CAPITAL INVESTMENT ADVISORY SERVICES
INTEGRITY • INDEPENDENCE • INNOVATION

Market Down & Dirty

Last Week's Economic/Market Summary – April 13, 2020

Data

- U.S. equity benchmarks soared higher last week.
  - S&P 500 +12.2% Dow +12.7%, Russell 2000 +18.5%, Nasdaq +10.6%[1]
    - The All-Country World Index gained 10.47%.[1]
  - S&P 500 sub-sectors were all higher.
    - Real Estate & Materials led to the upside with gains of 20% & 18%.[1]
    - Consumer Staples, Tech, & Healthcare lagged with gains less than 10%.[1]
  - The CBOE Volatility Index (VIX) declined 11% to end at 41.67. [1]

- US Treasury bonds were mixed as the curve steepened.
  - US 2yr flat to 0.23%, US 10yr +0.12% to 0.72%, US 30yr +0.13% to 1.34%.[1]
  - Big news in the credit markets was the Fed announcing they'll be purchasing junk bonds. [1]

- Commodities as an aggregate asset class moved lower by 3% last week.
  - WTI Crude declined nearly 20%.[1]
  - Gold surged more than 6%.[1]
  - The US Dollar index declined 0.99%.[1]

- In our opinion, U.S. economic data was mixed last week.
  - Consumer Sentiment fell to 71 in April from 89.1 in March, missing expectations. [1]
  - Producer Prices increased 0.7%, the lowest producer inflation since Sept '16. [1]
  - Annual inflation in the US fell to 1.5% in March from 2.3% in February. [1]

- An index of equities outside the US (MSCI EFA) rose over 9% last week. [1]

[1] Source: Bloomberg – 4/10/20

Conclusion

- US equity markets surged last week for their biggest gains in 45 years.[2]
    - S&P 500 +12.2% Dow +12.7%, Russell 2000 +18.5%, Nasdaq +10.6%
        - This rally has been remarkable considering the evidence of increased economic strain due to the coronavirus pandemic.
    - The small-cap tracking Russell 2000 led to the upside as we saw many lagging areas of the market bounce back more than the areas that have held up well since the February highs.
        - In our opinion, covering by short-sellers was likely a major driver of performance last week as there was tremendous outperformance by companies with relatively weak balance sheets vs. those with strong ones.
- S&P 500 sub-sectors were all higher last week.
    - Real Estate led to the upside.[2]
    - Consumer Staples, Tech, & Healthcare were the only sectors that didn't gain 10%.[2]
    - We reiterate that the areas most affected by the sell-off bounced the most last week and the areas that have held up the best underperformed.
        - We believe this is more telling of the possibility of a bear market bounce than the beginning of a healthy run back to all-time highs.
- The Federal Reserve once again stole the show last week as they announced more measures to help provide liquidity to the economy.
    - The Fed unveiled an additional $2.3 Trillion lending program to support the US economy.[2]
    - As part of this, they'll be buying High-Yield (junk) bonds for the first time in history.[2]
- OPEC+ made a massive agreement over the weekend to cut 10 million barrels a day of production.[2]
    - This is roughly 10% of the global supply.[2]
    - This was largely expected and oil sold off heading into the weekend.
        - We reiterate that all eyes are on demand as it remains very uncertain considering the massive slowdown in travel and consumption.
- As the Covid-19 pandemic unleashes economic shockwaves across Europe, their single currency (the Euro), the most visible symbol of European unification, is once again facing collapse.[2]
    - 19 Eurozone countries follow the same monetary policy rules, established by European Central Bank. However, their fiscal policies are still decided at the national level.[2]
        - This means there is a sharp difference between countries in terms of public debt and government deficits.
    - We believe it is important to keep in mind that a significantly large number of S&P 500 profits comes from overseas and the Eurozone is a huge market for U.S. companies. Furthermore, the European banking system is deeply tied to global lending in developing markets.

Ryan A. Mumy, CFP®, AIF® - Chief Investment Officer
Contact: 828/855-9400 or info@CIASonline.com or rmumy@bloomberg.net

[2] Source: Bloomberg – 4/10/20