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Market Down & Dirty

Last Week's Economic/Market Summary – March 16, 2020

Data

- U.S. equity benchmarks were all substantially lower in what was the worst week for stocks since '08.
    - The Russell 2000 led to the downside with a loss of 16.4%.[1]
        - The All-Country World Index sank 12.39%.[1]
    - S&P 500 sub-sectors were all notably lower last week.
        - Healthcare & Technology were the best performers at -6%.[1]
        - Energy & Utilities led to the downside with losses of 24% & 14%.[1]
    - The CBOE Volatility Index (VIX) was up 37.9% to end at 57.8. [1]

- US Treasury bonds saw significant weakness on the longer maturities despite the sell-off in stocks.
    - US 2yr -0.02%, US 10yr +0.20% to 0.96%, US 30yr +0.24% to 1.53%.[1]
    - The Federal Reserve did an emergency rate cut to 0% - 0.25% on Sunday. [1]
        - Despite this historic move, equities futures hit their limit down overnight.

- Commodities as an aggregate asset class lost roughly 13%.
    - WTI Crude collapsed 25%.[1]
    - Gold had its worst week in 3 decades ending with a loss of 8.6%.[1]
    - The US Dollar index gained 2.46%.[1]

- In our opinion, U.S. economic data was mixed last week.
    - While economic data points will continue to be monitored, we take this old data with a grain of salt as what's to come as a result of COVID-19 is more important in our opinion.

- An index of equities outside the US (MSCI EFA) declined roughly 13% last week. [1]

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[1] Source: Bloomberg – 3/13/2020

Conclusion

- US equity markets finished the week down in a historic trading week as the 11-year old bull market came to a screeching halt on Wednesday.
    - Just last week, the S&P 500 saw its worst day since 1987, two 15-minute trading halts, stimulus/liquidity measures enacted from global central banks, and the initial salvo in an oil price war.
    - S&P 500 -8.7% Dow -10.2%, Russell 2000 –16.4%, Nasdaq -8.1%.[2]
- Global equities were hit even worst last week.
    - MSCI's index of developing nation stocks crashed 12% in the worst week since 2008.[2]
    - Japan -16%, China -4.8%, Eurozone -18.4%, Italy -22.7%, MSCI Emerging -11.9%.[2]
- S&P 500 sub-sectors all moved dramatically lower last week.
    - Energy led to the downside with a drop of more than 24%.[2]
        - This sector is down a stunning 46% year-to-date. [2]
        - We're very pleased to have cut all associated exposure to this sector once the facts changed regarding the price-war that erupted between Saudi Arabia & Russia.
    - The historically defensive sector of Utilties was the 2nd worst performer. [2]
        - We believe widespread deleveraging by speculative, institutional traders was the main culprit that accelerated this sell-off.
        - As previously discussed, anything associated with the low-volatility factor was extremely crowded and when all seemed to run for the exits, it was anything but low-volatility.
- US Treasuries with any duration & bonds in general with any credit risk experienced pain last week.
    - Mid-week the 10-yr Treasury set a new all-time low of 0.40%, then closed the week at 0.96%.[2]
        - We can't reiterate enough that while all eyes are on the stock market, this type of move in the credit markets is even more historic.
    - In areas where many investors/money mgrs "reached for yield", last week was equally painful:
        - Investment Grade Corporates were -5%, High-Yield was -7.6%, Biz Development Index -18.6%, Levered Loan Index -7.1%.[2]
        - Needless to say, traditional 60/40 portfolios had their worst week since 2008.
    - We're happy to have stuck to our guns with clients' portfolios and stood firm in mostly less than 2yr maturity US Treasuries, which were slightly positive last week.
- The US Federal Reserve announced an unexpected rate cut of a full percent to near zero and will boost its bond holdings by $700 billion. [2]
    - This type of action is similar to what happened during the 2008 Financial Crisis.
    - In our opinion, this is in order to ensure liquidity is maintained in the US banking system.
    - We believe this is just the beginning of Gov't & Fed intervention and the proverbial "stimulus bazooka" from global central banks will come at some point in a coordinated manner.

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[2] Source: Bloomberg – 3/13/2020