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Market Down & Dirty

Last Week's Economic/Market Summary – April 6, 2020

Data

- U.S. equity benchmarks ended a volatile week slightly down.
    - S&P 500 -2.0% Dow -2.7%, Russell 2000 -2.83%, Nasdaq -1.7%[1]
        - The All-Country World Index declined 3.02%.[1]
    - S&P 500 sub-sectors were mostly negative.
        - Energy, Consumer Staples, & Healthcare were the only positive sectors.[1]
        - Utilities, Financials, & Real Estate led to the downside with losses over 6%.[1]
    - The CBOE Volatility Index (VIX) dropped 28.6% to end at 46.8.[1]

- US Treasury bonds were less volatile and ended the week slightly positive.
    - US 2yr -0.01% to 0.23%, US 10yr -0.08% to 0.59%, US 30yr -0.05% to 1.21%.[1]
    - Lower credit fixed income sold off last week despite the Fed's support.

- Commodities as an aggregate asset class gained over 5% last week.
    - WTI Crude bounced higher by 31%.[1]
    - Gold declined 0.5%.[1]
    - The US Dollar index gained 2.35%.[1]

- In our opinion, U.S. economic data was mixed last week.
    - Existing home sales increased in February...we're more interested in the March data.[1]
    - The Dallas Fed's business activity index for manufacturing in Texas dropped to -70 in March, the lowest reading ever.[1]

- An index of equities outside the US (MSCI EFA) sank roughly 2% last week.[1]

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[1] Source: Bloomberg – 4/3/20

Conclusion

- US equity markets saw a volatile week come to an end lower as investors seem to remain unnerved by the expanding economic, medical, social, & psychological impact of Covid-19.
    - S&P 500 -2.0% Dow -2.7%, Russell 2000 -2.83%, Nasdaq -1.7% [2]
    - The small-cap tracking Russell 2000 lagged the other major benchmarks once again.[2]
        - We continue to watch this area of the market as we believe it's a great gauge of the health of small-business in America & stimulus making its way into the economy.
    - In our opinion, the coronavirus crisis is spurring a historical and truly epic deleveraging by institutional investors and this could be seen in the volatility throughout March.
- S&P 500 sub-sectors were mixed but mostly negative.
    - Energy led to the upside on the back of oil prices jumping higher.
        - Oil had its largest one week gain on record as a result of Saudi Arabia & Russia allegedly being close to an agreement on a production cut. [2]
        - We remind everyone that even with this jump, shares of the largest Energy sector tracking ETF/index is still down over 50% year-to-date. [2]
            - This means it needs to rise over 100% or double to get back to breakeven.
            - Additionally, this is happening as capital expenditure plans for the entire Energy complex has dropped to levels not seen since 2009. [2]
        - Utilities, Financials, & Real Estate led to the downside. [2]
            - Financials are down in excess of 36% year-to-date. [2]
            - We caution investors from overloading on this area of the market as low interest rates may continue to hamper banks from returning to peak profits.
- The volatility index (VIX) finished the week sharply lower; down 28.6% at 46.8. [2]
    - March of this year proved to be the most volatile month for equities on record.
        - The average daily move in March was 4.8%![2]
        - There was only 1 day in which the S&P 500 did not move more than 1%.[2]
    - In our opinion, this historic volatility has created some potential long-term opportunities for investors willing to strike/add equities when it might feel a little uncomfortable to do so.
- Non-Treasury areas of the market continue to feel downside pressure despite the Fed's support.
    - Specifically: High-yield, Biz Development Cos, Leveraged Loans. [2]
    - We're paying special attention to the downgrades that are happening in the bond market.
        - Investment Grade bonds were downgraded at a record pace last week as through mid-week, over $110 billion of bonds saw their ratings lowered. [2]
        - This pushes these bonds out of the Investment Grade rating and as such, index investments are forced to sell them…creating a snowball effect to their prices.

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[2] Source: Bloomberg – 4/3/20