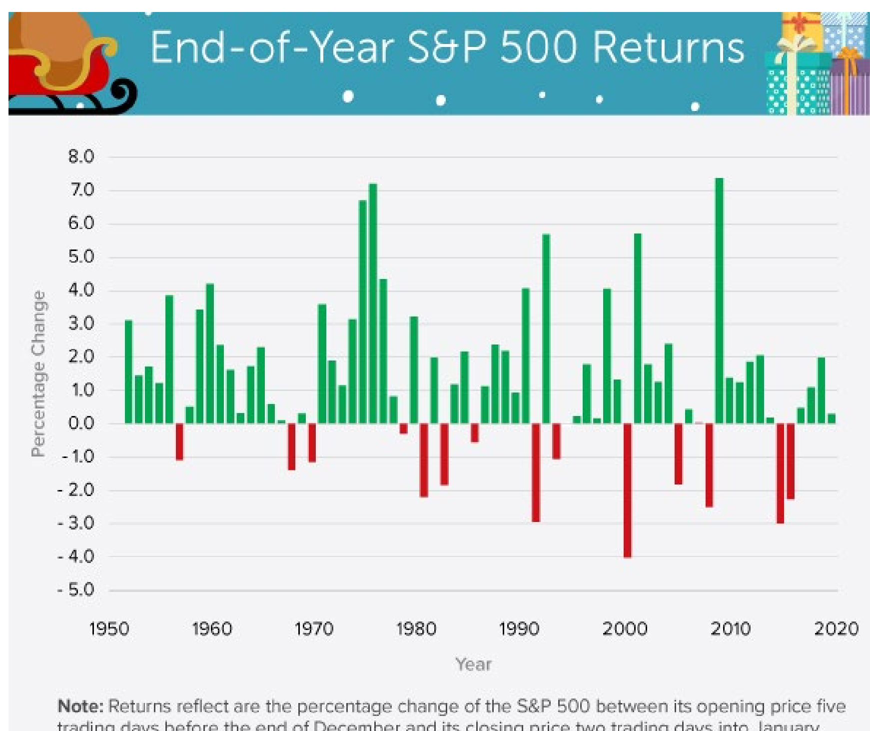
"If Santa Claus should fail to call, Bears may come to Broad and Wall" – Yale Hirsch

If you watch, listen to, or read any sort of stock market commentary or analysis around this time of year, you will undoubtedly hear pundits speculating ad nauseum about the occurrence of a Santa Claus Rally. It's a term that's thrown around so often, it's use has essentially become synonymous with any sort of positive market activity. "The S&P 500 rose 0.50% today. Is this the beginning of a Santa Claus Rally?" But what exactly are the characteristics of a true Santa Claus Rally?

In 1972, Yale Hirsch, founder of the Stock Trader's Almanac, coined the term as he discovered an interesting trend in the S&P 500 at year end. From 1950 to 1972, the broad market index rose an average of 1.5% annually during the final trading week of the year (the final five trading days of the year through the first two trading days of the new year). In the years since Hirsch's findings, the trend has continued as the market has seen an average annual rally of 1.3% during that time period. While the market has seen many ups and downs during this time, we have seen a Santa Claus rally occur in more than 75% of the years since 1950. The graph below illustrates the annual return of each year's final trading week.



Source: SmartAsset

The Santa Claus Rally has become a well-documented phenomenon, and it receives plenty of attention each year from analysts and investors alike. But why do the markets tend to rally at the end of the year? With the stock market as notoriously unpredictable as it is, why do we see the formation of patterns like this? While we may not be able to pinpoint a specific catalyst for this trend, a variety of factors could play a role.

- **Retail Investors**: During the last week of the year, overall trading volume is typically lower than average as institutional investors take time off for the holidays. This allows more room for retail investors (who often tend to be more bullish than institutional investors) to create greater influence in the market.
- **Tax-Loss Harvesting**: In late November and early December, many investors, both retail and institutional, engage in the practice of tax-loss harvesting. When tax-loss harvesting, an investor will sell long positions, resulting in larger cash positions and more ammunition to become buyers.
- **January Effect**: The January Effect is another seasonal market phenomenon. This trend suggests that markets have a greater tendency to rise during January than in other month of the year. This theory breeds optimism and may cause many investors to purchase stocks in anticipation of a potential January upturn.
- **Season's Cheer**: Many analysts credit the Santa Claus Rally to a general sense of hope and optimism surrounding the holiday season and the upcoming year. The holiday season is also a time where investors tend to receive end of year bonuses and Christmas gifts, providing them with additional cash reserves to invest in the market.

In summary, there is no one specific cause of a Santa Claus Rally. Also, there is no guarantee that such a rally will occur—since 1950, we've actually seen negative returns during the final trading week almost 25 percent of the time. As long-term investors, the market's behavior over such a small period of time is of very little consequence. It is, however, beneficial for us to understand seasonality and patterns as a means to better understand long-term trends. So, whether or not the markets get a visit from Old Saint Nick this year, we will remain disciplined in our approach as we look forward to a great 2023!