investment Insight

Weekly Insight

Can a Santa rally be delivered in December?

The S&P 500 has never had a calendar year with positive gains in every month over the last thirty years. So as November has ended in positive territory, a 'Santa rally' in December may yet see another market record broken in 2017 (see chart overleaf).

However, as the year draws to a close, we are starting to see modestly higher levels of volatility, albeit very measured versus history. While headlines have been dominated by declines in the so-called 'FANG' stocks (Facebook, Amazon, Netflix and Google) in the last few days, some of the heaviest falls have been found among semiconductor stocks. More than likely this wobble represented profit taking based on tech stocks' substantial appreciation this year. Semiconductors within the S&P 500, for example, have risen 39% in the year-to-date ended 30th November, 2017.

Focus is now shifting back to the higher yield trade, as investors potentially rotate out of technology and the more growth-orientated part of the market, all of which has led performance this year, and into cyclical sectors that are likely to benefit from higher interest rates, such as financials, and the proposed tax reform legislation. This reassessment is being fuelled by optimism about the US economy following an upward revision to third quarter GDP as well as the prospect of higher interest rates. The latest quarterly GDP number was the highest in three years and, importantly, was driven by stronger levels of capital expenditure. Moreover, in what is likely to be her final congressional testimony, Chair Janet Yellen gave a positive assessment of the US economy, signalling that broad-based improvements will require the continuation of the US Federal Reserve's gradual interest rate tightening programme.

It is somewhat ironic that as US economic data improves, there appears to be an undercurrent of nervousness in those areas of the US equity market where valuations are more extreme, as the prospects of higher US interest rates are being realised. Rather than being feared, however, these trends should be welcomed because they are likely to create more dispersion between stocks and sectors. Even so, any dispersion is likely to be relatively contained given the number of price insensitive buyers in the market, whether central banks or passive investors. Indeed, it is perhaps a sign of the times that the mini-sell off in tech at the end of November did not lead to any contagion in the broader market. All of this perhaps bodes well for Santa being able to deliver a positive December…and possibly another addition to the 2017 Guinness Book of Records.

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Clear Thinking

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Monthly total returns for S&P 500 since January 1987 (in USD)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec
2017	1.9%	4.0%	0.1%	1.0%	1.4%	0.6%	2.1%	0.3%	2.1%	2.3%	3.1%	
2016	-5.0%	0.1%	6.8%	0.4%	1.8%	0.3%	3.7%	0.1%	0.0%	-1.8%	3.7%	2.0%
2015	-3.0%	5.7%	-1.6%	1.0%	1.3%	-1.9%	2.1%	-6.0%	-2.5%	8.4%	0.3%	-1.6%
2014	-3.5%	4.6%	0.8%	0.7%	2.3%	2.1%	-1.4%	4.0%	-1.4%	2.4%	2.7%	-0.3%
2013	5.2%	1.4%	3.8%	1.9%	2.3%	-1.3%	5.1%	-2.9%	3.1%	4.6%	3.0%	2.5%
2012	4.5%	4.3%	3.3%	-0.6%	-6.0%	4.1%	1.4%	2.3%	2.6%	-1.8%	0.6%	0.9%
2011	2.4%	3.4%	0.0%	3.0%	-1.1%	-1.7%	-2.0%	-5.4%	-7.0%	10.9%	-0.2%	1.0%
2010	3.4%	3.1%	6.0%	1.6%	-8.0%	-5.2%	7.0%	-4.5%	8.9%	3.8%	0.0%	6.7%
2009	-8.4%	-10.6%	8.8%	9.6%	5.6%	0.2%	7.6%	3.6%	3.7%	-1.9%	6.0%	1.9%
2008	-6.0%	-3.2%	-0.4%	4.9%	1.3%	-8.4%	-0.8%	1.4%	-8.9%	-16.8%	-7.2%	1.1%
2007	1.5%	-2.0%	1.1%	4.4%	3.5%	-1.7%	-3.1%	1.5%	3.7%	1.6%	-4.2%	-0.7%
2006	2.6%	0.3%	1.2%	1.3%	-2.9%	0.1%	0.6%	2.4%	2.6%	3.3%	1.9%	1.4%
2005	-2.4%	2.1%	-1.8%	-1.9%	3.2%	0.1%	3.7%	-0.9%	0.8%	-1.7%	3.8%	0.0%
2004	1.8%	1.4%	-1.5%	-1.6%	1.4%	1.9%	-3.3%	0.4%	1.1%	1.5%	4.0%	3.4%
2003	-2.6%	-1.5%	1.0%	8.2%	5.3%	1.3%	1.8%	2.0%	-1.1%	5.7%	0.9%	5.2%
2002	-1.5%	-1.9%	3.8%	-6.1%	-0.7%	-7.1%	-7.8%	0.7%	-10.9%	8.8%	5.9%	-5.9%
2001	3.5%	-9.1%	-6.3%	7.8%	0.7%	-2.4%	-1.0%	-6.3%	-8.1%	1.9%	7.7%	0.9%
2000	-5.0%	-1.9%	9.8%	-3.0%	-2.1%	2.5%	-1.6%	6.2%	-5.3%	-0.4%	-7.9%	0.5%
1999	4.2%	-3.1%	4.0%	3.9%	-2.4%	5.5%	-3.1%	-0.5%	-2.7%	6.3%	2.0%	5.9%
1998	1.1%	7.2%	5.1%	1.0%	-1.7%	4.1%	-1.1%	14.5%	6.4%	8.1%	6.1%	5.8%
1997	6.2%	0.8%	-4.1%	6.0%	6.1%	4.5%	8.0%	-5.6%	5.5%	-3.3%	4.6%	1.7%
1996	3.4%	0.9%	1.0%	1.5%	2.6%	0.4%	-4.4%	2.1%	5.6%	2.8%	7.6%	-2.0%
1995	2.6%	3.9%	3.0%	2.9%	4.0%	2.3%	3.3%	0.3%	4.2%	-0.4%	4.4%	1.9%
1994	3.4%	-2.7%	-4.4%	1.3%	1.6%	-2.5%	3.3%	4.1%	-2.4%	2.2%	-3.6%	1.5%
1993	0.8%	1.4%	2.1%	-2.4%	2.7%	0.3%	-0.4%	3.8%	-0.8%	2.1%	-1.0%	1.2%
1992	-1.9%	1.3%	-1.9%	2.9%	0.5%	-1.5%	4.1%	-2.0%	1.2%	0.3%	3.4%	1.2%
1991	4.4%	7.2%	2.4%	0.2%	4.3%	-4.6%	4.7%	2.4%	-1.7%	1.3%	-4.0%	11.4%
1990	-6.7%	1.3%	2.6%	-2.5%	9.8%	-0.7%	-0.3%	-9.0%	-4.9%	-0.4%	6.5%	2.8%
1989	7.3%	-2.5%	2.3%	5.2%	4.0%	-0.6%	9.0%	2.0%	-0.4%	-2.3%	2.0%	2.4%
1988	4.2%	4.7%	-3.1%	1.1%	0.9%	4.6%	-0.4%	-3.4%	4.3%	2.8%	-1.4%	1.7%
1987	13.5%	4.0%	2.9%	-0.9%	0.9%	5.0%	5.1%	3.7%	-2.2%	-21.5%	-8.2%	7.6%

Source: Morningstar

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