



Investment Insight

Friday, 22 December 2017

Giddy up: With many markets having enjoyed a strong run, and frequent headlines about US markets hitting new highs, is there anything left to go in the final days of 2017? The “Santa Rally” – the expectation of rising share prices in December – appears to have some statistical basis. The greatest gains have tended to happen from around month-month onwards. In **The Inside Track** we take a look at some of the reasons behind this phenomenon.

From all at Aria Capital may we take this opportunity to wish you and yours a wonderful Christmas.

Quoted...

“Always borrow money from a pessimist, he won't expect it back”

– Oscar Wilde

The Inside Track

There is some statistical support for the existence of a “Santa Rally” – a rise in share prices in December. But why? The answer is not entirely clear, but there are some logical reasons behind why shares prices, on average, tend to perform well in December.

1. Free sleigh ride: Investors are more likely to but into what they anticipate will be or perceive to be a rising market. As there is a certain level of credence to the notion of a Santa Rally, this very fact prompts some momentum investors to hop on the sleigh for what they hope will be a free ride. In other words, it becomes a self-fulfilling prophecy.
2. Seasonal cheer: Investors are, quite simply, in better form due to the arrival of the Christmas season. This is particularly so towards the end of a good year. While many professional investors will happily lock in their gains for the year by early December, retail investors are more inclined to stay invested and even to through a few extra coals on the investment fire.
3. School's out: Volumes fall markedly over the Christmas period as fund managers and the investment community generally break for the festivities. This means that it doesn't take very much for the marginal “punters” to drive the price up over the holiday period.
4. Christmas bonus: Sometimes motivated by tax savings, some retail investors will invest part of their Christmas bonuses in the stock market. This further drives up share prices especially when there aren't so many sellers.
5. Visiting the sales: After the Santa Rally, there follows another statistically driven theory called the January effect which some investors believe heralds rising prices in the New Year. Bargain hunters, therefore, scour the stock market with as much enthusiasm (?) as they scour Grafton Street looking for year-end bargains.

Pic of the Week**Week ahead: Key events**

- 25/12 Ho! Ho! Ho!
- 26/12 US Manufacturing Outlook
- 27/12 US Consumer Confidence
- 28/12 US PMI Data
- 29/12 Germany CPI & US Export Sales

Market View

| | Last 7 days (€) | Last 12 mths (€) | YTD (€) | 5Y Ann. (€) |
|-------------------|-----------------|------------------|---------|-------------|
| Global equities | -0.2% | +6.8% | +8.5% | +12.7% |
| US equities | +0.0% | +5.7% | +8.0% | +16.5% |
| European equities | -0.5% | +10.1% | +10.6% | +9.3% |
| EM equities | -0.2% | +17.8% | +17.7% | +5.3% |
| Irish equities | -0.5% | +7.8% | +7.1% | +15.5% |
| Commodities | +1.4% | -2.6% | -16.1% | -7.6% |
| Hedge funds | +1.2% | +3.1% | +2.7% | -0.2% |

| Economic indicators | Bond yields | Inflation | GDP YoY |
|---------------------|-------------|-----------|---------|
| Ireland | +0.6% | 0.0% | |
| Germany | +0.4% | 0.0% | |
| USA | +2.5% | 0.0% | |
| China | +1.9% | 0.0% | |

| Currencies | Current | YTD Δ |
|------------|---------|----------|
| EUR:USD | 1.1877 | +12.9% |
| EUR:GBP | 0.8879 | +4.2% |
| EUR:CNY | 7.8173 | +7.1% |
| GBP:USD | 1.3376 | +8.3% |
| Bitcoin | 17,225 | +1709.9% |

| Commodities | Current | YTD Δ |
|-------------|----------|--------|
| Gold | 1,264.96 | +9.9% |
| Copper | 6,925.00 | +25.9% |
| Oil | 64.46 | +13.3% |
| Wheat | 424.13 | +3.7% |

| Central Bank rates | Current |
|--------------------|---------|
| Eurozone | 0.00% |
| USA | 1.25% |
| UK | 0.25% |

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