Is the Santa Claus Rally Still Coming to Town?

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November once more lived up to its reputation for seasonal strength as an election-fueled November "Turkey Rally" delivered outsized returns for stocks. Now as December begins, investors are asking the question: Is the Santa Claus Rally still coming to town?

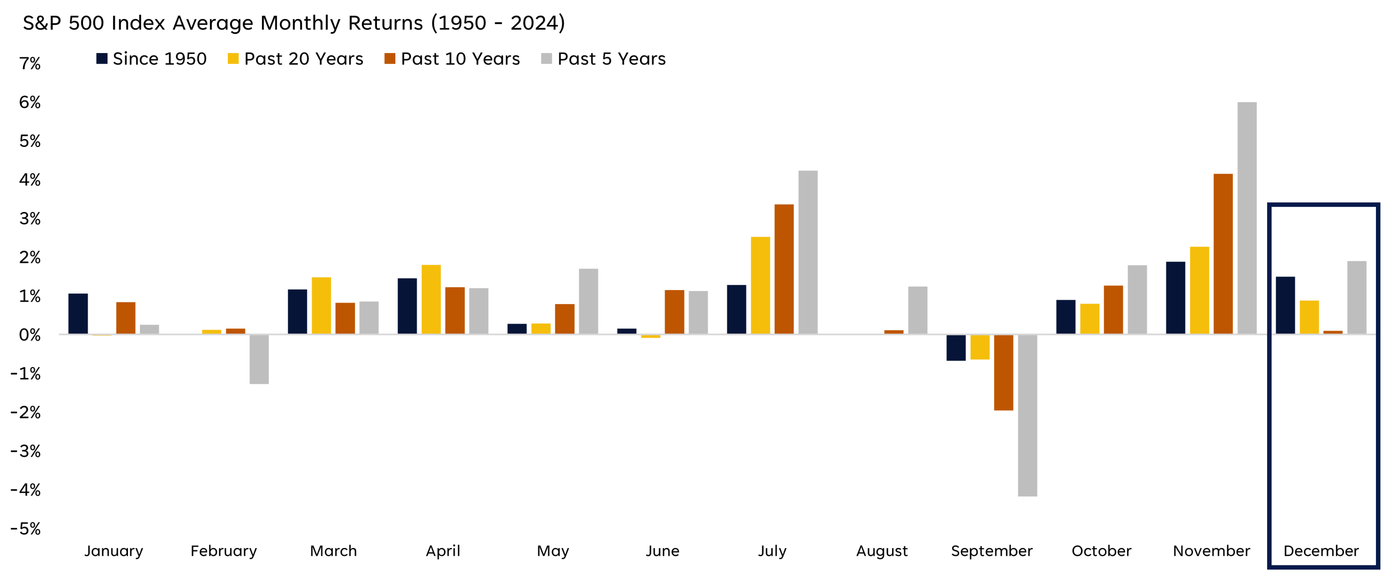
The S&P 500 wrapped up November with an impressive 5.7% price gain, following seasonal trends and becoming the strongest month of 2024, as it has been for all periods since 1950, on average. While this return far outpaces the long-term average return of around 1.8% during the month, November's recent strength is highlighted by an almost 6% average monthly gain over the past five-year period. Broad-based buying pressure with cyclical undertones propelled stocks higher as the consumer discretionary (+13.2%), financials (+10.2%), and industrials (+7.3%) sectors rounded out the sector podium. Healthcare was the worst-performing sector but still finished just above breakeven as all sectors rose during the month.

Turning the calendar ahead to December, momentum could continue for stocks as historically it has been a good month for stock market seasonals. These strong returns are historically often back-end loaded, hence the

“Santa Claus Rally” market axionym, that describes the idea that the final few days of December are a strong period for stocks.

December overall is the second-best performing month since 1950 with a 1.6% average gain, behind only November, and is the third strongest over the past five years (behind November and July).

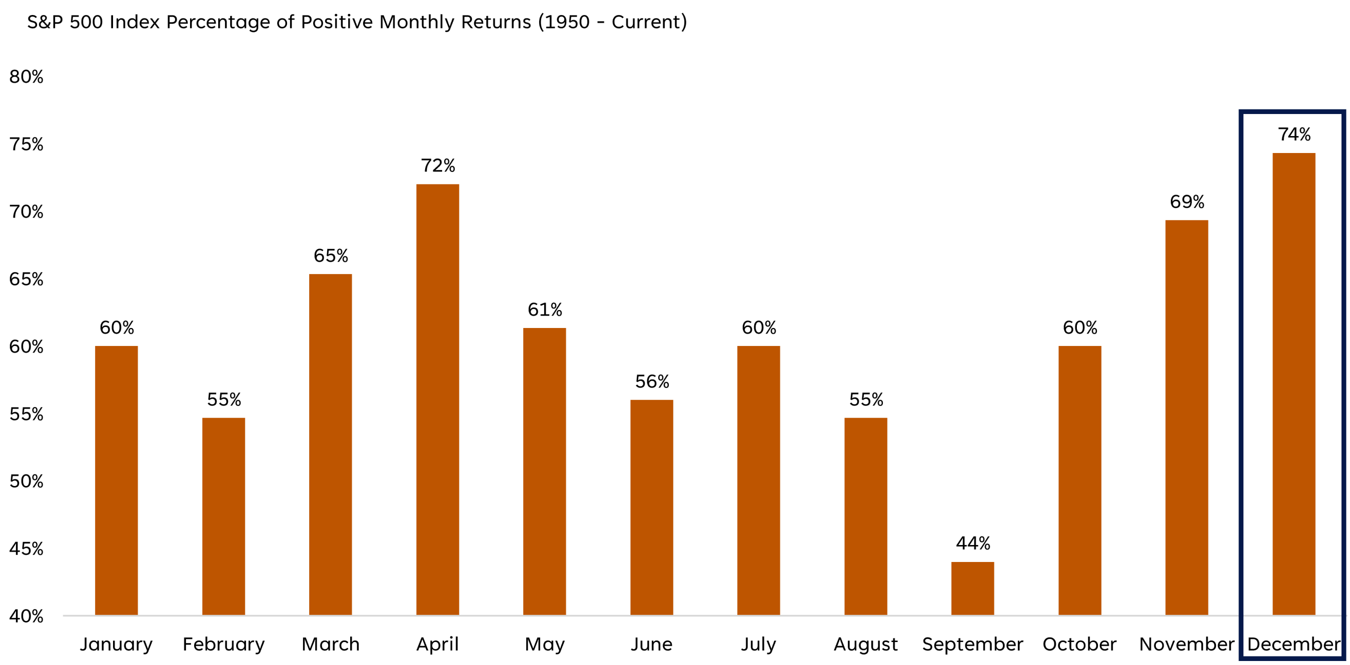
The Santa Claus Rally Has Driven Solid December Gains Historically



Source: LPL Research, Bloomberg, Factset 11/29/24
Disclosure: All indexes are unmanaged and cannot be invested in directly. Past performance is no guarantee of future results.
The modern design of the S&P 500 Index was first launched in 1957. Performance before then incorporates the performance of its predecessor index, the S&P 90.

When studying the proportion of positive monthly returns since 1950, December often delivers a present to investors with the highest proportion of positive monthly returns, at around 74%.

December has the Highest Proportion of Positive Returns



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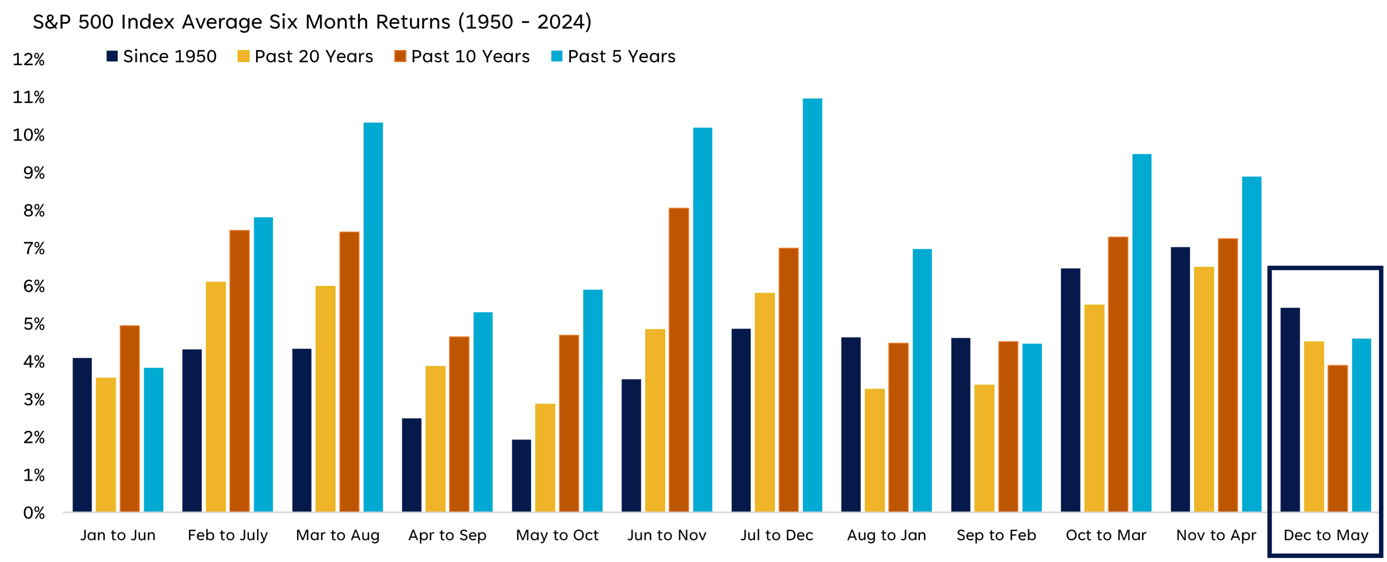
Beyond December's seasonal cheer for stocks, the outlook into the new year is more mixed. With the strong performance of November in the rearview mirror, longer term seasonals weaken. Over recent six-month return windows, December to May is the worst six-month period over the past 10 years, and third worst over the past five years. There is, however, a dichotomy in the data, with the same six-month window being the third best over all periods since 1950.

December to May Is One of the Weakest Six-Month Periods in Recent Years



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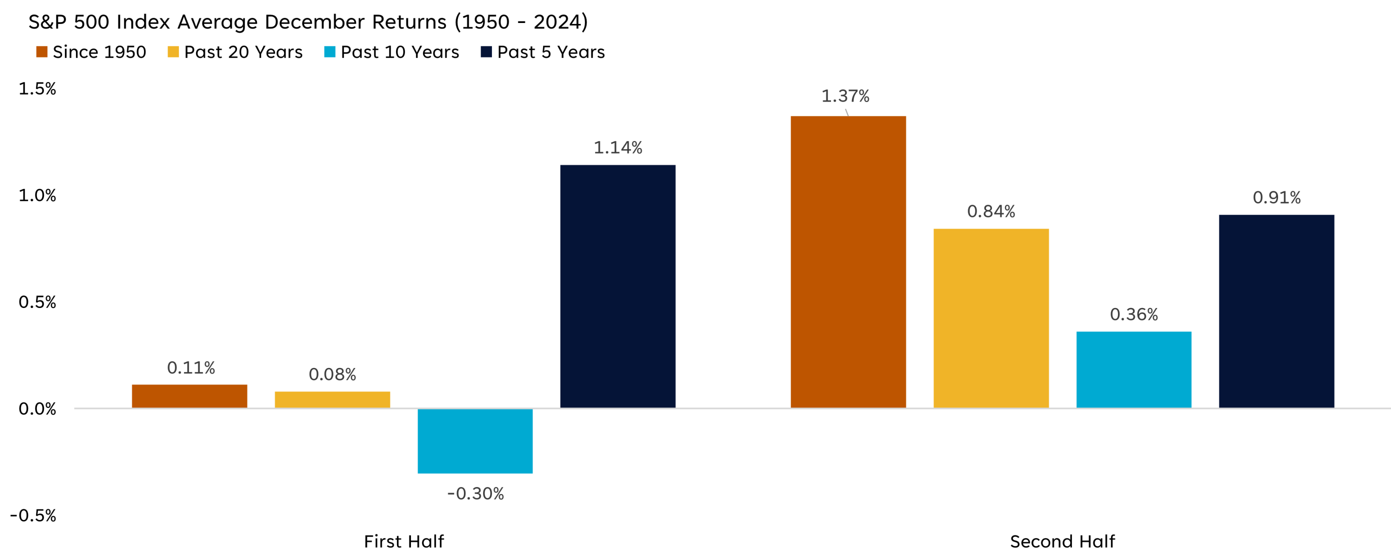
Given the Santa Claus rally axiom, it's perhaps not surprising that the stronger returns in December have typically come in the second half of the month, closer to Christmas. Based on all periods studied since 1950, the second half of December was significantly stronger than the first half. Stocks were flat or even fell in value on average during the first half of December, before, on average, rallying in the second half of the month (upward momentum builds around the 11th trading day of the month). Over the past five years, however, the strength of November has carried into the start of December and the first half has been slightly stronger than the second half.

Historically December Is Often a Second-Half Story (Though Less in Recent Years)



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Summary

In summary, after a strong November, overall stock market seasonals are still supportive for stocks through year-end, but somewhat mixed after this period. LPL's Strategic and Tactical Asset Allocation Committee (STAAC) maintains its tactical neutral stance on equity markets, with a preference for the U.S., a slight tilt toward large growth, and benchmark-like exposure across the rest of the market capitalization spectrum. We don't rule out the possibility of short-term weakness, especially as geopolitical threats in Europe and the Middle East have the potential to escalate. Equities may also need to readjust to what may be a slower and shallower Federal Reserve rate-cutting cycle than markets are currently pricing in.

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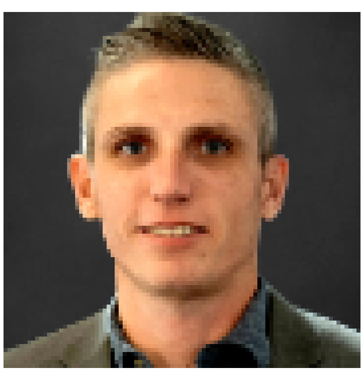

George Smith

George Smith chairs the Tactical Model Portfolio Committee, which manages LPL Financial's multi-asset models across multiple managed account platforms.