ResourceTrust
A DEPARTMENT OF RESOURCE BANK, N.A.

Weekly Insight

January 9, 2025

Why are the next six days critical to the equity market outlook?

The S&P 500 finished the first five trading days with a price gain of 0.62%. The first five trading days are one of three data sets at the turn of the year that have a great predictive record of foretelling forward returns. The reason these tend to work is that year-end effects produce strong flows that normally lead to favorable outcomes. If price action is weak when it has a tailwind at its back, then it indicates things will be more difficult once the tailwind subsides.

The turn of the year trinity:

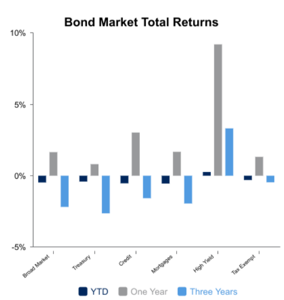
- Santa Clause rally
- First five trading days in January
- Wayne Whaley Turn of Year (TOY) Barometer

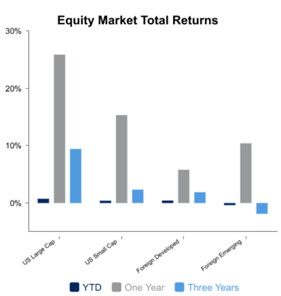
The first data set is the "Santa Clause Rally" which is defined as the last five trading days plus the first two in January. A positive outcome here has led to an average six-month forward return of +5.3% since 1928. A negative outcome and the average drops to just 0.4%. Santa failed to show this year with a negative return in the S&P 500.

Since 1950, if the first five trading days are positive the median return for the year is about 2.5 times higher than if the first five trading days are negative. The real juice comes if the first five trading days are greater than 0.65% where median returns for the year are about 20%. We avoided two strikes with a positive return in this window but fell just short of the threshold historically associated with outsized positive returns.

The last key data in the trinity is the TOY indicator from famous market technician Wayne Whaley. It is his most preferred seasonal pattern and looks at the S&P 500 return from November 19 through January 19. Since 1950, if this window produced a return greater than 3%, the next 12 months average return was 16.6%. It also yielded 36 positive outcomes and just two negatives. If the two-month period produced a return of 0-3%, then forward returns slipped to 6.1% and the win rate fell to 63%. And lastly, if the returns were negative, the forward 12-month returns were -2.6% and the win rate just 39%.

The S&P 500 produced a 23% return in 2024, and it was the 19th time since 1950 this threshold was met. Out of these 19 occurrences, there have only been three when the S&P 500 followed a +23% year with a negative year. In all three instances, the TOY Indicator was negative. With just six trading days left in this key window, the S&P 500 is clinging to a 0.02% price gain.





Interest Rates (%)	Current	12M Ago	3YR Ago
Fed Funds Rate (Upper b	4.50	5.50	0.25
3-Month T-Bill	4.31	5.36	0.09
10-Year Treasury	4.69	4.01	1.76
30-Year Treasury	4.93	4.19	2.12
10-Year Corporate AA	5.42	4.90	2.09
10-Year High Yield Corp.	6.75	6.59	3.90
Commodity Prices ($)	**Current**	**12M Ago**	**3YR Ago**
Gold ($/oz.)	2,662	2,030	1,797
Oil (WTI, $/barrel)	73.32	72.24	78.90
Currencies	**Current**	**12M Ago**	**3YR Ago**
USD (Dollar Index Spot)	109.09	102.57	95.72
USD/EUR	0.97	0.91	0.88
USD/JPY	158.35	144.48	115.56

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