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Market Down & Dirty

Last Week's Economic/Market Summary – May 25, 2020

Data

- U.S. equity benchmarks were positive on the week, led by the Russell 2000.
  - S&P 500 +3.3% Dow +3.3%, Russell 2000 +7.9%, Nasdaq +3.5%[1]
    - The All-Country World Index rose 0.53%.[1]
  - S&P 500 sub-sectors were almost all positive last week.
    - Healthcare was the only negative sector at -0.80%.[1]
    - Industrials & Energy led to the upside with gains over 6.5%.[1]
  - The CBOE Volatility Index (VIX) decreased by 4.5% to end at 28.16. [1]

- US Treasury bonds saw yields move higher last week.
  - US 2yr +0.02% to 0.17%, 10yr +0.02% to 0.66%, 30yr +0.04% to 1.37%.[1]
  - Bond yields should be in focus over the next several months as Fed purchases ramp up.

- Commodities as an aggregate asset class gained 4.5%.
  - WTI Crude gained 13%.[1]
  - Gold dropped over 1%.[1]
  - The US Dollar index weakened 0.62%.[1]

- In our opinion, U.S. economic data was depressed again last week.
  - Unemployment claims increased 2.4 million bringing the 9 week total to 38.6 million. [1]
  - While jobless claims fell vs the previous week, continuing claims rose suggesting jobs aren't coming back at the pace they were lost as states reopen. [1]

- An index of equities outside the US (MSCI EFA) were up 3.25%.[1]

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[1] Source: Bloomberg – 5/22/20

Conclusion

- US equity markets had a great week in the face of virus uncertainty & a flare up in US/China tensions.
  - Optimism over possible Covid-19 vaccines by the end of the year seemed to increase investors' risk appetite.
  - The small-cap tracking Russell 2000 led to the upside with a gain of almost 8%.[2]
- Global stocks followed US market higher and finished the week up 3.25%.[2]
  - This is in the face of Chinese leaders scrapping their 2020 GDP growth target for the first time in modern history.[2]
  - Additionally, China set their currency peg at the weakest level since 2008.[2]
- S&P 500 sub-sectors were mostly positive last week.
  - Energy & Industrials led to the upside.[2]
    - Energy seemed to bounce higher on hopes for renewed demand as the rig count of producing US co's sank to its lowest level since 2009.[2]
      - Additionally, institutions betting on rising crude prices in the futures market has risen notably in the last several weeks.[2]
- The volatility index declined 4.5% last week to enter the weekend at 28.16.[2]
  - More interesting is the forward curve implies a potential risk-on set-up for systematic institutional strategies.
  - Additionally, the breadth of companies participating in the rise of the markets has increased which could also bring volatility under pressure.
  - With breadth starting to rise and volatility on the verge of possibly falling into a lower medium-term regime, we continue to closely watch for relative strength of financials vs. the S&P 500.
- As expected, global trade took its biggest hit in more than a decade in March as the spread of the coronavirus began to take a heavy toll on businesses.
  - World trade volumes fell 4.3% from a year earlier, the most since 2009.[2]
    - In the latest month, they fell an additional 1.4% for the 3rd straight decline.[2]
  - We believe these numbers are only an initial sign of the damage lockdowns had on economic activity and data suggests a deep recession is already underway.
- The difference between stock index price levels and underlying earnings expectations has continued to widen notably since March.[2]
  - We believe this is a direct result of the massive amount of stimulus that has been injected into the global financial system by various gov'ts and central banks.
  - Interesting to note, that since the beginning of 2018, despite all the news and volatility, most global equity indices have gone nowhere and many are negative over that time frame.[2]

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[2] Bloomberg – 5/22/20