

# Last Call for Window Dressers

Some institutional investors must only report their holdings by the end of a month or quarter. As such, they often undertake window dressing trades around the end of these periods to give the appearance they held the "right" positions. Friday, December 29<sup>th</sup>, marks the last trading day of 2023. That means today is last call to place trades that will make the books at year-end. Window dressing trades can result in selling pressure on struggling stocks and buying pressure on the outperformers.

That being said, we expect light volume this week as the market enters a lull period between Christmas and New Year's. Most institutional investors will be taking time off for the Holidays, and there is little economic data of consequence. As a result, most last-call orders are likely being placed with a bartender rather than a market maker, and we can expect a quiet rest of the week.

## What To Watch Today

### Earnings

- *No notable earnings releases today.*

### Economy

Time	Event	Impact	Actual	Dev	Consensus	Previous
WEDNESDAY, DECEMBER 27						
3'	<b>USD</b> MBA Mortgage Applications(Dec 22)		-	-	-	-1.5%
13:55	<b>USD</b> Redbook Index (YoY)(Dec 22)		-	-	-	3.6%
15:00	<b>USD</b> Richmond Fed Manufacturing Index(Dec)		-	-	-7	-5
18:00	<b>USD</b> 5-Year Note Auction		-	-	-	4.42%
21:30	<b>USD</b> API Weekly Crude Oil Stock(Dec 22)		-	-	-	0.939M

## Market Trading Update

[As noted yesterday](#), the "Santa Claus Rally" officially began, which will last through the first two days of January. Yesterday's market action held true to form, with the S&P and Nasdaq ratcheting nice gains in a fairly broad rally as portfolio window dressing ensues. With strong gains in December, the odds of a strong January are reduced somewhat, but the outlook for the next calendar year remains optimistic.

Santa Claus Can Lead to a Jan SPX Pinch, 1Q/CY Rip ('70 - )				
	Dec	Jan	1Q	Next CY
2023	4.09%	-	-	-
Average ('70 - )	1.40%	1.20%	2.31%	9.15%
Pct. Pos.	73.6%	58.5%	64.2%	73.6%
Avg. if (+) in Dec.		0.72%	1.66%	8.50%
Pct. Pos. if (+) in Dec.		61.5%	70.6%	71.8%
If Dec. >Avg.		0.73%	2.63%	10.41%
Pct. Pos. if Dec. >Avg.		59.3%	70.4%	77.8%
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If Dec. >Avg.		0.73%	2.63%	10.41%
Pct. Pos. if Dec. >Avg.		59.3%	70.4%	77.8%

However, that is for a later discussion. Today, the market remains in overbought territory, but *?The Force of All-Time Highs Is Strong.?* With light trading volume this week and with the end of the year upon us, the rush to catch up on returns will likely continue to push stocks higher through the end of the week. The risk of a significant correction remains low, but we will get a better opportunity to add to our exposures in January.



TradingView





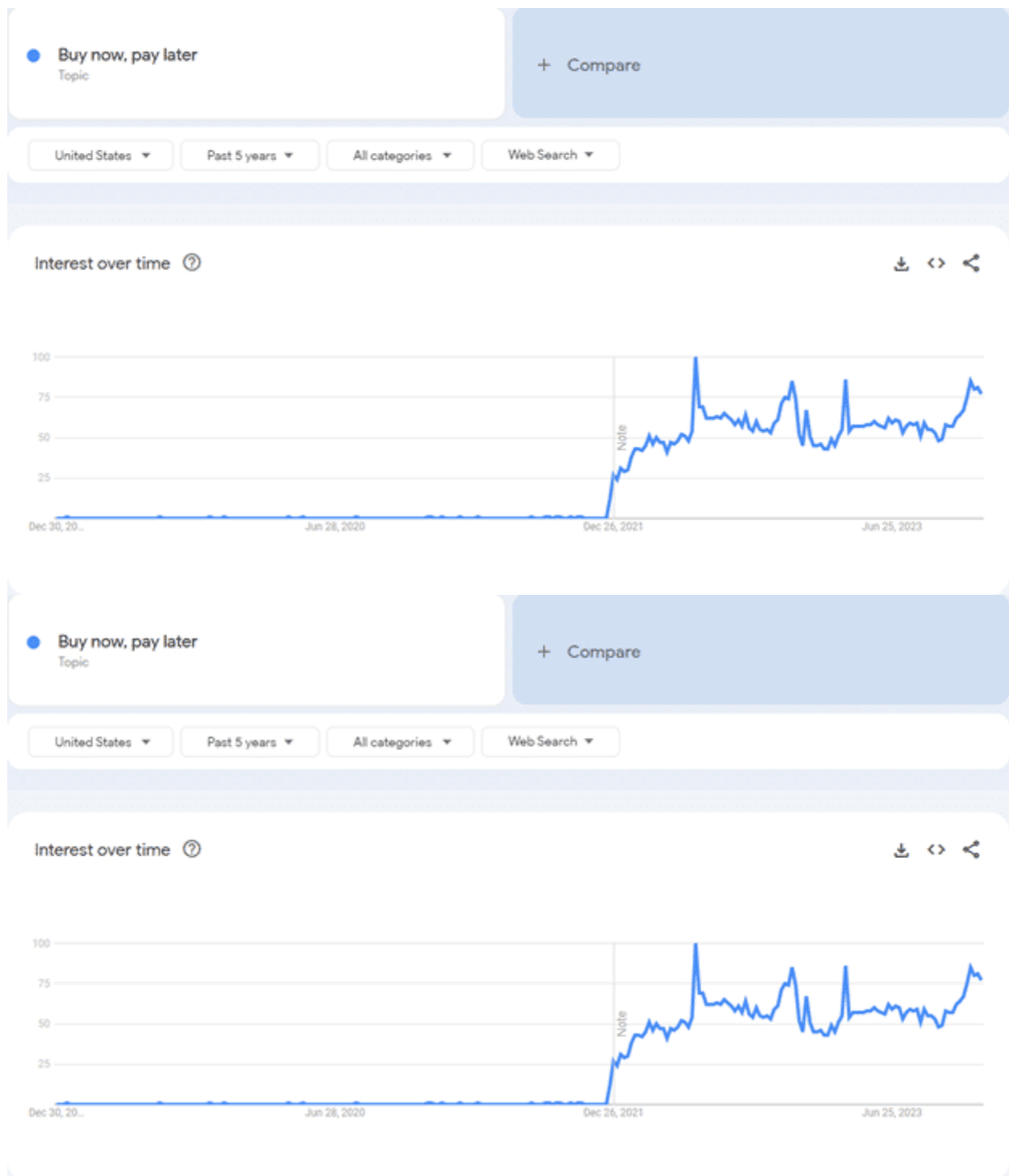
## Buy Now, Pay Later is a Double-Edged Sword

Buy now, pay later? (BNPL) is a trending avenue to finance purchases interest-free over a set period? Usually, four to eight bi-weekly payments. It gained popularity starting in January 2022 and is seeing a resurgence in interest throughout the 2023 Holiday season. Initially, BNPL was available mainly for online discretionary purchases. However, the BNPL company Affirm Holdings recently [expanded](#) its offering to the self-checkout lanes at most US Walmart stores. As inflation squeezes the pockets of many Americans, BNPL provides a solution for maintaining one's lifestyle without current sacrifice. This is likely a factor behind continuing consumer strength despite dwindling savings and high inflation over the past few years.

It's not all peaches and roses, however. Buy now, pay later may not charge interest, but it isn't fundamentally different from a credit card in pulling forward consumption. Furthermore, BNPL patrons are likely biased toward those carrying a balance on credit cards and even those unable to qualify for credit at major institutions. This means a larger swath of Americans can pull forward future consumption than previously possible.

Affirm (AFRM) SVP, Revenue Pat Suh noted that company research indicated 54% of consumers want a buy now, pay later option at checkout, adding that 76% of consumers would either delay or not make a purchase without a pay later option.

Research has shown that pulling forward future consumption should put a damper on future economic growth. So, while BNPL may benefit our economy in the short term, it's clearly a double-edged sword in the long run.

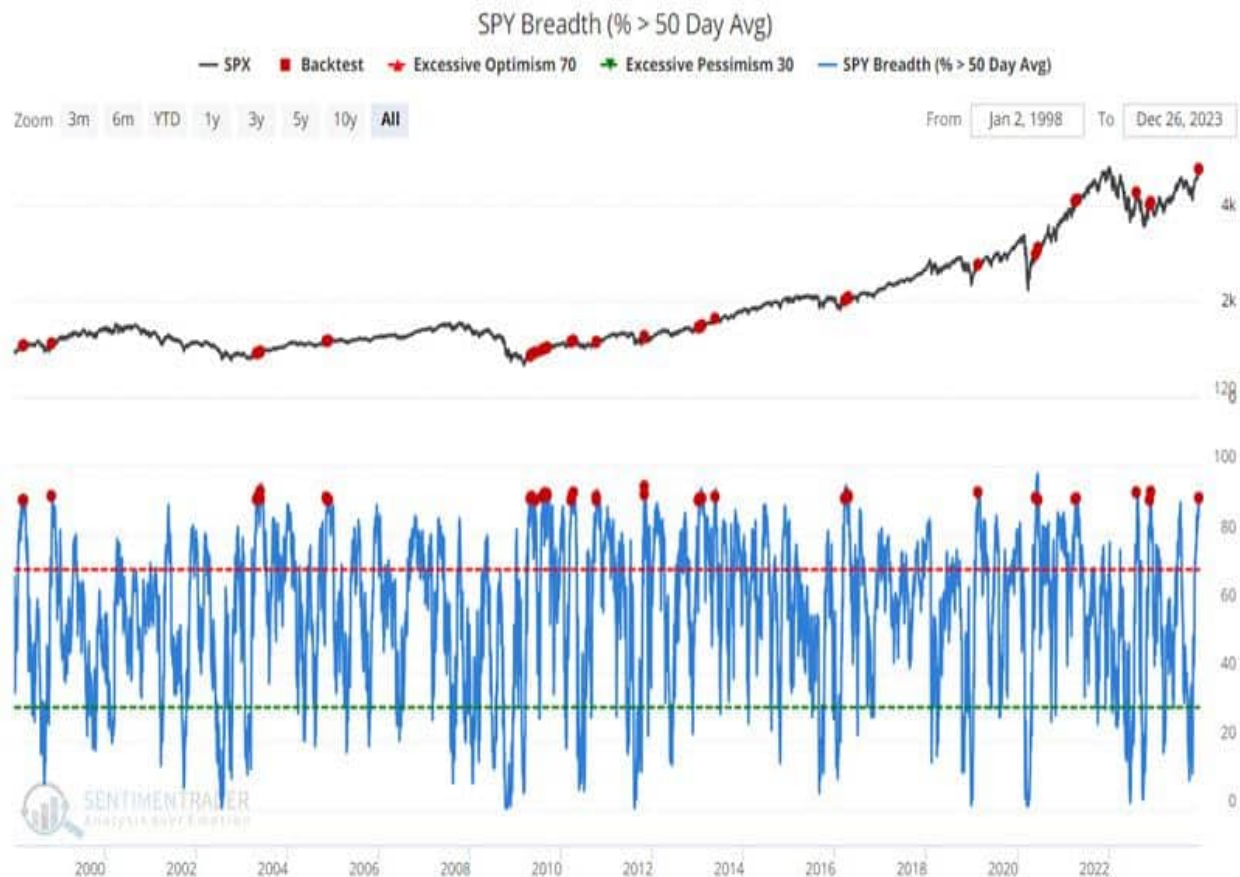


## SentimenTrader is Bullish Despite Overbought Conditions

Breadth signals may indicate an overbought market, but [SentimenTrader](#) is still bullish. The key reason is a buy signal from its SPY breadth indicator, which signals points at which 90% or more S&P 500 stocks are above their 50-dma using data since 1998. The data is convincing, with a positive central tendency return over all measured timeframes and win rates above 80% three, six, and nine months following the signal. The last call for a buy (before December 19<sup>th</sup>, 2023) was triggered on November 25<sup>th</sup>, 2022. Since then, the S&P 500 has been up over 20%, but remember that this buy signal occurred with the market oversold on a longer-term basis.

While the back-test results argue for a bullish bias to the market outlook, they are a study of history and don't guarantee that's how it will play out this time. We are proceeding with caution and would look for a temporary pullback before increasing exposure.

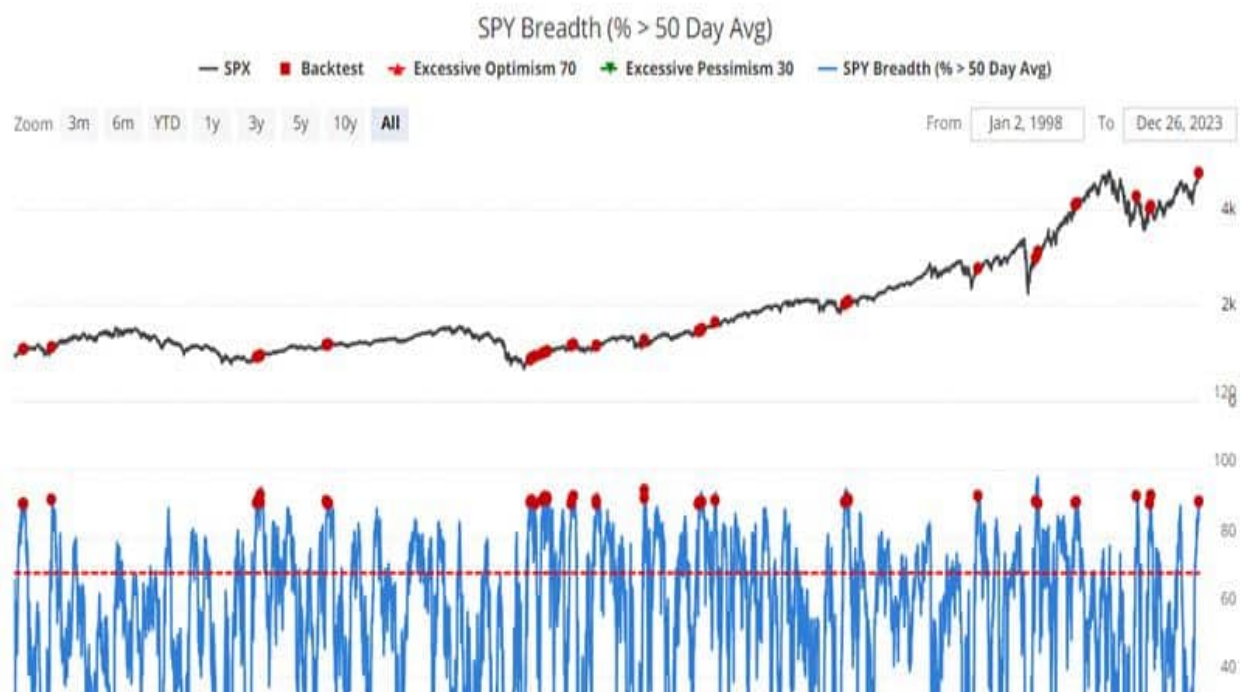
The chart below highlights each date when the SPY Breadth (% > 50 Day Avg) indicator crossed above 90% (including overlaps) since 1998. **The most recent signal occurred on 2023-12-19.**



The table below summarizes performance results for the S&P 500 Index following previous signals.

SPX	1 Week Later (%)	2 Weeks Later (%)	1 Month Later (%)	2 Months Later (%)	3 Months Later (%)	6 Months Later (%)	1 Year Later (%)
Average Returns	0.61%	0.57%	1.01%	2.06%	3.69%	7.63%	14.92%
Median Returns	0.47%	0.64%	2.05%	2.69%	4.44%	8.81%	13.13%
Win Rate	71%	71%	71%	71%	85%	83%	98%

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