Chart of the Month

December 2020

A Big End of Year Rally is Bullish

	S&P 500 Index Return		
Year	November/December Return	January Return	Following Year Return
1954	13.6%	1.8%	26.4%
1962	11.6%	4.9%	18.9%
1970	10.5%	4.2%	10.8%
1985	11.3%	0.2%	14.6%
1998	11.9%	4.1%	19.5%
2020	14.3%	?	?
	Average	3.0%	18.1%
	Median	4.1%	18.9%
	% Positive	100.0%	100.0%

Source: LPL Research, FactSet 12/30/20 (S&P 500 price as of noon ET)
All indexes are unmanaged and cannot be invested into directly. Past performance is no guarantee of future results.
The modern design of the S&P 500 stock index was first launched in 1957. Performance back to 1950 incorporates the performance of predecessor index, the S&P 90.

According to Ryan Detrick, Chief Market Strategist at LPL Financial:

- The S&P 500 is up 14.3% in November and December, the largest end-of-year rally since at least World War II.
- Since WWII, in the five times the S&P 500 gained more than 10% in November and December, January was up every time with an average increase of 3.0%.
- The following year was higher every time with an average increase of 18.1%.

At the end of March, Detrick noted the following:

- 2020 was the worst first quarter ever for the S&P 500, down 20%.
- The previous three worst Q1s saw the final nine months gain 46% on average.

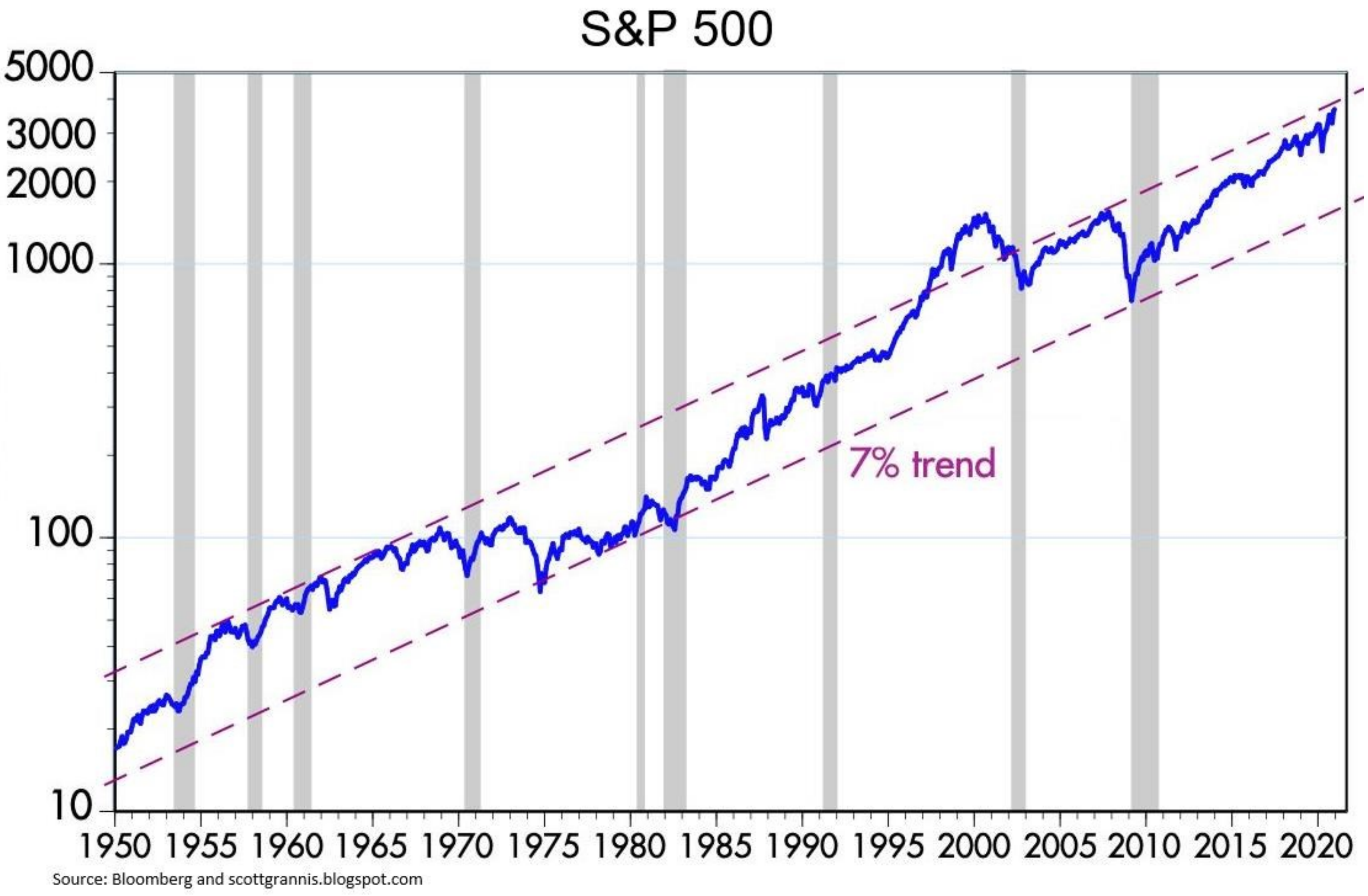
We made similar observations in our Charts of the Month in April, May, and June. Interestingly, if the S&P 500 holds up on Thursday, the S&P 500 will have advanced approximately 44% in the final nine months of 2020, virtually matching the returns in the previous three recoveries.

While the outlook for next year looks promising in terms of the projected growth in GDP and corporate profits, it is important to recognize that changes in S&P 500 earnings and the S&P 500 index have not correlated well over the past three years. More from Detrick:

- 2018 - S&P 500 earnings *up* 20%, but S&P *down* 6%.
- 2019 - S&P 500 earnings *down* 0.1%, but S&P *up* nearly 30%.
- 2020 - S&P 500 earnings *down* 14%, but S&P *up* more than 15%.
- 2021 - S&P 500 earnings expected to be *up* 22% . . .

Meanwhile, the S&P 500 is trading near the upper end of its long-term channel (see below). One could interpret that to mean that the market is near a peak and due for a pullback. However, based on historical precedent, the market could (1) continue to climb along the top end as it did from 1956-1969, (2) pierce the dotted line and charge even higher as it did in 1997 through 2000, before plunging the following three years, or (3) crash a la 2008 to early 2009.

Our take is that danger lurks down the road but probably not in the immediate future. That said, we are paying close attention to the two runoff elections for the U.S. Senate in Georgia next Tuesday in the hope that at least one Republican candidate wins in order to maintain control of the Upper House and block what could be a less-business-friendly agenda in the period ahead.



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