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Market Down & Dirty

Last Week's Economic/Market Summary – April 20, 2020

Data

- U.S. equity benchmarks moved mostly higher for the 2nd week in a row.
  - S&P 500 +3.10% Dow +2.2%, Russell 2000 -1.34%, Nasdaq +6.1%[1]
    - The All-Country World Index gained 2.19%.[1]
  - S&P 500 sub-sectors were mixed.
    - Healthcare, Consumer Discretionary, & Tech led to the upside by a wide margin.[1]
    - Financials, Real Estate, & Materials led to the downside.[1]
  - The CBOE Volatility Index (VIX) declined 8.5% to end at 38.15.[1]

- US Treasury bonds moved opposite of equities as yields moved lower.
  - US 2yr -0.02% to 0.20%, US 10yr -0.08% to 0.64%, US 30yr -0.08% to 1.26%.[1]
  - Longer maturities dropped more than shorter ones, steeping the yield curve.

- Commodities as an aggregate asset class moved lower by 5% last week.
  - WTI Crude gained 10%.[1]
  - Gold dropped 3%.[1]
  - The US Dollar index gained 0.23%.[1]

- In our opinion, U.S. economic data was negative last week.
  - The CFO Index for the 1st quarter slipped to its worst level since '08.[1]
  - Industrial Production decreased 5.5% year-over-year, its biggest decline since '09.[1]
  - Unemployment filings were 5.245 million, bringing the monthly total to 22 million.[1]

- An index of equities outside the US (MSCI EFA) gained just under 1% last week.[1]

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[1] Source: Bloomberg – 4/17/20

Conclusion

- US equity markets moved mostly higher last week as optimism that parts of the American economy may begin reopening in the coming days seemed to carry more weight than economic data releases.
    - S&P 500 +3.10% Dow +2.2%, Russell 2000 -1.34%, Nasdaq +6.1%
        - Major indices have roughly cut their losses in half since late March.[2]
            - We believe this has more to do with liquidity support from central banks and not fundamentals.
            - Please note that S&P 500 forward P/E is back to cycle highs[2] where it was prior to the crash despite the damage done to the economy being largely unknown.
    - The small-cap tracking Russell 2000 was the only negative major US index on the week. [2]
- S&P 500 sub-sectors were extremely mixed last week.
    - Healthcare & Consumer Discretionary led to the upside with gains around 6%.[2]
        - Positive news on the Covid-19 vaccine front and Amazon we big reasons why.
    - Financials led to the downside with a loss of 4.23%.[2]
        - Bank earnings at large were truly terrible with outlooks being extremely negative.
            - We point to European banks as a possible comparison to US banks operating in an extremely depressed interest rate environment.
            - The European Central Bank has been cutting rates and expanding gov't balance sheets for a long time and this has not helped their Financial shares.
- Once again, the US Treasury market seems to be singing a different tune than equity markets.
    - In a clear "risk on" week for equities, Treasuries saw demand increase, driving yields lower.
- Following the large supply cut by OPEC+ last week, WTI crude prices are set to crater further this week as measures of demand point to further deterioration.
    - As of this morning, WTI is set to be 40% lower than where it was a week ago Friday. [2]
    - Interesting to note that despite this supply-demand story being extremely unknown, a record amount of retail investor money has recently piled into a popular oil ETF. [2]
    - We reiterate our caution on trying to "call a bottom" in the Energy market as this area is much more nuanced than others and could lead to unnecessary capital destruction.
        - While we believe an opportunity might present itself here at some point, it's very dangerous to try and be "first" when data doesn't support adding capital here as of yet.
- Economic data has continued to come in extremely depressed and the first week of earnings matched this general direction.
    - Once again, we urge careful consideration when making investment decisions right now as a lot is unknown at present time and using pragmatism vs emotions to drive choice is imperative.

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[2] Source: Bloomberg – 4/17/20