

ZCM Market Insights

Despite The Anxiety Going Into 2023 The S&P Has An Impressive January

Written: February 8, 2023

As we pointed out in our *Rare Beast* piece last fall, after an extremely poor year for returns, the stock market tends to bounce back strongly the following year. January has given us an early start when many pundits were negative. The market likes to make fools of many, and so far, true to form.

Data is a wonderful thing. We use data hoping to find a pattern of what it might tell us about our future. In science and medicine, it is the holy grail of making theories stick. When it comes to investments it can be a useful tool because it tells us something about what is possible and perhaps what is to follow.

Today we want to examine what happens at the extremes. Specifically, what is on the outer bands for the stock market in any given month when the data is positive? And what about January which we long over-tire hearing about the “effect”?

Why should any month deserve better performance? Maybe it’s astrological? After all, January is 2/3rd Capricorn and 1/3rd Aquarius. Both zodiac signs reflect strength and endurance. Lest you think we have wandered into the mystical, the one aspect of January which is fundamental is that it follows December. December is when investors collectively hit the tax loss selling button. The absence of buyers when this selling occurs often causes losing stock prices to drift even lower. When January comes along, prices tend to lift or normalize. Otherwise known as the “January Effect.”

Let us examine the last 30 years of monthly S&P 500 price change.

Past 30 Years: All months*

Average	Median	Max	Min
0.7%	1.2%	12.7%	(16.9%)

Past 30 Years: Only January*

Average	Median	Max	Min
0.3%	1.4%	7.9%	(8.6%)

What the data shows for the month of January, is it has been a below average month yet slightly above median month for this universe of stocks. Statistically, we call this a leaning-negative-tie as investors do not get to spend median returns.

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For January 2023, the S&P 500 raced ahead over 6% for the month. In the range of data, there have been 30 months when the price change has exceeded 6%, or roughly 8% of the time. January 2023 now ranks as the 29th best month in the past 30 years.

Does past performance predict future results? Absolutely not, but for those curious about what happened after those 6% plus months the answer is encouraging.

Month Succeeding a Plus 6% Performance Month*

Average	Median	Max	Min
1.5%	1.3%	9.4%	(5.7%)

Of the 30 observations, the 1.5% average was more than double the 0.7% for all months and 73% of the time (22 of 30), the S&P 500 posted a positive gain ranging from 0.05% to 9.4%. That's impressive and probably reflects some FOMO behavior or Fear-Of-Missing-Out.

Related Piece

2022 Has Been a Rare Beast

It is rare that both stocks and bonds have negative performance in an annual period but despite the gloom, we believe there is hope for the coming year.

<https://www.zcm.com/2022-has-been-a-rare-beast/>

*Source: Factset, ZCM

S&P 500: The Standard & Poor's 500 Index is a capitalization-weighted index that is generally considered representative of the U.S. large capitalization market.

US Baa Corporate Bonds: Investment grade debt securities issued by US corporations. Baa bonds occupy the lowest tier of investment grade corporate bonds. The bonds make up slightly more than 50% of investment grade corporate bond indexes.

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