

## Sunday, Sunday At Beautiful S&P Futures Drag-a-Way

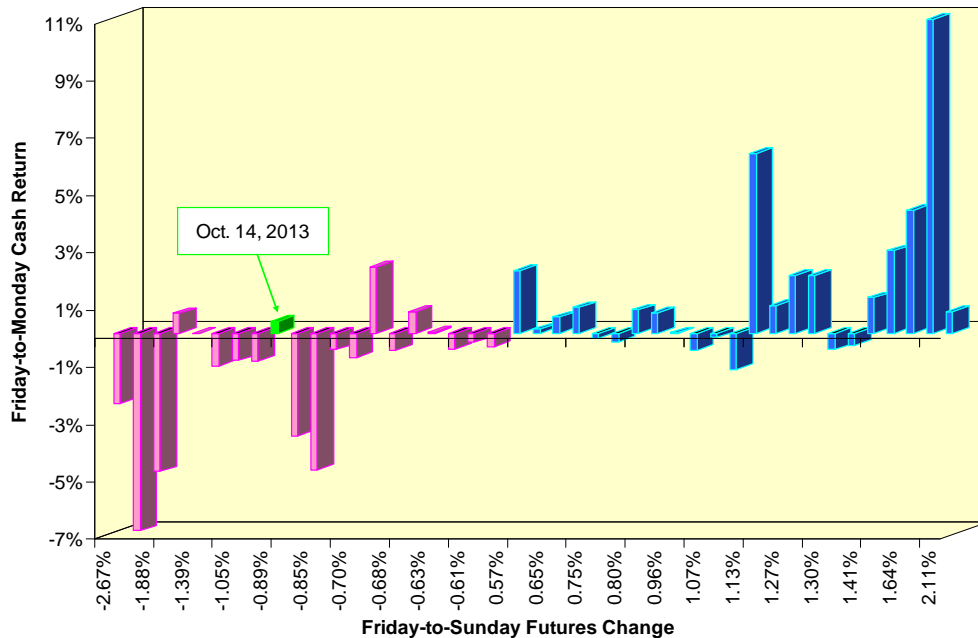
T.S. Eliot's J. Alfred Prufrock may have measured out his life with coffee spoons, but I have measured mine with the rhythms of the quote screen. Every late Sunday afternoon for more than three decades I have watched what happens when the sun rises over the International Date Line, rousts New Zealand bankers out of their beds or whatever they actually sleep on in New Zealand and unleashes the currency trade for the next week.

While evening hours began for Treasury futures in May 1987, it was not until September 1997, two months into the Asian financial crisis, that this parade was joined by Sunday evening trading in the S&P 500. Each time the first print hits with a big up or down move on Sunday, I wonder whether this is a gap-and-go or whether this is the start of a bull or bear trap to be reversed as early as the next day. My sense was, more often than not, the large gaps from Friday's close to Sunday's open were "fades," something to be reversed.

But why guess when you can analyze? The dreary drama of the debt ceiling debate led to a large gap lower on Sunday, October 13<sup>th</sup>, and while I was pretty sure this was a fade I had to wonder given the capacity of political children playing with matches to start a fire someday. So I constructed a simple test: If the gap from Friday to Sunday lies outside of an in-sample 90% confidence interval for all close-to-open gaps, what happened to the S&P 500 cash index on the following Monday? Holiday Mondays and the reopening of the market following the September 2001 closure were excluded.

The results are displayed below with gaps higher depicted in blue and gaps lower depicted in pink. I have to admit I was a little surprised by the results. My predilection is to assume the opening gaps are something caused by the anxious only to be closed by the proverbial cooler heads. There have been a total of 20 gaps lower, of which a grand total of five were reversed during the day on Monday; the corresponding numbers for gaps higher are 23 of which seven were reversed. Last Monday was one of the five gaps lower reversed during Monday.

**S&P 500 Returns On Sunday Evening  $\pm$ 90% Gap Openings**



What were the largest Monday gap-and-go moves in the same direction? The largest gap higher was October 13, 2008, the day when Hank Paulson et al dragged the nation's top bankers into a room and told them they were taking TARP funds whether they liked it or not. The largest gap lower was August 8, 2011, just before another debt and default ceiling manufactured crisis was settled. If it seems to you Uncle Sam is involved in changing investors' perceptions of the survivability of life on Earth, you may be on to something.