INDUSTRY UPDATE

Quant Strategy

OSEBX January effect portfolio

Research analysts:
Paul Harper
+47 90 29 55 87
paul.harper@dnbcarnegie.no
DNB Bank ASA, DNB Carnegie

Guro Ronglan Aarnes
+47 97 77 50 13
guro.ronglan.aarnes@dnbcarnegie.no
DNB Bank ASA, DNB Carnegie

Investors hoping for a Santa rally have received little more than reindeer droppings in their Christmas stockings for the last three years. Nevertheless, the January effect strategy's track record is still strong when viewed over the past 25 years, with a win rate of 84%. The stocks are selected on a purely quantitative basis, identifying the weakest performers YTD, in line with the methodology outlined in academic research on this well-documented market anomaly.

January effect background and methodology. While there are various approaches to capitalising on the January effect, our methodology aims to replicate the strategy academic literature has found to be most reliable by selecting the 10 weakest performers YTD on a quantitative basis. This has provided positive returns in 20 of the past 25 years. Our back-testing has found that the optimal holding period is from the middle of December until the fifth trading day in January (8 January 2025).

This year's portfolio includes six different sectors. The portfolio consists of Bakkafrost, Bonheur, Bouvet, Cadeler, Entra, Equinor, MPC Container Ships, TGS, Tomra and Vend Marketplaces. This offers reasonable diversification from a sector perspective. Financials and Materials are the only large-cap sectors without representation, and for the first time in several years, there are no Healthcare companies. Market performance in 2025 has not been driven by a dominant macro factor, which has improved portfolio diversification compared to some previous years.

January effect performance has been disappointing in the last three years. A closer look at the data reveals that the January effect has become less pronounced in recent years. The optimal start date has varied over time, but in recent years has not consistently become earlier in December, although with the benefit of hindsight an earlier start would probably have been more advantageous this year. Although the strategy has outperformed the market 20 times in the last 25 years, it has only outperformed in one of the five years when the wider market declined. This offers a potential explanation for the underperformance in 2022/23 and 2023/24, while hopefully the underperformance last year was simply the exception that proves the rule.

OSEBX January effect portfolio

Historically persistent anomaly with academic verification

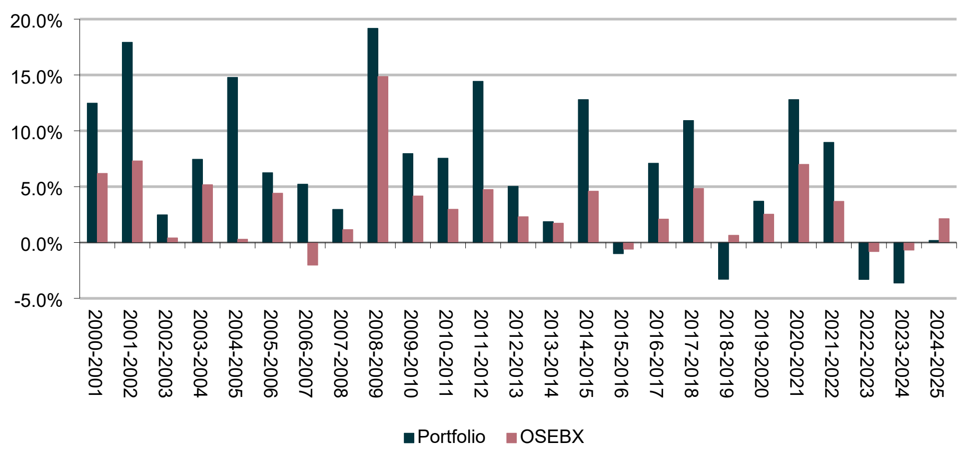
The January effect was first documented by Sidney Wachtel in his paper "Certain Observations on Seasonal Movements in Stock Prices", which was published in the Journal of Business in 1942[1]. Rozeff and Kinney (1976) found average monthly returns in January of ~3.5% compared with around 0.5% per month for the rest of the year, based on an equally weighted index of the New York Stock Exchange in 1904–1974.

The pattern of stronger share price returns in January has not been evident in the Dow Jones Industrial Average (Lakonishok and Smidt, 1986), suggesting large-cap stocks are not affected in the same way as small and mid-caps. This was corroborated by Donald Keim (1983), who found that half the excess returns attributable to small firms (the 'small firm effect') occurred in January, and that half of the January returns came in the first five trading days. As a result, we recommend closing positions on Thursday 8 January 2025.

A closer analysis of the stronger returns for small firms in January by Marc Reinganum (1983) found that returns were highest for companies that had declined in the previous year, leading to the theory that the effect was due to investors selling 'loser' stocks at the end of the year to crystallise tax losses, incrementally depressing the price. These same stocks then outperformed in January as they returned to their 'fair' values when the tax-loss selling had abated. Tax cannot completely explain the January effect, as it has also been documented in the UK and Australia, where the tax year is offset from the calendar year. However, both of these countries do tend to see higher returns at the start of their tax years, suggesting tax does play a part.

The January effect has also been evident on the Oslo Stock Exchange, with a portfolio of YTD OSEBX 'losers' outperforming the wider market in 20 of the past 25 years. The consistency of the anomaly may be helped by the high number of stocks on the Oslo Stock Exchange falling within the definition of 'small cap' by international standards. Three of the five occasions where the January effect portfolio underperformed were in years when the OSEBX index declined during the holding period, including both 2022–23 and 2023–24. There has only been one year (2006–07) when the January effect was evident despite the index falling[2].

January effect portfolio return versus OSEBX



Source: Bloomberg data, DNB Carnegie (calculations)

Our methodology of selecting the 10 weakest performers YTD for our January effect portfolios is based on the substantial volume of academic research on the subject, and is a purely quant-

[1] Washington Post, 3 October 2008 (Sidney Wachtel obituary)

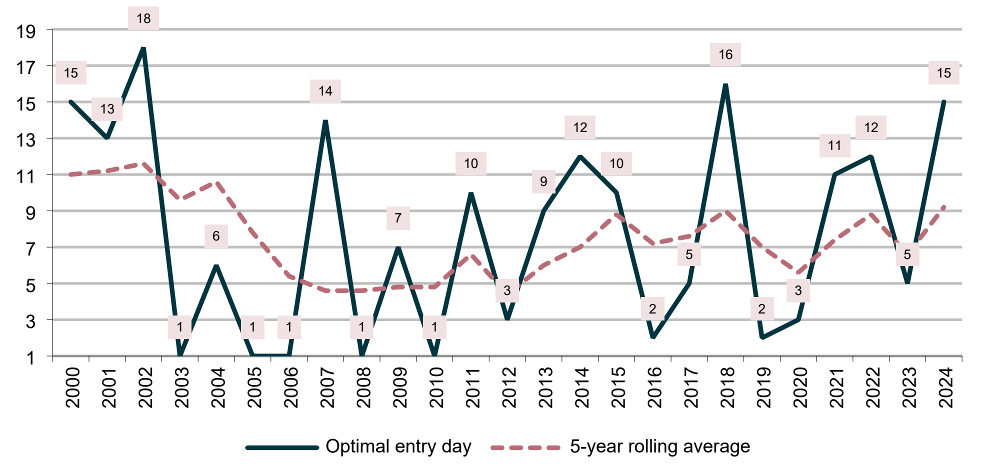
[2] This text is repeated from last year's January effect report

based process with no qualitative overlay or consideration of DNB Carnegie's bottom-up stock recommendations.

Optimising timing for the January effect

The first couple of weeks in December have often had relatively soft returns, so the optimal start date for maximising returns is typically from the middle of the month. The optimal start date has varied and moved from just prior to Christmas in 1980–2002 to early in December in 2003–12. But from 2013 it has trended back towards the middle of December. Our back-testing has found the fifth trading day in January to be the optimal exit time for January effect trades, in line with the 'small firm' effect conclusions of the study by Donald Keim (1983). This time that day will be Thursday 8 January 2026.

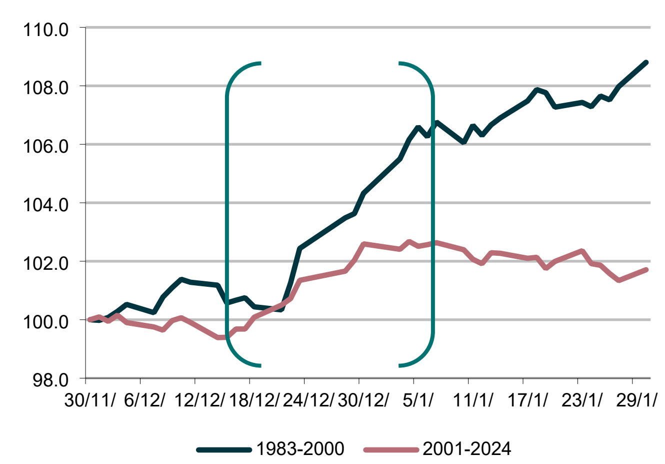
December trading day with lowest OSEBX closing price



Source: Bloomberg data, DNB Carnegie (calculations)

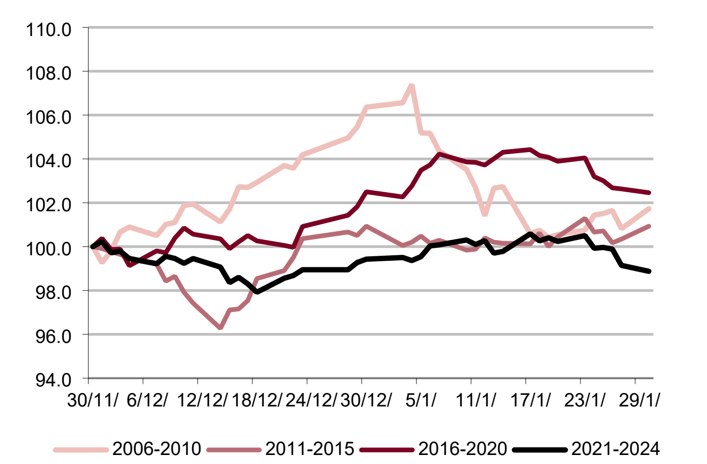
A closer look at the data shows that performance during December and January has gradually weakened from being exceptionally strong in the 1980s and 1990s to more moderate in the 2000s. The last four years have seen OSEBX returns of just 2% on average during the designated holding period – still good on an annualised basis but providing very little room for error when also factoring in trading costs. We calculate the portfolio's performance based on volume weighted average price in the first hour of trading after announcing the portfolio constituents, which has historically shaved performance by at least one percentage point compared to the closing prices the day before, leaving less than a percentage of potential upside.

OSEBX: Average price performance in December and January



Source: Bloomberg data, DNB Carnegie (calculations)

OSEBX: Average price performance in December and January



Source: Bloomberg data, DNB Carnegie (calculations)

Poor performance in the past three years

The portfolio has produced disappointing returns in the last three years, with modest underperformance. The large risk-free rate increases in 2022 and 2023 resulted in the portfolios being very concentrated in names with negative correlations to interest rates (particularly growth companies with weak balance sheets). A further increase in rates during the portfolio holding periods resulted in poor performance, with both the OSEBX index and portfolio recording negative returns. The strategy has a poor track record when the market declines, with a win-rate of only 20%, compared to 90% when market returns have been positive. Last year's portfolio was one of the only two occasions since 2000/2001 when the strategy has underperformed in a rising market, although much of the relative underperformance was due to one of the constituents falling 16%.

January effect portfolio selection

The portfolio simply consists of the 10 weakest YTD performers in the OSEBX index. For the first time in many years, none of the companies in this year's portfolio were in the previous year's portfolio. Sector diversification is reasonable, with six of the level 1 GICS sectors represented. Materials and Financials are the only sectors with large index weightings that are not represented and for the first time in several years there are no Healthcare companies in the portfolio.

OSEBX: YTD most negative total returns

Rank	Company	Price (NOK)	YTD Change (%)	Market Cap (NOKbn)	GICS Sector
1	Cadeler	46.32	-27.3	16,256	Industrials
2	Bakkafrost	487.80	-21.0	28,970	Consumer Staples
3	TGS	91.55	-13.0	17,999	Energy
4	Bouvet	63.40	-13.0	6,581	Information Technology
5	Vend Marketplaces	288.40	-12.6	67,222	Communication Services
6	Bonheur	227.50	-10.3	9,676	Industrials
7	Tomra	135.00	-6.7	39,965	Industrials
8	Equinor	232.70	-5.4	594,969	Energy
9	Entra	111.00	-3.1	20,217	Real Estate
10	MPC Container Ships	17.31	-2.0	7,680	Industrials

Source: Bloomberg data; DNB Carnegie (calculations)

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DNB Bank ASA, DNB Carnegie
Dronning Eufemias gate 30
0191 Oslo | Norway
Telephone: +47 915 04800

www.dnb.no

DNB Carnegie Investment Bank AB
Regeringsgatan 56
103 38 Stockholm | Sweden
Telephone: +46 8 676 88 00

www.dnbcarnegie.se

DNB Carnegie Investment Bank, Denmark Branch
Overgaden neden Vandet 9B
1414 Copenhagen K | Denmark
Telephone: +45 32 88 02 00

DNB Bank ASA, Singapore Branch, DNB Carnegie
1 Wallich Street Downtown Core 06
#30-01, Guoco Tower,Singapore 078881
Telephone: +65 6260 0111

DNB Carnegie Investment Bank AB, Finland Branch
Eteläesplanadi 2 PO Box 36
FI-00131 Helsinki | Finland
Telephone: +358 9 618 71 230

DNB Bank ASA, London Branch, DNB Carnegie
The Walbrook Building, 25 Walbrook
London EC4N 8AF | England
Telephone: +44 20 7216 4000

DNB Carnegie Investment Bank AB, UK Branch
The Walbrook Building, 25 Walbrook
London EC4N 8AF | England
Telephone: +44 20 7216 4000

DNB Carnegie, Inc.

30 Hudson Yards
New York, NY 10001 USA
Telephone: +1 212 551 9800