

Wednesday 09th January 2019

Morning Round Up

Back to school, keep an eye on the "5-Day Rule"

The holidays are over, New Year resolutions have been made and broken, and traders, investors and money managers are putting their annual investment plans into practice. How will 2019 pan out? No one knows for sure, certainly not this early in proceedings, but there are rules of thumb around the month of January that can offer clues as to what lies ahead. The S&P 500's so-called "5-Day Rule" holds that if the market rises in the first five trading sessions of the year, it will end the year higher. Broadening that out, if the S&P 500 ends January in the green it will end the year in the green too. The bulls will be taking heart: after the first five full trading sessions of 2019, the index was up 2.7%. Since the S&P 500 was reconstituted in 1957 to comprise 500 stocks, it has risen 45 of 62 years, meaning the market rises 73% of the time regardless of how it performs in the first five days of the year or in January. The average annual gain in those up years is 15.8%, not adjusted for inflation. The "5-Day Rule", however, has a success rate of 80%. That is to say, in the 41 years where the market has risen in the first five trading days of January, it has ended the year higher in 33 of them. The exceptions were 1966, 1973, 1974, 1990, 1994, 2002, 2015 and 2018. The statistical evidence for whether an upswing in January bodes well for the year as a whole is even stronger. Since 1957 the S&P 500 has risen in January 37 times, of which 32 have gone on to a positive annual performance. That's a success rate of 86%. The five exceptions were 1966, 1994, 2001, 2007 and 2018. Last year, in particular, was a massive head fake. The market rose 5.6% in January, its best start to a year since 1997, yet registered its first down year in a decade. Is the correlation as strong when the market falls in the first five days and first month of the year as it is when it rises? In short, no. Since 1957, Wall Street's leading index has fallen in the first five trading days of January 21 times but has posted an annual decline in only nine of those years, or only 43% of the time. Again, the monthly performance is a better indication of annual performance, but only slightly. There have been 25 "down" Januaries since 1957, of which 13 have ended up in annual declines. That's a 52% "success" rate. There's no denying the overwhelming sense of bearishness with which investors have gone into 2019. Worries about global growth, the US yield curve, potential for US recession, global trade wars and continued Fed tightening have darkened the outlook for stock market performance and returns this year. But maybe the pendulum has swung too far.

UK Retail Update

Sainsbury quarterly sales update was weaker than expected, underperforming Morrisons, with management reporting like for like sales of -1.1% weighed down by general merchandise and slower than expected grocery sales growth. This was the lowest quarterly organic sales growth reading in two years and again highlights the competitive pressures that exist within the supermarket space in the UK. Argos outlets within Sainsbury stores reported 10% organic growth. All eyes are firmly focused on the Asda £10bn mega merger and whether it gets CMA approval. Combined, Sainsbury/Asda would be the largest UK grocer with c.30% market share. At current levels, Sainsbury trades on 13x P/E and 0.8x book value offering a 7% ROE and 4% yield.

In other UK retail news, Ted Baker reported a blow out sales update for December reporting 12% LfL sales growth driven by 24% growth in e-commerce channels. The stock is trading down by 38% over the last year to trade at a 5 year low despite on course to report record earnings per share of £1.30 in 2019. Ted Baker was up 10% on the release. Greggs, the UK food chain, reported better than expected trading into year end which resulted in them beating consensus for FY 2018 profits. New products including a Vegan sausage roll are helping Greggs beat competition. Greggs traded up to a record high.

Source: Bloomberg, CF Research January 2019

Key Upcoming Events

09/01/2019 FOMC December Meeting Minutes
 15/01/2019 UK Parliament Vote on Brexit
 23/01/2019 Bank of Japan Interest Rate Decision
 24/01/2019 ECB Interest Rate Decision
 30/01/2019 Fed Interest Rate Decision

Market View

US markets posted strong gains yesterday as US-China trade talks were extended into a third day. Sentiment continued into Asian trading overnight with Hong Kong particularly strong. European markets continued the trend with the DAX up 1.17% this morning. US futures are also pointing to a positive day. US Treasury yields have ticked higher from recent lows, with the 10 year currently at 2.72%. WTI has broken above \$50 today. Markets continue to look to talks in Beijing for signs of an end to the trade war. The UK parliament resumes debate on the Brexit deal ahead of a vote next Tuesday. Finally, FOMC meeting minutes are out today.

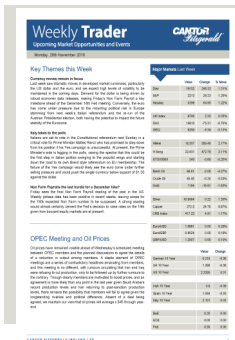
Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	23787	256.10	1.09%	1.97%
S&P	2574	24.72	0.97%	2.70%
Nasdaq	6897	73.53	1.08%	3.94%
Nikkei	20427	223.02	1.10%	2.06%
Hang Seng	26462	586.87	2.27%	2.39%
Brent Oil	59.18	0.46	0.78%	10.00%
WTI Oil	50.24	0.46	0.92%	10.64%
Gold	1283	-2.84	-0.22%	0.00%
€/\$	1.1464	0.00	0.20%	-0.03%
€/£	0.8983	0.00	-0.16%	-0.07%
£/\$	1.2762	0.00	0.35%	0.06%

	Yield	Change
German 10 Year	0.298	0.07
UK 10 Year	1.296	0.02
US 10 Year	2.7297	0.00
Irish 10 Year	0.968	0.01
Spain 10 Year	1.521	0.01
Italy 10 Year	2.99	0.0310

Source: Bloomberg, CF Research January 2019

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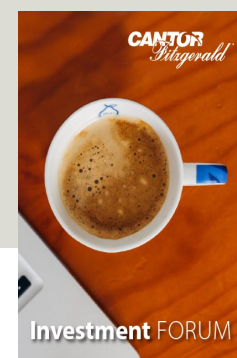
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