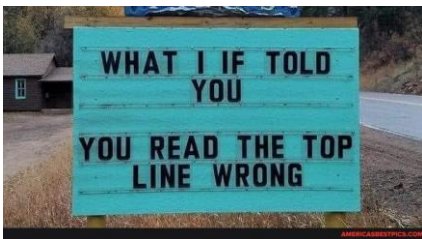


am
FX

Brent Donnelly

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Current Views

Short NZDCHF @ 0.6240

Stop loss 0.6365
Take profit 0.6085

**17JUN 157/154 GBPJPY
put spread**

Cost around 37bps
Spot ref. 160.20

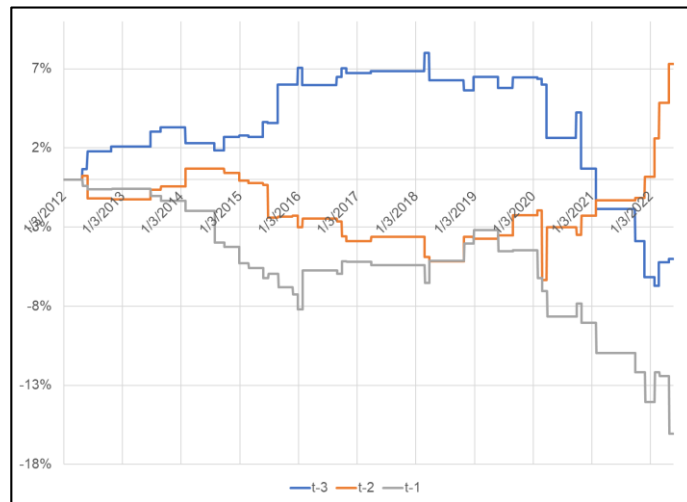
Turn of the month

You see a ton of news about month end bond/equity rebalancing in months like this when stocks are down. The idea is that target date and 60/40 funds and other investment strategies will rebalance out of bonds and into stocks to get back to their desired ratios. This should create buying pressure in stocks and selling pressure in bonds. It makes sense, but the data doesn't really support it from what I see.

My first chart shows cumulative SPX performance 1, 2, and 3 days before the end of only months where stocks were down, back to 2012. In the chart, t is the first day of the new month, so t-1 is the last day of the previous month, t-2 is the second last day of the month etc. Today is t-6. The line is cumulative performance of going long only on that day.

You can see that t-2 is bullish recently (and stocks settle t-2) but overall t-1 and t-3 are bearish while t-2 looks pretty random overall. The fact that t-1 and t-3 are bearish is extremely surprising given a) stocks have gone up a ton since 2012 so any random backtest you do will be bullish and b) t-1 is generally a powerfully BULLISH day. If anything, my chart shows the opposite of rebalancing. That is, in months where stocks are down, they perform much WORSE than you would expect on t-1 and t-3. And t-2 doesn't make up for it.

SPX performance on the three final days of each month
Only months where SPX was down going into final three days



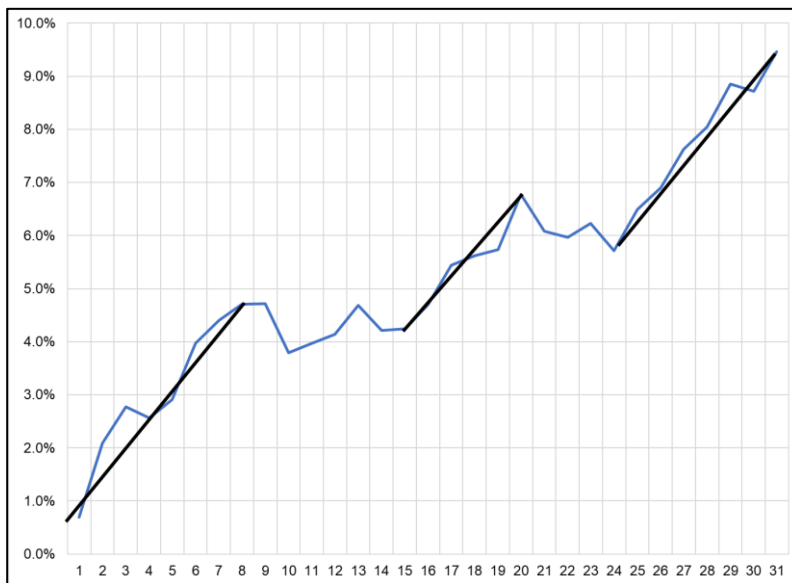
That don't impress me much

Like I said, this is surprising and makes me think there are perhaps trend-following models that also operate on month end and the net flow into the end of the month is much more balanced than people think. My choice of three days before month end was arbitrary, so perhaps there is a better time frame to pick to find the effect in the data? If you have seen any good bank research on this, please send to me. I mean studies of market performance in reaction to month end equity rebalance. Thanks!

When you look for academic studies on month-end rebalancing, what you mostly find are studies of the "turn of the month" effect. This is a well-known effect where risky assets do exceptionally well around the turn of the month. This effect has been around forever, and most studies focus on the last day of the month plus the first three days of the new month as the juiciest period. This also applies to crypto.

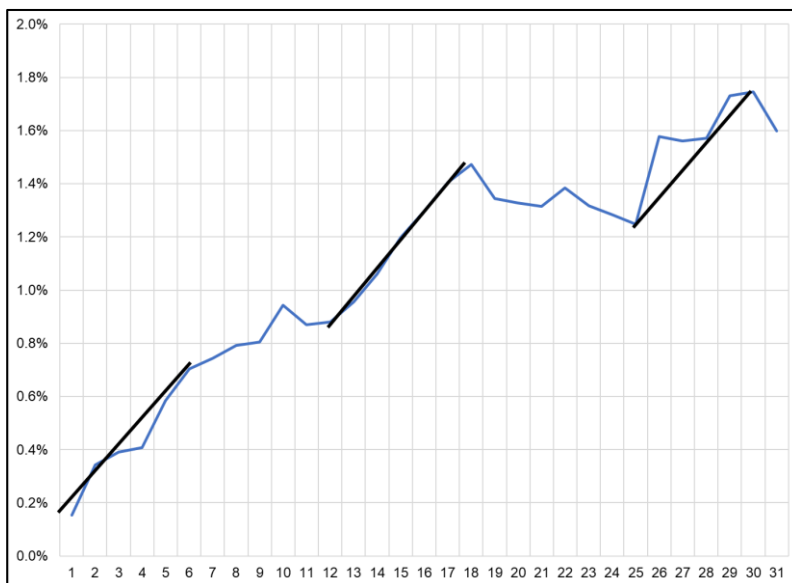
Risky financial assets like stocks and crypto tend to generally follow three bullish waves each month. The first week of the month is bullish, the period from the 15th to the 20th is bullish, and the last week is bullish. Here is day-of-the-month cumulative performance for stocks for all months since 2009.

Cumulative performance of SPX over the course of the month (2009 to 2022)



Not surprisingly, crypto looks the same:

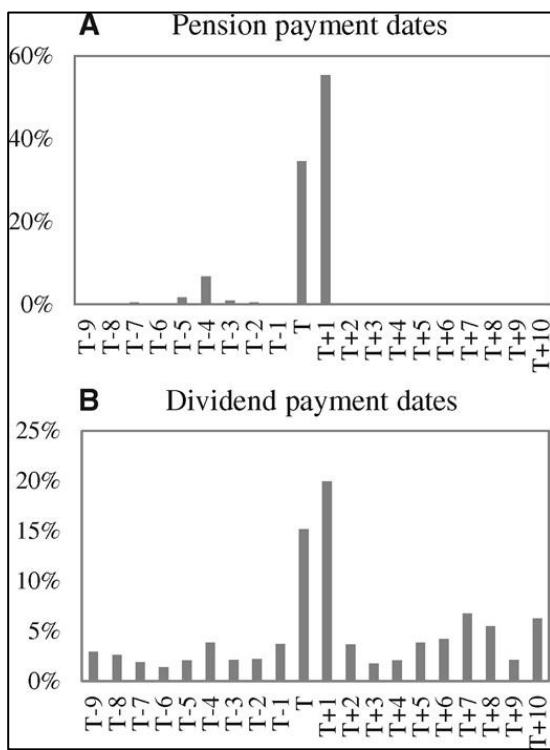
Cumulative performance of BTC over the course of the month (2015 to 2022)



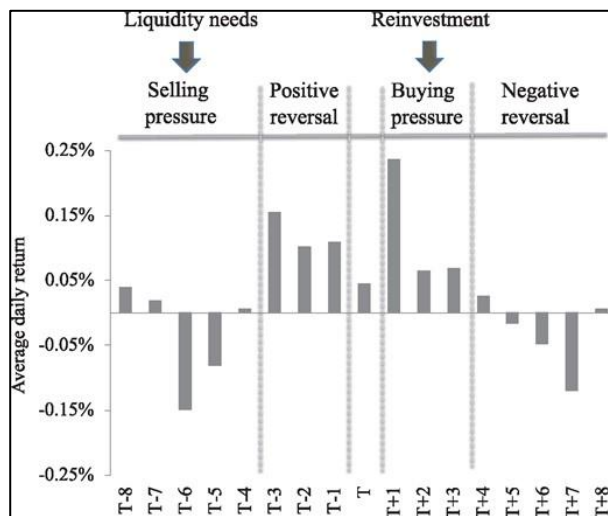
The simple explanation here is that pensions, dividends and salaries are paid around first and 15th of the month and these flows pump huge amounts of cash into the system and some of this cash is invested into risky assets. If you Google “turn of the month effect” you will find many papers [including this one](#), which is excellent.

Here are a few charts from that paper that help explain all this.

Panel A shows the % distribution of pension payments. Panel B shows the % distribution of dividends. In this paper, T is the last trading day of the month.



And here is equity performance around the turn of the month.



Performance of value-weighted NYSE/NASDAQ index around the turn of the month

Conclusion: The turn of the month effect is persistent over many years and in almost every country in the world. There is a ton of evidence to support it. Month-end rebalancing in stocks, on the other hand, seems to be more of a fun narrative, not an empirically verifiable effect. Figured you oughta know.

Have a funny day.

good luck ↑↓ be nimble



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