

## **RETURNS ON UK EQUITIES ARE HIGHEST IN JANUARY, APRIL AND DECEMBER**

In the UK, there are three months of the year when returns on equities are significantly higher than the rest of the year: January, April and December. That is the central finding of **Richard Priestley** in an article in the November issue of the *Economic Journal*. The higher returns in these months are the direct result of the higher risks present at these times, in particular, a seasonal business cycle where output changes over the calendar year.

Priestley finds that the important time of year in terms of the seasonal business cycle is the end of the year. This corresponds to the January and December seasonal pattern in stock returns. Priestley shows that shocks to key information variables carry a higher risk premium at that time. Sales and outputs are generally higher in the holiday period around Christmas and this has implications for future levels of economic activity.

The April seasonal pattern may be related to the risk of changes in government policy arising from the annual budget and the end of the UK tax year, both of which may affect future economic activity. 'It is possible', Priestley suggests, 'that information released in the Budget will cause investors to reassess the future performance of the economy and thus this period can also be viewed as a riskier period in the UK economy.'

Priestley notes that it is well known that stock returns are higher in some months relative to others. In the US, the 'January effect' relates to the significantly higher stock returns earned in this month compared to the rest of the year, which has been attributed to tax loss selling. This theory has recently been brought into question and an alternative explanation is that, as in the UK, the seasonal patterns are due to the changing risk-return structure.

**Note:** 'Seasonality, Stock Returns and the Macroeconomy' by Richard Priestley is published in the November 1997 issue of the *Economic Journal*. Priestley is at the Norwegian School of Management, Elias Smith Vei 15, 1301 Sandvika, Norway.

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