(UBS)

US Equities: The January Effect

11 December 2024, 3:21 pm CET, written by UBS Editorial Team US Editorial Team

One of the most-studied seasonal patterns is the January Effect.

Some have highlighted that the S&P 500 tends to do well in January[1], with an average return of 1.2% since the inception of the index in 1928. However, this seasonal pattern has become less pronounced in recent years. Over the last 35 years, the average return in January is only 0.5%.

As a result, researchers have tried to find pockets of the market where the January Effect still persists. Studies have found that the stocks that perform particularly well that month are often poor performers in the prior calendar year[2]. Our analysis bears this out. Over the last 35 years, S&P 500 constituents that declined by more than 10% in a calendar year have generated a return of 2.3% on average in the following January.

There is some logic behind this pattern. To reduce capital gains taxes, investors may decide to sell some of their underperformers and harvest capital losses to offset any gains. These same investors may decide to buy back these shares after the turn of the year. Or at a minimum, this tax-driven source of selling tends to abate once the year is over. While institutional investors are not as driven by tax considerations, there may still be a bias to cull poor performers so they are less prominent on year-end statements.

For investors who are highly tactical, there may be an opportunity take advantage of these seasonal patterns. Despite the fact that (as of this writing) the S&P 500 is up 28% this year, there are nearly 60 stocks in the index that have declined by more than 10%. If history is a guide, some of these companies could see a reversal in January.

For more, reach out to your UBS Advisor to discuss the **UBS Equity Compass: Outlook 2025**, published 10 December, 2024.

[1]Rozeff and Kinney (1976)

[2]Marc Reinganum (1983)