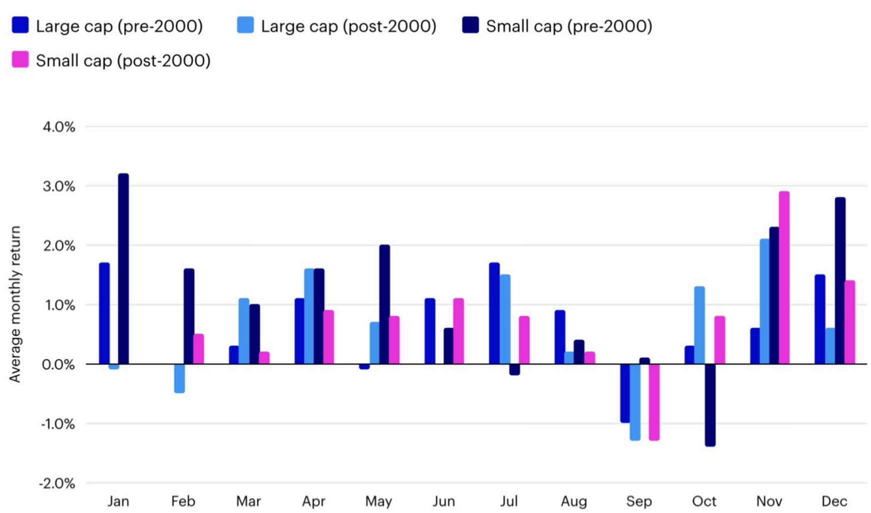
2026.01.28

An auspicious start to the year, with major indexes posting positive gains. In Financial Services, this is known as the **January Effect**, a barometer which purportedly heralds the direction of capital markets. Adherents to this argue that as January goes, so does the rest of the year.

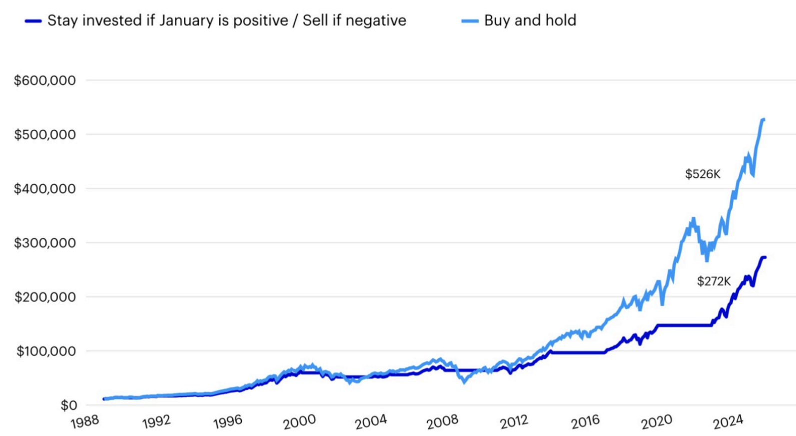
Historically US stock returns tend to be positive to start the year, particular among small cap stocks. Several theories attempt to explain the phenomenon, with year-end tax loss harvesting, seasonal liquidity and investor psychology among the most common[1] (if you're not going to be optimistic at the start of a new year ahead, when will you be?!).

The effect was widely observed in the last century, but in the first quarter of this one, its presence has diminished significantly (see below graph). As for directional insight, statistically speaking the S&P 500 has gained in three of every four years where January has been positive, suggesting a predictive nature to the January Effect.



Notwithstanding this, we are of the view that the January Effect is overstated. Even when positive, January has rarely been a year's best-performing month (though its return is slightly higher than the average return across the remaining eleven months). The S&P 500 has also posted gains in three out of every four years, suggesting that the barometer's predictive power may be more coincidence that a true signal.[2]

More, in years where the S&P 500 has been negative in January, the market has been negative just slightly more than half the time -marginally better than a coin toss.[3] Regardless, exiting the Market after a down January hold the potential to miss subsequent gains for the year, subtracting from an investor's long term aggregate return. Historical data shows that a buy-and-hold approach would have meaningfully outperformed a strategy that times the market based simple on the direction of January returns[4] (see below graph).



The beginning of a new year is always exciting, as it's the start of anything we want it to be. But with investing -as with life- we should approach the turn of the calendar from one year to the next with the resolve to find opportunities in every day, not just those in January.

Thanks for reading!

Martin

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1. Bloomberg L.P., Dec. 31, 2025. Based on monthly S&P 500 Price Index returns since inception from 1928 through 2025 and monthly Russell 2000 Price Index returns since inception from 1979 through 2025.
2. Bloomberg L.P, Dec. 31, 2025. Based on monthly S&P 500 Price Index data since inception from 1928 through 2025.
3. Bloomberg L.P, Dec. 31, 2025. Based on monthly S&P 500 Price Index data since inception from 1928 through 2025.
4. Bloomberg L.P, Dec. 31, 2025. Based on monthly S&P 500 Index total return data from 1989 through 2025.

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