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# Market Down & Dirty

## Last Week's Economic/Market Summary – October 5, 2020

### Data

- U.S. equity indices advanced on the week, resuming the rally that stalled in September.
  - S&P 500 +1.50%, Dow +1.9%, Russell 2000 +4.5%, Nasdaq +0.90%[1]
    - The All-Country World Index was up 1.60%.[1]
  - S&P 500 sub-sectors were almost all positive on the week.
    - Real Estate, Financials, Utilities, & Consumer Discretionary led with gains over 3%.[1]
    - Energy was the only negative sector last week with a loss of 2.88%.[1]
  - The CBOE Volatility Index (VIX) nearly 5% last week to end at 27.59. [1]

- US Treasury bonds saw yields rise on the longer dated maturities.
  - US 2yr flat at 0.13%, 10yr +0.05% to 0.70%, 30yr +0.09% to 1.49%.[1]
  - Since September, the US Treasury market has been moving in the same direction as equities. [1]

- Commodities as an aggregate asset class moved lower last week.
  - WTI Crude dropped 8%.[1]
  - Gold gained 1.97%.[1]
  - The US Dollar index dropped 0.88%.[1]

- In our opinion, U.S. economic data was mixed last week.
  - Jobless claims came in better than the previous week but still elevated. [1]
  - Chicago & Manufacturing PMI's blew out expectations to the upside fueling reopening hopes. [1]
  - Measures of the housing market stayed stellar. [1]

- An index of equities outside the US (FTSE All-World ex-US) gained 1.59%.[1]

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[1] Source: Bloomberg – 10/2/2020

## Conclusion

- US equity markets rose across the board last week despite several potential headline risks that could have been used as an excuse for sellers to step in.
    - S&P 500 +1.50%, Dow +1.9%, Russell 2000 +4.5%, Nasdaq +0.90%
    - The small-cap tracking Russell 2000 led to the upside.[2]
        - Last week was the Russell's best 5 days of trading as compared to the S&P 500 in several months…after underperforming the broader market by over 10% so far in 2020.[2]
    - In our opinion, the market had several reasons to breakdown last week and did not.
        - With elevated volatility priced into the markets, many traders/institutions betting against the market rising, & add'l gov't stimulus coming we wonder if the market is setting up for an upside surprise in the next few months?
- S&P 500 sub-sectors were all positive last week with the exception of Energy.
    - Financials, Real Estate, & Utilities led to the upside. [2]
        - In our opinion, this is largely a result of Treasury yields spiking higher.
        - As we've mentioned before, we believe Financials need to participate if this market upside is to have add'l legs to go even higher.
    - Energy continues to underperform the overall market. [2]
        - Year-to-date the sector is underperforming the S&P 500 by 53% and the Nasdaq by 72%.[2]
        - We continue to believe that even if demand for crude/gas does pick up, it's going to be awhile before the massive excess supplies are worked down in the global economy.
- The US Treasury curve steepened last week as the 2yr was unchanged while the 10yr & 30yr yields rose. [2]
    - In the 1st phase of the pandemic, US Treasuries made roughly 10%, moving in the opposite direction of equities at large. [2]
        - This provided cushion to risk diversified investors.
    - Since earlier this year, Treasuries have been basically flat, giving investors little protection.
        - This includes the month of September when Treasuries went down with stocks. [2]
    - As we've mentioned before, bonds trading in the opposite direction of bonds is a recent phenomenon of the last 30-ish years and hasn't always been the standard expectation.
    - Interesting to note that even if the 10yr US Treasury decreases from a 0.70% yield, its return/capital appreciation to investors would be only roughly 7%.[2]
        - In our opinion, if the Federal Reserve comes in with a policy program to purchase add'l longer dated US Treasuries, driving yields lower, we could see why many investors could almost be forced into other asset classes. (ex: high-yield bonds, equities, etc.)

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

[2] Source: Bloomberg – 10/02/2020