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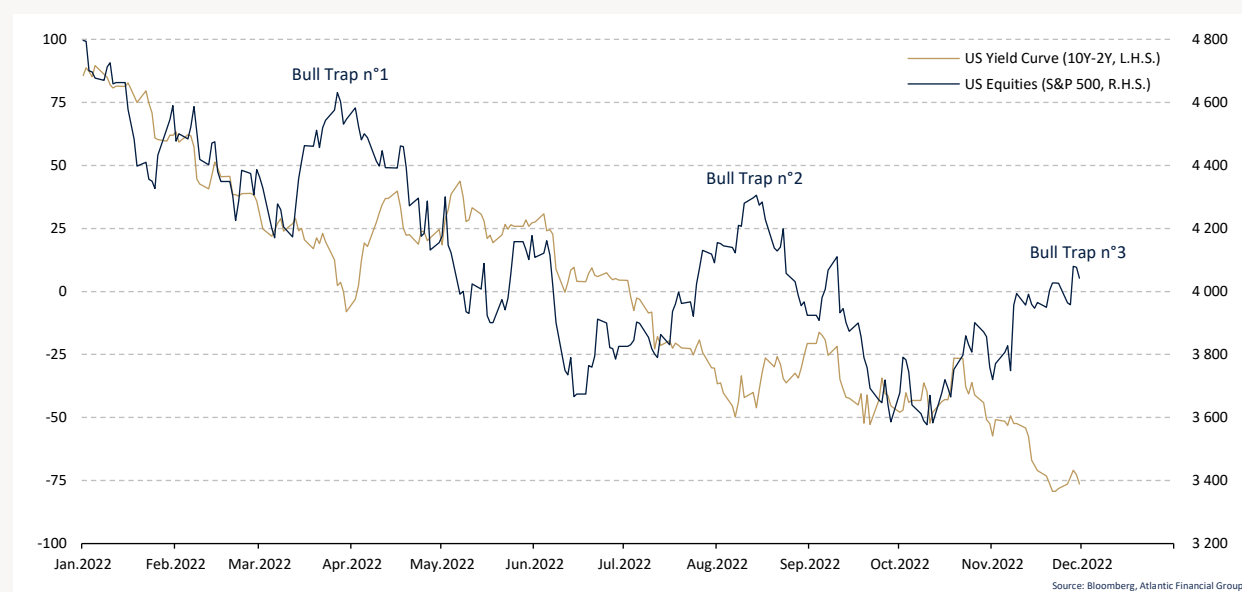
Weekly Investment Focus

5 December 2022

"WHAT IF SANTA DOESN'T COME?"

- ◆ November was an excellent month for investors
- ◆ That was all it took for them to anticipate a year-end rally
- ◆ Unfortunately, the risk of disappointment is high
- ◆ The outlook and technical indicators are poorly oriented

CHART OF THE WEEK: "Who's right: bond or stock markets? "



STOCK MARKET ANALYSIS

In December, it is usual for investors to hope that Santa Claus will visit the main marketplaces and take advantage of a rise in stock market indices. This seasonal phenomenon is commonly referred to as **the "Santa Claus Rally"**. Data shows that since 1928, the S&P 500 index has risen three out of four times in December, with a median price increase of 1.5% (see Fig. 2). This makes December the most favourable month of the year for equity investors (see Fig. 3).



Fig. 2 - S&P 500 performance in December

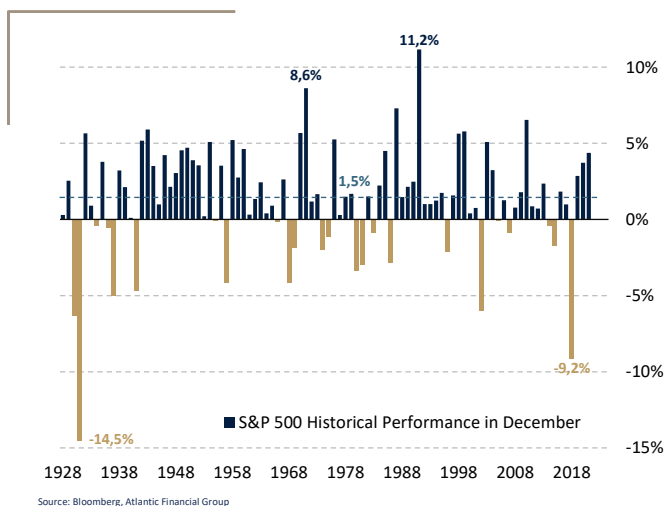


Fig. 3 - S&P 500 performance, by month

S&P 500 Index from 1928 to 2022	Median	Positive Years	Negative Years	Max	Min
January	1,5%	61%	39%	13,2%	-8,6%
February	0,3%	53%	47%	11,4%	-18,4%
March	1,0%	61%	39%	11,7%	-25,0%
April	0,9%	65%	35%	33,8%	-20,2%
May	1,0%	59%	41%	23,1%	-24,0%
June	0,2%	57%	43%	24,7%	-16,5%
July	1,6%	60%	40%	36,1%	-11,5%
August	0,9%	58%	42%	39,1%	-14,6%
September	-0,5%	45%	55%	14,4%	-29,9%
October	1,1%	60%	40%	16,3%	-21,8%
November	1,6%	61%	39%	12,0%	-13,4%
December	1,5%	74%	26%	11,2%	-14,5%

Source: Bloomberg, Atlantic Financial Group

The Santa Claus Rally was first mentioned by Yale Hirsch in his 1972 Stock Trader's Almanac. **It is ultimately a calendar effect, noticeable not over the entire month of December, but only during the last five trading days of the year and the first two days of January.**

There is no commonly accepted explanation for this phenomenon but there are multiple factors, more or less credible:

- **The behavioural bias of investors**, linked to their enthusiasm during the cheerful holiday season.
- **The investment of year-end bonuses and incentives**, including for tax purposes, generates a capital flow to the stock markets.
- **Portfolio rebalancing**, which is usually done by fund managers at the end of each month, quarter, or year.
- **The decrease in trading volume**, as institutional investors are less active during their holiday periods. By stopping their potential short selling, they leave the market to retail investors, who are mainly buying and who, moreover, tend to be more optimistic.

The tradition of the Santa Claus Rally sometimes fails, as it did in December 2018. Four years ago, there was no shortage of reasons to worry about the global economy: the trade war between China and the United States, the spectre of a *hard Brexit*, tensions over Italian debt, uncertainty over the Fed's monetary policy, etc. Equity investors had suffered a loss not seen since 1931. **In some cases, the December months in which Santa's sack was empty preceded very bad vintages.** This was the case in 1930, 1931, 1937, 1956, 1969, 1970, 1981, 1984, 2008 and 2015. These years gave rise to the adage "If Santa Claus should fail to call, Bears may come to Broad and Wall".



Fig. 4 - US business confidence

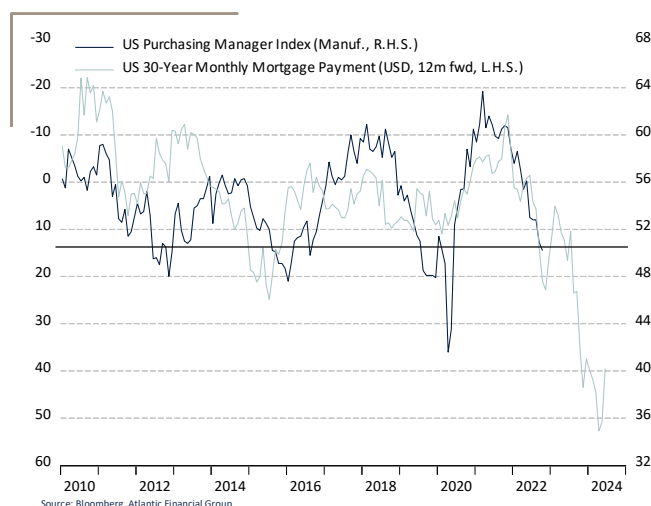
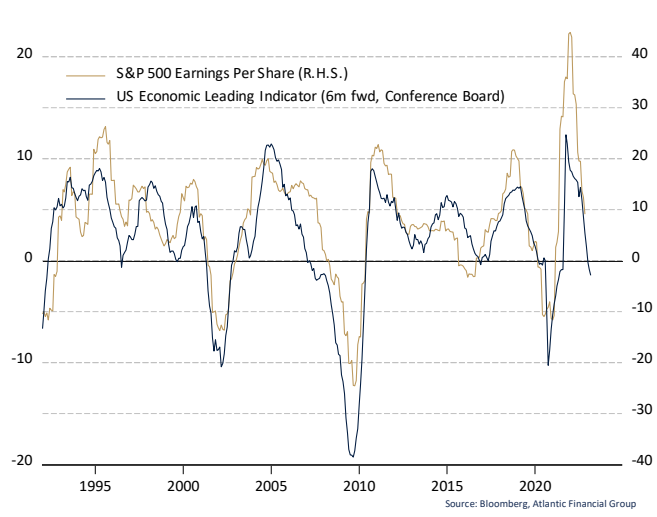


Fig. 5 - US earnings growth



This year, as in 2018, there are strong arguments for investors to be cautious:

- First, **the overall outlook for 2023 is not favourable for the stock market** (see [Outlook 2023: the capitulation phase](#)). The latest figures published confirm the downturn in the economic cycle (see Fig. 4) and the contraction in corporate profits (see Fig. 5).
- Second, unlike equity investors, those in fixed income assets have been much more pessimistic recently (see Chart of the Week & Fig. 6). However, in most cases where their views diverge, **it is the bond investors who end up being right**. By nature, less speculative than stock market traders, their expectations are closer to reality.

Fig. 6 - 10-year yields and equity valuations

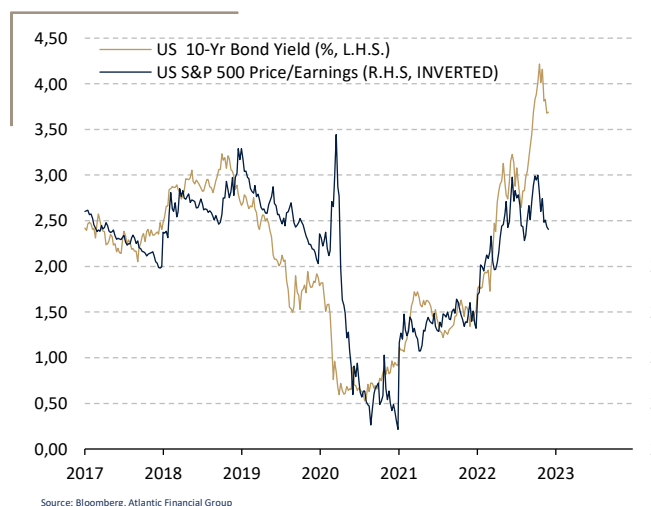
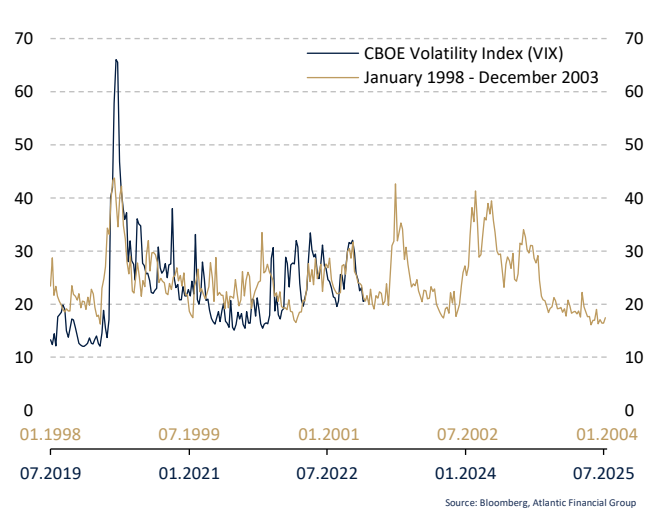


Fig. 7 - Equity volatility, 2022 vs. 2001

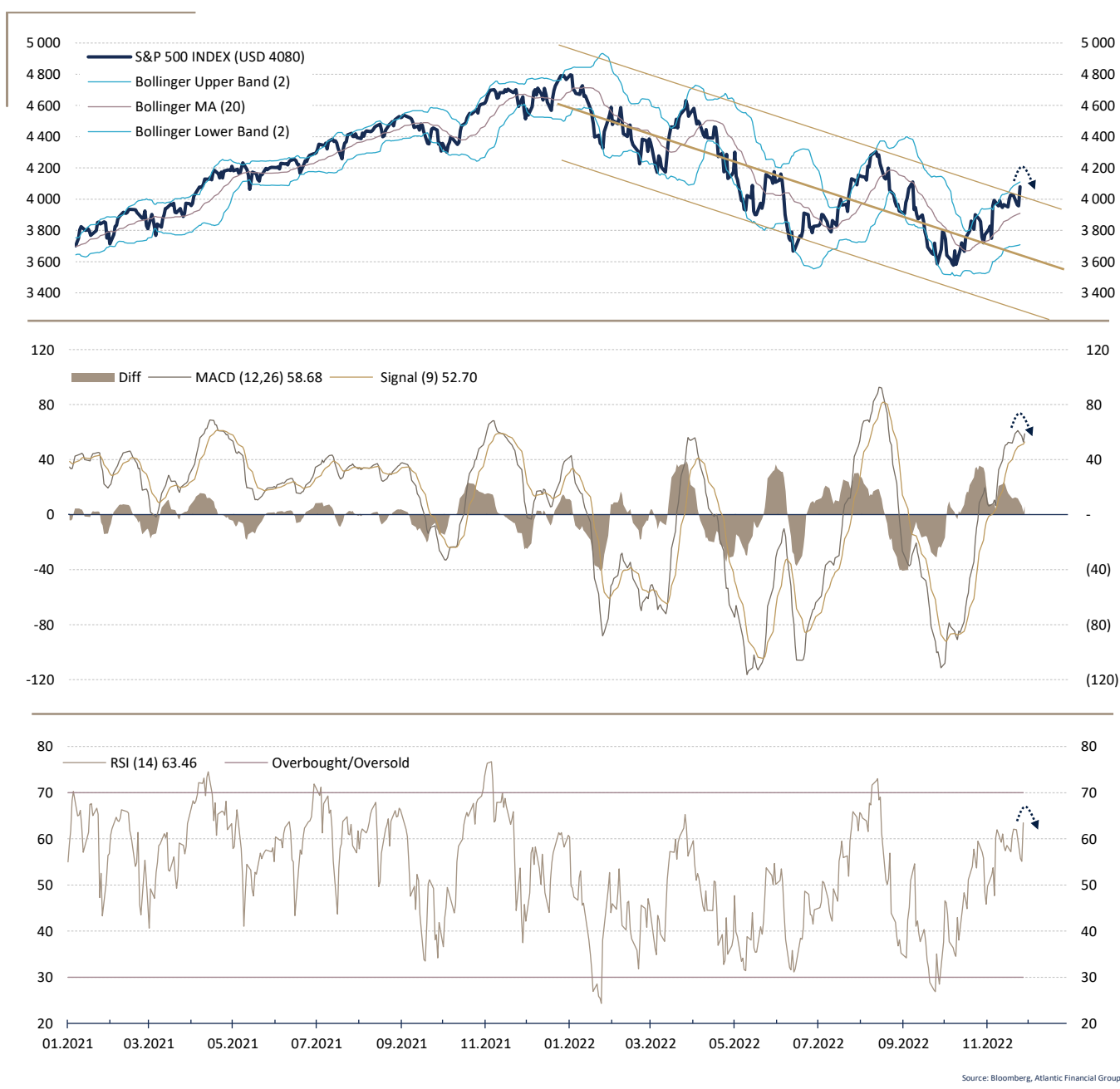


- Thirdly, **much of the good news has already been priced in November**: lower inflation, US mid-term elections, easing of the zero-covid strategy in China, more accommodating central bank rhetoric, better than expected earnings season, etc.



- Fourth, **volatility could rebound soon**. During the bear market of 2001-2003, its index very rarely rose above 30 (except for the weeks following the attacks of 9/11 and in anticipation of the entry of the United States into the war in October), but it is currently very low (see Fig. 7). The slightest uncertainty on the part of investors is likely to push up the VIX and, by mechanical effect, accentuate the speed of the next correction phase.
- Fifth, **the technical indicators have reached the zone of excessive optimism and overbought conditions** (see Fig. 8). In order for them to approach their average, one of two things must happen: either the equity indices pause for several weeks, as in April and November 2021, or they contract rapidly, as in April and August this year.

Fig. 8 - Technical indicators of momentum and trend, applied to the S&P 500





Conclusion:

In recent weeks, equity investors have sought to maintain their optimism, but the economic outlook and earnings growth are deteriorating. They will soon have to face reality and align their views with those of bond investors who are painting a crisis scenario. In these conditions, expecting a Santa Claus Rally seems unsuccessful. Like in the famous book and film, this year the Grinch could steal Christmas.



RETURN ON FINANCIAL ASSETS

Markets Performances (local currencies)	Last Price	Momentum Indicator (RSI)	1-Week (%)	1-Month (%)	2022 Year-to-Date (%)	2021 (%)	2020 (%)
Equities							
World (MSCI)	633.5	65.51	1.4%	9.8%	-14.2%	19.0%	16.9%
USA (S&P 500)	4072	62.56	1.2%	8.5%	-13.3%	28.7%	18.4%
USA (Dow Jones)	34430	66.04	0.4%	7.5%	-8.3%	20.9%	9.7%
USA (Nasdaq)	11462	58.72	2.1%	9.1%	-16.1%	22.2%	45.0%
Euro Area (DJ EuroStoxx)	427.9	71.34	0.4%	8.9%	-7.8%	23.5%	0.8%
UK (FTSE 100)	7556	72.62	1.0%	6.2%	5.9%	18.4%	-11.4%
Switzerland (SMI)	11198	63.18	0.3%	3.6%	-10.5%	23.7%	4.3%
Japan (Nikkei)	27820	49.25	-1.8%	0.4%	-1.5%	6.7%	18.3%
Emerging (MSCI)	974	66.18	1.5%	11.8%	-18.6%	-2.3%	18.8%
Brasil (IBOVESPA)	111924	50.14	2.7%	4.3%	6.8%	-11.9%	2.9%
Russia (MOEX)	2180	51.07	-0.7%	0.3%	-37.7%	21.9%	14.8%
India (SENSEX)	62672	66.76	0.9%	3.2%	9.5%	23.2%	17.2%
China (CSI)	3938	58.26	2.5%	5.3%	-20.0%	-3.5%	29.9%
Communication Serv. (MSCI World)	74.40	63.21	1.1%	11.9%	-11.7%	10.9%	24.2%
Consumer Discret. (MSCI World)	299.8	62.50	1.4%	10.1%	-16.1%	9.2%	37.0%
Consumer Staples (MSCI World)	274.2	76.15	1.6%	9.8%	-3.8%	11.7%	8.8%
Energy (MSCI World)	248.2	52.79	-1.2%	2.9%	38.1%	37.5%	-27.7%
Financials (MSCI World)	135.2	64.01	0.0%	8.3%	-7.3%	25.1%	-3.1%
Health Care (MSCI World)	349.7	73.73	2.0%	7.7%	-3.8%	18.0%	15.4%
Industrials (MSCI World)	293.5	70.80	0.9%	11.2%	-9.7%	16.6%	11.8%
Info. Tech. (MSCI World)	426.9	60.27	1.4%	11.4%	-14.9%	27.6%	46.2%
Materials (MSCI World)	325.9	69.11	2.2%	16.1%	-7.1%	15.4%	21.6%
Real Estate (MSCI World)	178.1	62.21	0.5%	10.8%	-21.9%	23.6%	-5.7%
Utilities (MSCI World)	152.0	62.96	0.2%	8.1%	-3.7%	11.1%	4.8%
Bonds (FTSE)							
USA (7-10 Yr)	3.53%	70.78	1.4%	5.2%	-12.6%	-2.4%	9.3%
Euro Area (7-10 Yr)	2.51%	59.51	0.9%	2.7%	-14.7%	-2.9%	4.5%
Germany (7-10 Yr)	1.86%	62.53	1.1%	2.4%	-13.5%	-2.7%	3.0%
UK (7-10 Yr)	3.15%	57.13	-0.3%	2.1%	-14.3%	-4.9%	5.4%
Switzerland (7-10 Yr)	1.06%	60.79	0.6%	1.9%	-8.8%	-2.3%	0.4%
Japan (5-10 Yr)	0.26%	43.99	-0.1%	-0.1%	-1.4%	0.0%	-0.1%
Emerging (5-10 Yr)	7.69%	81.90	2.2%	9.3%	-16.4%	-2.3%	5.2%
USA (IG Corp.)	5.12%	76.13	1.9%	7.3%	-14.0%	-1.0%	9.9%
Euro Area (IG Corp.)	3.75%	70.70	0.9%	3.7%	-11.5%	-1.0%	2.8%
Emerging (IG Corp.)	8.06%	84.77	2.0%	8.4%	-15.5%	-3.0%	8.1%
USA (HY Corp.)	8.38%	71.54	1.3%	4.0%	-9.8%	5.3%	7.1%
Euro Area (HY Corp.)	7.50%	80.46	0.4%	4.0%	-9.6%	3.4%	2.3%
Emerging (HY Corp.)	10.99%	82.39	2.4%	9.2%	-12.6%	-3.2%	4.3%
World (Convertibles)	366.9	66.91	1.4%	5.2%	-16.3%	2.4%	38.8%
USA (Convertibles)	490.6	63.83	1.4%	4.2%	-17.3%	3.1%	54.5%
Euro Area (Convertibles)	357.1	76.08	0.5%	3.5%	-13.0%	-0.3%	6.1%
Switzerland (Convertibles)	174.4	69.15	0.5%	1.8%	-6.2%	-0.5%	0.5%
Japan (Convertibles)	198.3	43.30	-0.8%	-0.4%	-1.2%	3.3%	2.8%
Hedge Funds (Crédit Suisse)							
Hedge Funds Indus.	732	50.71	n.a.	0.6%	0.7%	8.2%	6.4%
Distressed	928	54.78	n.a.	-0.7%	-4.0%	12.5%	3.8%
Event Driven	751	50.28	n.a.	0.9%	-7.6%	12.9%	7.0%
Fixed Income	383	55.82	n.a.	0.4%	-2.7%	5.2%	3.6%
Global Macro	1484	77.62	n.a.	-0.9%	23.1%	9.6%	6.5%
Long/Short	841	46.57	n.a.	1.7%	-9.3%	8.3%	7.9%
CTA's	423	79.88	n.a.	0.3%	23.7%	8.2%	1.9%
Market Neutral	285	51.68	n.a.	0.4%	-1.8%	6.2%	1.7%
Multi-Strategy	701	61.29	n.a.	1.4%	0.6%	7.0%	5.6%
Volatility							
VIX	19.06	29.87	-7.0%	-26.3%	10.7%	-24.3%	65.1%
VSTOXX	19.33	33.25	-3.0%	-21.7%	0.3%	-17.6%	67.5%
Commodities							
Commodities (CRB)	562.2	n.a.	0.1%	2.1%	-2.8%	30.3%	10.5%
Gold (Troy Ounce)	1805	69.18	1.6%	7.3%	-1.3%	-3.6%	25.1%
Oil (WTI, Barrel)	79.98	42.16	1.6%	-1.1%	3.9%	58.7%	-20.5%
Oil (Brent, Barrel)	84.53	39.76	2.9%	-1.4%	9.5%	51.4%	-23.0%
Currencies (vs USD)							
USD (Dollar Index)	104.25	30.66	-2.3%	-5.0%	9.0%	6.4%	-6.7%
EUR	1.0571	70.09	2.2%	5.5%	-7.0%	-7.5%	9.7%
JPY	134.63	73.24	3.2%	8.9%	-14.5%	-10.2%	5.1%
GBP	1.2323	68.95	3.0%	7.0%	-8.9%	-1.0%	3.1%
AUD	0.6830	63.19	2.7%	5.4%	-6.0%	-5.6%	9.6%
CAD	1.3416	52.18	0.6%	0.6%	-5.8%	0.7%	2.1%
CHF	0.9355	66.93	1.5%	5.7%	-2.4%	-3.0%	9.4%
CNY	6.9585	67.11	1.6%	3.9%	-8.7%	2.7%	6.7%
MXN	19.384	54.11	-0.4%	0.4%	5.9%	-3.0%	-5.0%
EM (Emerging Index)	1646.7	70.58	1.3%	4.0%	-5.1%	0.9%	3.3%

Source: Bloomberg, Atlantic Financial Group

Total Return by asset class (Negative \ Positive Performance)



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