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Market Down & Dirty

Last Week's Economic/Market Summary – October 26, 2020

Data

- U.S. equity indices moved mostly lower last week.
  - S&P 500 -0.50%, Dow -0.95%, Russell 2000 +0.41%, Nasdaq -1.40%[1]
    - The All-Country World Index was down 0.21%.[1]
  - S&P 500 sub-sectors were once again mixed on the week.
    - Utilities & Financials led to the upside.[1]
    - Technology led to the downside.[1]
  - The CBOE Volatility Index (VIX) gained over 0.50% last week to finish at 27.6.[1]

- US Treasury bonds saw yields go up across the board.
  - US 2yr +0.01% at 0.16%, 10yr +0.10% to 0.84%, 30yr +0.11% to 1.64%.[1]
  - A historically large, collective bet against the 30yr US Treasury increased last week.

- Commodities as an aggregate asset class moved lower last week.
  - WTI Crude dropped 3%.[1]
  - Gold was up 0.11%.[1]
  - The US Dollar index decreased 1.04%.[1]

- In our opinion, U.S. economic data was mixed last week.
  - Purchase Manager's Indices in the US saw their largest rise in almost 2 years.[1]
  - US housing market measures remained on fire.[1]
  - Filing for unemployment benefits came in below expectations.[1]

- An index of equities outside the US (FTSE All-World ex-US) outperformed, gaining 0.64%.[1]

[1] Source: Bloomberg – 10/23/2020

Conclusion

- US equity markets were under pressure last week as the S&P 500 fell for the first time in a month.
  - S&P 500 -0.50%, Dow -0.95%, Russell 2000 +0.41%, Nasdaq -1.40%
  - The small-cap tracking Russell 2000 was the sole positive major index last week.
  - With the S&P 500 meandering for a second week, economically sensitive shares of energy producers and smaller companies took over the leadership from technology.[2]
- S&P 500 sub-sectors were mixed last week as 4 of 11 sectors saw gains.
  - Utilities & Financials led the gainers
    - We believe that despite low interest rate levels, Financials could show strength if the spread/difference between the 2yr & 10yr US Treasuries continues to grow.
  - Technology & Real Estate led to the downside.
    - Interesting to note that the ratio of Tech performance vs. Financials has been bouncing around historically high levels since July/August.[2]
- US Treasuries saw interest rates rise across the board last week.
  - This steepening in the yield curve happens when the difference between the short maturities and longer ones gets larger.
  - We believe this could be happening as a result of expectations for quicker growth & inflation in the US.
  - Although yields have been edging higher in recent days, over 35% of all global government debt and 25% of total global debt now has a negative yield.[2]
    - This amount is edging closer to the record highs seen in August of 2019.[2]
- Non-US equity markets outperformed last week with a gain of 0.64%.
  - We believe the weakness in the US Dollar and strengthening Chinese economic data were the main culprits.
  - China's recovery from the coronavirus slump continued in the 3rd quarter and showed signs of broadening in September[2], keeping China on track to be the world's only major growth engine.
  - Additionally, a Biden victory is seen by the markets as establishing a more predictable China/US trade relationship.
- After the fastest and deepest economic shock on record, the global economy seems to be shifting to a new phase of more interventionist policy, rising dollar weakness and inflation risks.
  - We believe all three of which could provide a strong macro tailwind for the commodity complex.
  - Things that could support a new commodities bull cycle: Structural under-investment in the old economy, policy driven demand, & tailwinds from a weakening dollar.

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[2] Source: Bloomberg – 10/23/2020