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Last Week's S&P 500 Index: +1.7%

Santa Claus came early this year

Key takeaways

- The major U.S. equity indices have posted nice year-to-date returns after a big move higher in November.
- The S&P 500 Index is near what we would consider to be fair value for this point in time, but we look for additional gains in 2021.

For the past week or so, investors have started to hear a topic discussed every year about this time, no matter what stock market performance has been over the prior 11 months. Whether the market has been naughty or nice really doesn't make any difference. Every year stock investors ponder the question of whether there will be a "Santa Claus rally" to finish out the year.

Technically, the "official" time frame for a Santa Claus rally is the week of trading between Christmas and New Year's Day. But hey, this strategist likes the entire holiday season starting with Thanksgiving, so the Santa rally time frame is a bit more extended. It's nice to throw a market party for the entire month of December, if possible. And it has certainly happened often in the past. December, historically, is one of the strongest months for stock market performance, looking back over the past 65 years. Indeed, the three-month period from November 1 through the end of January has tended to be very good for equities.

But we also like to look at the fundamentals and valuations before getting all wound up with holiday cheer. OK, that may sound a bit like Ebenezer Scrooge, but sometimes all that cheer needs a shot of reality along with the eggnog. And this might be one of those times. We have been recommending taking advantage of pullbacks and dollar cost averaging into stocks for some time, but it might be time to take note of what the market has done.

Do we look for higher stock prices in the coming 13 months? Yes, we do. If the S&P 500 ends near current levels, next year we could see a total return (index appreciation plus dividends) in the 5% to 10% range based on our current work. So even after a nice run higher in this volatile year, we continue to see upside through year-end 2021.

The S&P 500 just posted its best November performance since 1928 (+10.8%) and is up just over 14% on a year-to-date basis. November performance was an impressive feat over a four-week time frame and one that should make investors very happy.

It is now time to enjoy the remainder of the holiday season and be thankful for family and friends. Santa Claus came early this year.

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