



CLEAR

CAPITAL MARKETS

Will there be a Santa Rally this year?



Report written by Clear Capital research

Will the run into Christmas prove to be the most wonderful time to trade?

2022 has been a choppy year for UK equities. The year started off on the back foot as and very quickly worsened following the news that Russia had invaded Ukraine. The FTSE 100 lost 11.7% of its value in a 25-day period before recovering almost all those losses in the following 35 days! What followed was a volatile move lower in equities, to revisit the lows that were posted in March 2022.

The FTSE100 has held up tremendously well compared to US and European markets. The FTSE100 index is heavily influenced by energy companies and companies that generate revenue in US dollars. The combined impact of rising energy prices and a strong US Dollar has meant the UK has been one of the best performing indices globally.

This does not tell the full story as at a domestic level, we have seen several companies struggle, in line with the economic forecasts and macro-outlook for the UK economy. In general, the UK has seen plenty of political turmoil and the aftereffects of Brexit are still impacting certain areas of the economy. The value of Sterling has also had a dramatic impact across UK domestic stocks, but that does appear to be on the mend following a bout of dollar weakness.

The FTSE100 has recently broken through downtrend resistance and appears to be heading back towards the pre-pandemic highs at 7687, above that we have the previous all-time highs at 7903.5, could we see a move to new all-time highs before the end of the year? December is often a good month for stocks, so will this grind higher continue into year end?



Source: Tradingview.com



With the end of the year in sight, it is time to turn our eyes to a potentially wonderful time of the year to trade. The folklore traditional end of year gains now commonly known as the 'Santa Rally' could bring a rewarding end to an uncertain year for canny investors.

While not 100% consistent that it will occur each year, the historical statistics do look appealing, with changes in market conditions often pointing to a rally as the calendar year ends. In fact, it has often been argued that collectively investors create a self-fulfilling prophecy.

In this report we look at some of the facts and figures of how the FTSE 100 performs in December and make some suggestions on stocks to put on your watch list.

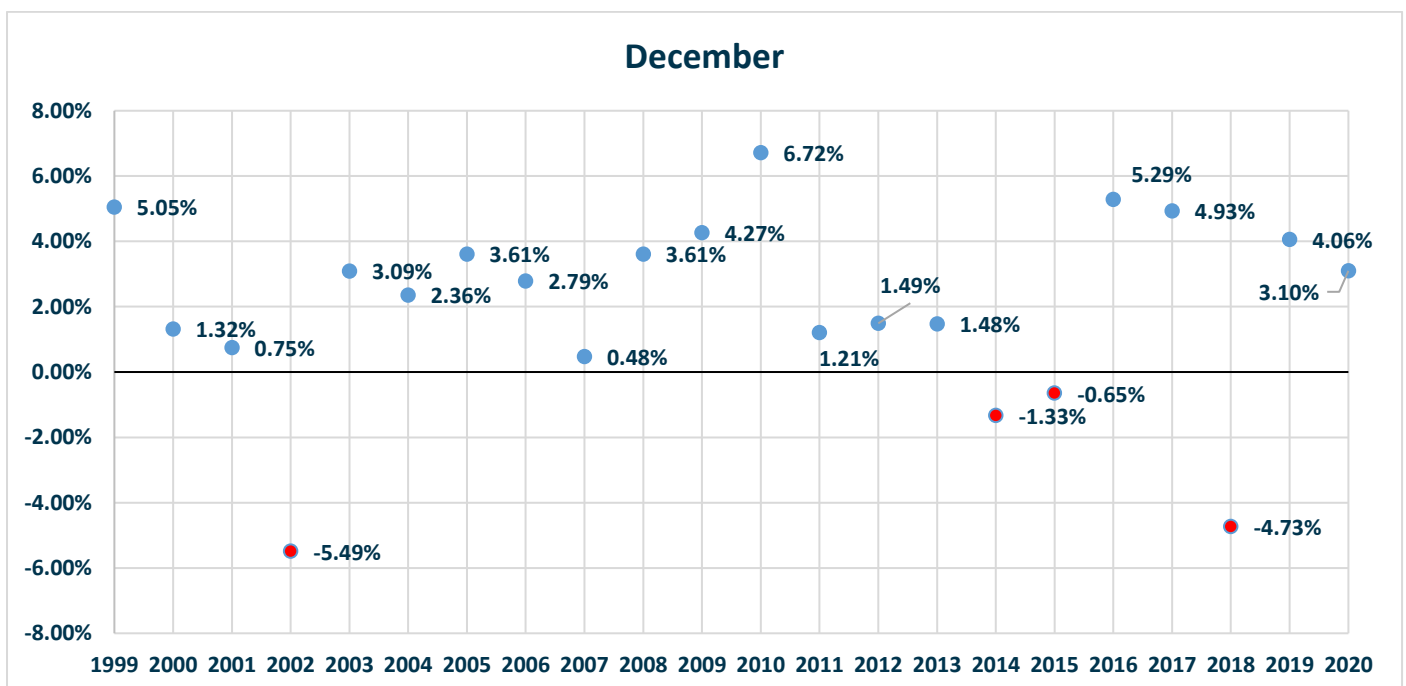
What is the 'Santa Rally'?

Traditionally, equity prices tend to trend higher at the end of October and builds up towards the year end, often with a surge into December. Since 1970, equities have seen relatively strong performance between November and April ending with the 'Sell in May effect'.

Back to December, it has been suggested that fund managers tend to rid themselves of their poor performing stocks and add the best to their portfolio to boost their year-end report for their clients. The assumed outcome is a hoarding of the most in demand stocks, which alongside the increased volume of trades, prices increase quicker than any other time of the year.

The History – FTSE 100

The FTSE 100 since 1999 has produced 19 positive Decembers out of 23 with an average return of 2.09%. The largest in this period was in 2010 with a return of 6.81%, the worst was in 2002 with a negative return of -5.39%.



Source: Tradingview.com



Clearly the bulk of the returns in December over a 23-year period have been positive. 2021 has been a positive one as global markets continue to recover from the impact of the Covid-19 pandemic.

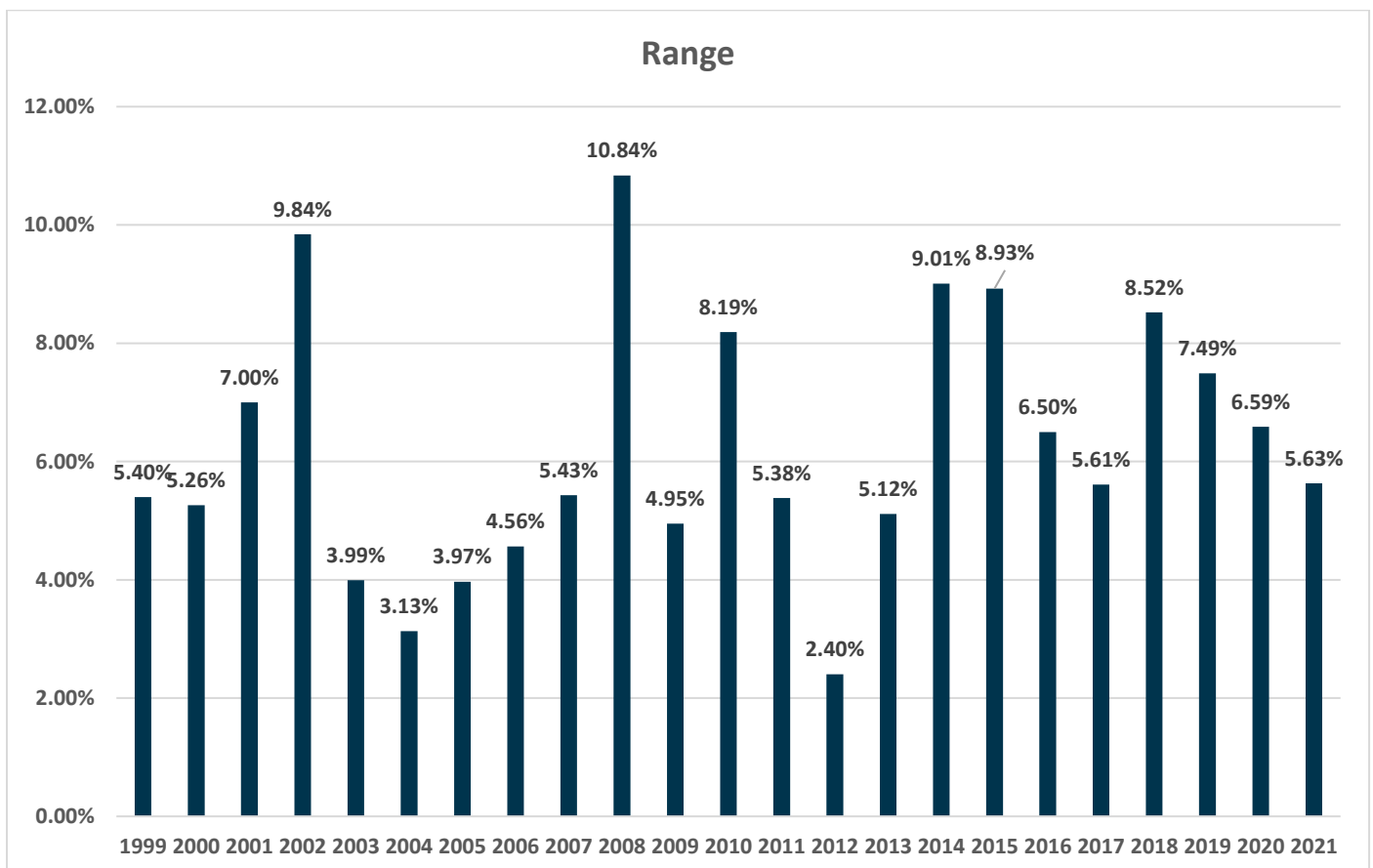
The UK has so far been unable to recapture the highs seen prior to the pandemic and has struggled when compared against other European and US markets. But in recent weeks we have seen some outperformance from the UK, which is largely being helped by rising oil and base metal prices. Could this momentum continue in the short term and help produce bumper returns this December?

Timing

So, the FTSE stats make for good reading, on average since 1999 its returned 2.09%. If we were to buy at the start of the month, then we have a good chance of making some money. However, if we take a deeper dive into the numbers, what we find is that December tends to be quite volatile.

We have looked at the difference between the lowest and highest trading prices of the FTSE 100 since 1999, and the numbers are very revealing.

Since 1999 the average range (low-high) in December is 6.25%. The smallest range was 2.4% in 2012 and the largest was 10.84% in 2008.

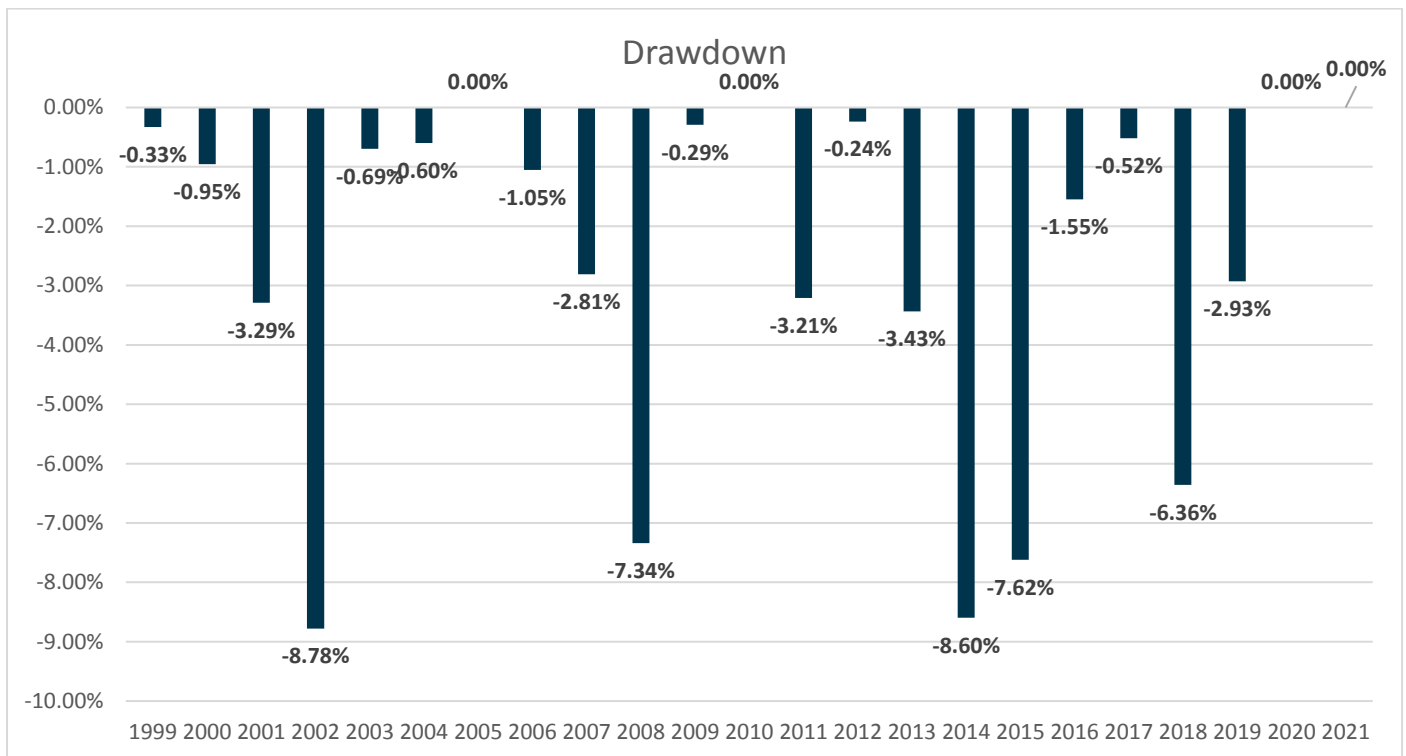


Source: Tradingview.com

With an average return of 2.08% and an average range of 6.25% there is clearly opportunity for bigger gains, but when is the best time to enter?

If we look at the average drawdown in December, so the largest difference between the first day of the month to the lowest price of the month, then we can start to work on timing.

Since 1999 the average move lower from the first trading day in December to the low of the month has been 2.63%. The largest move lower was in 2002, which fell 8.78%, recovering 3.4% by the end of the month to close 5.39% down.



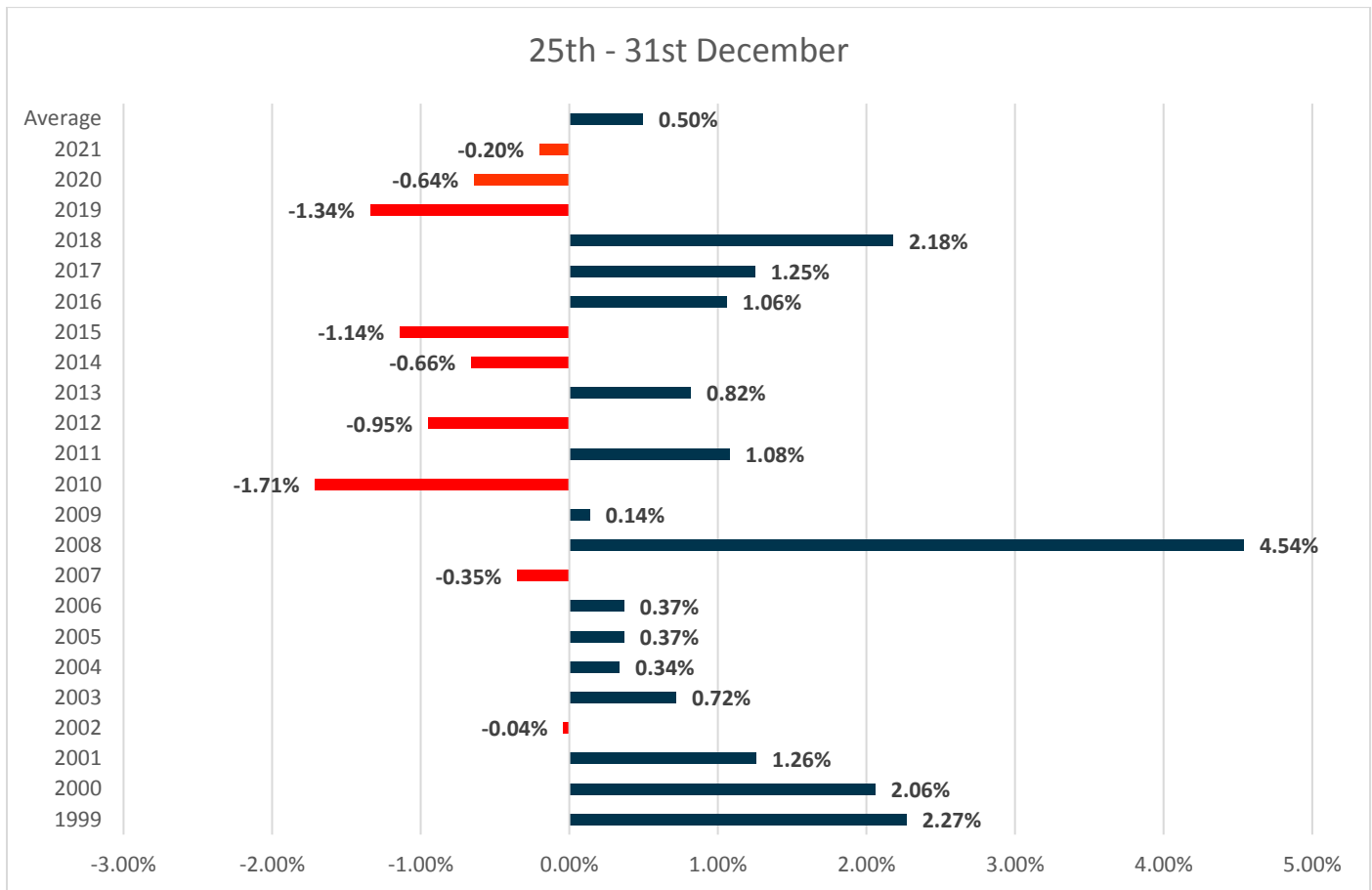
Source: Tradingview.com

As mentioned previously 2008 and 2009 were recession years. In 2008 there was a significant drawdown in December of 7.34% before recovering to close higher on the month. In the past 2 Decembers there has been no drawdown at all.

The period in between

When people talk about the 'Santa Rally', what they are often referring to is the sleepy period in equity markets between Christmas Day and New Years Eve. Stock markets continue to trade over the festive period, typically there are 3 working days in between the Christmas and the New Year. For those with an eye for an opportunity there is potential to add a bit extra to your annual profits by playing the period in between.

Since 1999 the FTSE 100 has on average returned 0.50% between Christmas and New Year. The best returns came during a recession year in 2008 of 4.54%! The worst came in 2010 with a negative return of 1.71%.



Source: Tradingview.com

There is plenty to get excited about when it comes to the UK Stock market in December, playing the index offers one opportunity, but could the potential returns be even greater by looking into individual stocks?

Top stocks to keep an eye on - Value or momentum?

It's been a solid year for UK equities, with many stocks recovering all the damage created by the pandemic. Others have struggled and been left behind; these polarising returns have made things a bit trickier for investors.

The FTSE 100 has remained at elevated levels due to the significant influence of companies generating returns in US Dollars. The US dollar has seen tremendous gains throughout 2022, although now appears to be turning lower.

Energy companies have seen profits surge due to the rising costs of energy and continue to look appealing on that basis.



Sectors such as travel and leisure have been unable to keep pace with the rest of the market over the past 12 months, although there have been some significant moves off the lows throughout the last year, in the main they have struggled to keep pace with the overall market performance.

So, to top up your profits before the end of the year should you be chasing momentum, or trying to find some value?

According to our analysis which considers the strength of trends and fundamental data, we have highlighted 5 stocks we like on a momentum basis, and 5 stocks we like from a value perspective.

Momentum Stocks

Stocks that are currently displaying strong momentum and have solid technical setups include insurance company **Prudential (PRU)**, which at the time of writing is up 22.06% over the past 3 months. The shares have begun to surge on reports that China is softening its approach to zero Covid. Prudential has significant operations in the Asia Pacific region.

Diversified Mining companies **Rio Tinto (RIO)** and **Anglo American (AAL)** have seen impressive gains in recent months. Like Prudential they have been buoyed by developments in China, but also the weakening value of the US Dollar has pushed commodity prices higher in recent weeks. They appear to be reasserting long term uptrends and are well positioned to deliver returns for investors in the coming weeks. Rio Tinto is up 21.68% in the past 3 months and year-to-date 16.58%. Anglo American has produced similar returns of 21.76% in the past 3 months and 11.70% year to date.

Wholesale distribution company **Diploma (DPLM)** has pushed through key resistance levels having risen by an impressive 23.62% over the past few months, it's year to date gains however remain negative at -13.84%. We see further upside potential here.

Sustainable packaging company **DS Smith (SMDS)** has come to life in recent weeks and could be in the process over reversing the downtrend that has been in place since September 2021. The shares have gained 15.49% in the past 3 months taking the year-to-date return to -20.81%. We believe the upward momentum could continue in the coming weeks.

We believe these companies could continue to perform well into the New Year but would say there is a higher risk associated with chasing momentum stocks. But of course, with higher risk comes the potential for higher rewards.



Value Stocks

Investors typically are more attracted to value plays, but often get caught chasing stocks that have had huge declines in anticipation of making a quick buck. Our criteria for value focuses more on high quality companies that have underperformed recently. This is often the case when markets are led by momentum, as they are at present. Because of this dash to riskier assets, some quality companies have been left behind.

The like of **Admiral** is one example, the company is fundamentally solid and although the shares have not performed well of late, we believe it will not be long before investors seek the comfort of market giants like ADM.

Household goods company **Reckitt Benckiser (RKT)** is another company that has lost appeal in recent months due to its defensive nature. The company remains in good shape, and we expect its quality to bring back investors in the coming months.

Retail giant **Next (NXT)** has fallen out of favour with investors over a number of months. We are now starting to see interest re-emerge as we approach a busy period of the retailers. We believe Next shares will soon begin appearing on investors watchlists.

Digital automotive business **Auto Trader (AUTO)** is worthy of a look. The shares have bounced sharply from major support at around 500p and continue to score well in our fundamental model. The shares are still around 26% below the 2022 highs.

Staying on the digital theme, property search platform **Rightmove (RMV)** could be poised for higher prices in the coming months. The shares are around 40% below their all-time highs. As the cost-of-living crisis begins to bite UK households, we could see the property market pick up in the coming months.

The companies mentioned above all score well on our fundamental models and are showing signs of improvement, we believe these offer less risk than the momentum stocks, but potentially less reward.

All are worthy of a spot on your December shopping list for the final push towards the end of 2022.

At Clear Capital we will be implementing a variety of strategies over the December period, including variations of the strategies mentioned above in order to maximise return and reduce risk. Please feel free to contact us for further information.

*Data accurate as of 5th December 2022



Why Clear Capital Markets?

As a company our mission is to combine regular old-fashioned stockbroking services with more complex sophisticated products and strategies historically only available to institutions. We aim to introduce these to clients in order to create well balanced proactively managed portfolios.

We offer bespoke advice and strategies that are tailored to each individual client, from long term investment advice and portfolio creation to short term trading ideas, or a combination of both.

Clear Capital Markets provides research, advisory and execution only services on multiple asset classes including: Equities, Options, Futures, ETFs and CFDs.

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