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Market Down & Dirty

Last Week's Economic/Market Summary – May 4, 2020

Data

- U.S. equity benchmarks moved mostly lower last week.
  - S&P 500 -0.21% Dow -0.22%, Russell 2000 +2.23%, Nasdaq -0.34%[1]
    - The All-Country World Index gained 1.17%.[1]
  - S&P 500 sub-sectors were notably mixed last week.
    - Energy led to the upside with a gain of 3.55%.[1]
  - Utilities & Healthcare led to the downside with losses of 4.18% & 2.45%.[1]
  - The CBOE Volatility Index (VIX) gained 3.5% to end at 37.19. [1]

- US Treasury bonds were mixed last week.
  - US 2yr -0.03% to 0.19%, US 10yr +0.01% to 0.61%, US 30yr +0.08% to 1.25%.[1]
  - Investment Grade Corps were lower on the week while High-Yield moved slightly higher.

- Commodities as an aggregate asset class were slightly higher last week as oil bounced off the lows.
  - WTI Crude gained almost 17%.[1]
  - Gold lost 2%.[1]
  - The US Dollar index dropped 1.52%.[1]

- In our opinion, U.S. economic data was negative last week.
  - Unemployment claims rose by 3.83 million; 6 week total to over 30 million. [1]
  - 1st Quarter US GDP contracted at a 4.8% annualized rate. [1]
  - The ISM Manufacturing Index declined to its lowest level since 2009. [1]

- An index of equities outside the US (MSCI EFA) were mostly unchanged last week.

[1] Source: Bloomberg – 5/1/20

Conclusion

- US equity markets moved mostly lower last week as investors seemed to be watching profit warnings tied to the coronavirus and renewed tension between the US and China.
  - S&P 500 -0.21% Dow -0.22%, Russell 2000 +2.23%, Nasdaq -0.34%
  - April was the best month for the S&P 500 since January '87, but risk sentiment faltered on Thursday and Friday.[2]
    - It had been up as much as 3.9% mid-week on reopening hopes and Covid-19 drug news.
  - The small-cap tracking Russell 2000 was the only positive major US index on the week.[2]
    - We believe this was largely the result of "position squaring" by large institutions as they reduce large positions…in the case of the Russell 2k, a massive short against the index.
- S&P 500 sub-sectors were mixed last week.
  - The Energy sector was the only positive sector last week.
  - Utilities & Healthcare led to the downside.
  - In our opinion, last week's sector performance was almost entirely driven by institutions reducing shorts and overweight bets. (aka: cleaning house)
- With over 55% of S&P 500 companies reporting earnings thus far, earnings per share are down 9%.[2]
  - Revenue growth has been a measly 1%.[2]
  - We believe the bigger takeaway is the large number of co's pulling forward guidance.
    - The amount of uncertainty is truly historical; even at the top of major corporations.
  - Additionally, many companies are suspending or canceling their dividends.
    - So far in 2020, co's have cut dividends more than in the previous 10 years combined. [2]
- Major central banks met last week and all reaffirmed their commitment to supporting the economy.
  - The Fed kept rates near zero and signaled they'd stay there for much longer. [2]
  - The European Central Bank extended their large bond purchase program through year-end. [2]
  - The Bank of Japan lifted their cap on its bond purchase program. [2]
- In our opinion, the recent onslaught of weak economic data has underscored the disconnect between the economy and the stock market.
  - With jobless claims exceeding 30 million in the past 6 weeks, economists estimate the US's unemployment rate to be above 15% at present time. [2]
    - If this level is true, it would be the highest level since the Great Depression.
  - Buried in the 1st quarter GDP drop of 4.8% was a Personal Consumption freefall of 7.6%.[2]
    - This is the largest drop of consumption since 1980. [2]
    - As discussed in the past, consumer spending is a massive part of the US's GDP and if their expenditures don't pick up as the economy unthaws, it will bring fresh pressures.

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[2] Source: Bloomberg – 5/1/20