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Market Down & Dirty

Last Week's Economic/Market Summary – March 30, 2020

Data

- U.S. equity benchmarks bounced back in force last week.
  - S&P 500 +10.3% Dow +12.8%, Russell 2000 +11.7%, Nasdaq +9.10%[1]
    - The All-Country World Index gained 9.94%[1]
  - S&P 500 sub-sectors were higher across the board last week.
    - Utilities & Industrials led to the upside with gains over 14%.[1]
    - Consumer Staples & Healthcare returned the least at +6.17% & +7.46% respectively.[1]
  - The CBOE Volatility Index (VIX) dropped 0.8% to end at 65.5.[1]

- US Treasury bonds also advanced higher along with equities.
  - US 2yr -0.07% to 0.24%, US 10yr -0.17% to 0.67%, US 30yr -0.15% to 1.26%.[1]
  - Investment Grade Corporates & Municipals bounced back big after the Fed pledged support.

- Commodities as an aggregate asset class were slightly positive on the week.
  - WTI Crude dropped roughly 5%.[1]
  - Gold gained 10%.[1]
  - The US Dollar index lost 4.38%.[1]

- In our opinion, U.S. economic data was mixed last week.
  - New home sales came in at a healthy +765k in the latest week.[1]
  - US Services PMI dropped by the fastest rate in over 10 years.[1]
  - Unemployment claims came in at almost 3 million; 5x higher the previous record high.[1]

- An index of equities outside the US (MSCI EFA) rose 12.2% as a weakening US Dollar helped.[1]

[1] Source: Bloomberg – 3/27/20

Conclusion

- US equity markets bounced back last week following the release of the largest economic relief package in US history by congress in response to the unprecedented slowdown from Covid-19.
    - S&P 500 +10.3% Dow +12.8%, Russell 2000 +11.7%, Nasdaq +9.10
    - The Dow Jones Industrial Average had its biggest weekly gain since 1938.[2]
    - We believe a lot of the bounce-back last week was a result of not only gov't stimulus expectations but also short-covering, quarter-end rebalancing, & fear-of-missing out (FOMO) rearing its head again.
        - In our opinion, it is entirely too soon to call a market or economic bottom as the pandemic in the US is relatively new and its true economic impact virtually unknown.
- S&P 500 sub-sectors all moved massively higher last week.
    - Utilities led to the upside with a gain of 16.44%.[2]
        - Just as Utilties saw the large "traders" get flushed out last week, we think the sector's relative yield attracted some buyers this week on the back of Fed rate cuts.
    - Energy bounced back almost 10% last week but still remains down over 52% so far in 2020. [2]
        - We urge caution in trying to "buy low" in this sector as we believe the broad stock market could bounce higher while Energy names don't as a result of the increased supply & lower demand dynamics that are driving this sector.
        - In our opinion, why not focus on areas of the market that could immediately benefit from low oil prices vs trying to "catch a falling knife."
- The volatility index (VIX) finished the week marginally lower after rising for 5 consecutive weeks. [2]
    - However, we believe that given the magnitude of the equity rally, it was more telling in the short-term that the VIX did not fall lower.
    - In our opinion, the VIX index will need to fall further in order to draw back the institutional crowd into equities.
- The US Dollar index sank 4.3% last week for its largest downward move since 1985. [2]
    - We believe this is a major sign of success in easing financial stresses to the global economy at large.
- The Federal Reserve continued to ramp up its stimulus efforts last week as they lifted their $700 billion cap on bond purchases stating instead that they will buy "in the amounts needed." [2]
    - The Fed also established new facilities to support (buy) investment grade corporate bonds, municipal bonds, & US-listed exchange ETFs. [2]
        - This is a first for this type of Fed support in these areas of the credit markets and seemed to calm these areas of the bond market.

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[2] Source: Bloomberg – 3/27/20