December 2019

Santa Claus Rally or Keynesian Beauty Contest?

After what has been a pretty flat two-year period, we wonder what the next catalysts for markets might be.

A Santa Claus rally is a calendar effect that involves a rise in stock prices during the last 5 trading days in December and the first 2 trading days in the following January. According to the 2019 Stock Trader's Almanac, the stock market has risen 1.3% on average during the 7 trading days in question since both 1950 and 1969. Over the 7 trading days in question, stock prices have historically risen 76% of the time, which is far more than the average performance over a 7-day period. (Content Source Wiki)

Source: Timing and You

However, in the weeks before Christmas, stock prices have not gone up more than at other times of the year.

The Santa Claus rally was first recorded by Yale Hirsch in his Stock Trader's Almanac in 1972.

A Keynesian Beauty Contest described the action of rational agents in a market using an analogy based on a fictional newspaper contest, in which entrants are asked to choose the six most attractive faces from a hundred photographs. Those who picked the most popular faces are then eligible for a prize. The theory has a number of levels of potential anticipation and

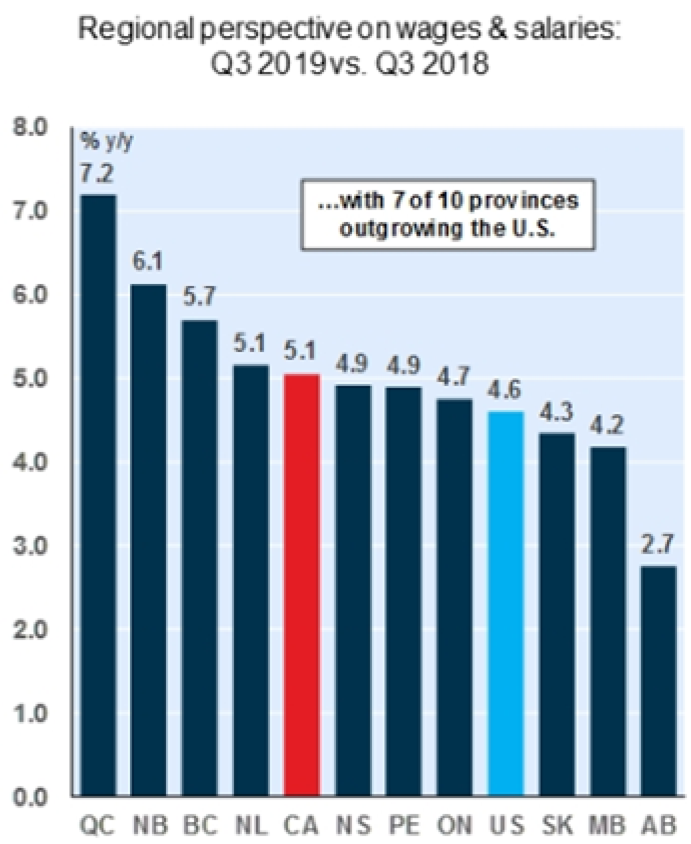
Keynes believed that similar behaviour was at work within the stock market. This would have people pricing shares not based on what they think their fundamental value is, but rather on what they think everyone else thinks their value is, or what everybody else would predict the average assessment of value to be. (Content Source Wiki)

What does this mean? Basically, it calls into question two potential catalysts for putting more money to work in the markets in December. On the one hand, people may believe that Santa really does exist, and prices will go on as they have historically 76% of the time or better. Or that investors will believe that stocks are attractive or that they believe everyone else will believe that they are attractive and put more money to work.

Neither one of these tell us what to do in the markets but it might help explain some irrational buying this month. Or maybe just another tweet is all we need…

Wage Rate Inflation?

The heads of central banks around the world have been acutely focused on inflation in the past several years as they have tried to manage the state of the economic union with stimuli and inference. Inflation or targeted inflation has been the buzz words of the heads of these banks. This might be a chicken and egg question what comes first inflation or wage rate inflation? My rational guess would be that wages go up first and all other things go up second. This last quarter showed some domestic divergence from province to province but also showed that Canada is now slightly higher than our friends to the south. The chart below shows the percentage year over year wage growth of the provinces and the Canada US relationship:



Source: National Bank Financial

The observation would be that if you have more money you do one of two things with it; save it, or spend it? If prices of goods and services were to go up in step with wages, you really have no more spending power or saving power. This is where inflation starts. I wonder if oil workers from Alberta are leaving are heading to Quebec. Probably not…

As we head into the holiday season, we wanted to wish everyone a safe, healthy and happy holiday. How does the jingle go – It's the most wonderful time of the year…

From our team to you and your families be well, enjoy and all the best for the New Year!

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