

Bloomberg

One Theory for the Giant Stock Rebound Is a \$60 Billion Pension Frenzy

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- ▶ S&P 500 posts biggest upward reversal since 2010 on Thursday
 - ▶ Pensions have \$60 billion to rebalance, among the most ever
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Trying to figure out what caused the biggest single-day stock turnaround since 2010? At least one analyst attributes it to buying by pension funds that dove into equities after December's carnage.

The S&P 500 Index posted the biggest upward reversal in eight years during Thursday's session, rallying back from a 2.8 percent deficit. The about-face could reflect end-of-quarter adjustments by pension funds that have \$60 billion of shares to buy this month, among the most ever, according to Wells Fargo's Pravit Chintawongvanich.



Institutional investors with large holdings in stocks and bonds use the end-of-quarter period to balance out holdings, adding to losers and cutting on winners. This time, they went big on U.S. large and small caps, adding \$35 billion and \$21 billion to indexes that are set to post the worst month since 2009. Money got pulled from fixed income that's outperformed stocks, he said.

“While the \$60 billion rebalance is historically large, its effect is probably exacerbated by the low market liquidity conditions,” Chintawongvanich said in a note to clients. “A given dollar to buy or sell is moving the market more than it normally would.”

Nothing guarantees the rally will be repeated, Chintawongvanich said, as such phenomena are quickly exploited by other traders. Now that the end-of-day rebalancing is well known, traders may buy ahead of pension funds only to sell high during the end-of-day rally. Those waiting for the right moment to dump a lot of stock may could do so in the last hour of the session.

The S&P 500 fell as much as 2.8 percent on Thursday before erasing its loss to rise 0.9 percent at the close. Since 1984, there was only one other session, in 2008, when the S&P was down more than 2 percent 1.5 hours before the close and finished the day 0.5 percent higher, data compiled by SentimentTrader show.

The index gave up an early advance to trade lower by 0.2 percent as of 10:48 a.m. in New York, Friday.