

Market comment 2nd December – Banking on Santa

Now that we are in the meteorological winter, which weather forecasters claim runs from the 1st December to the end of February and Advent, what is important for investors is whether we will enjoy a “Santa’s rally” this year. Past experience suggests December is more likely than not to deliver a positive result for investors, though why this should be the case is far from clear.

It is probably too simplistic to put it down to professional investors being full of Christmas spirit. What is more likely is that those institutional investors, such as insurance companies and pension funds, that operate to a calendar year end are busy balancing the books before December draws to a close. As this could well involve spending any cash that has accumulated, buying is a more likely activity than selling.

Not that this is a one-way street. There is evidence that a number of sovereign wealth funds have been selling down their portfolios. In the case of Saudi Arabia, this undoubtedly has much to do with the large deficit the country is running, itself a consequence of the weakness of the oil price. While this can largely be blamed on the slowdown in China, the Saudi decision to maintain production in an effort to knock out higher cost producers will have contributed.

So far there is little evidence this has had the desired effect, though some shale oil producers in America must be feeling the pinch. With OPEC due to meet shortly, it will be interesting to see if the Saudis moderate their position. And, of course, an important climate change conference involving a large number of world leaders has been taking place in Paris. If China decides to burn less coal in order to reduce carbon emissions, (air pollution is a major problem in Chinese cities), then perhaps oil could receive a boost.

But markets are in an uncertain mood. It is a busy time for news on the banking front, which may account for the nervousness. The stress tests applied by the Bank of England to ensure our banks can withstand another financial shock turned out reasonably well, even if RBS and Standard Chartered only managed to limp through. The European Central Bank could well announce further stimulus shortly, while the Governor of the US Federal Reserve Bank will be making some important pronouncements. Perhaps what we learn from these two important central bankers will set the tone for the month.

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