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Market Down & Dirty

Last Week's Economic/Market Summary – September 28, 2020

Data

- U.S. equity indices were mostly down for the 4th consecutive week.[1]
    - S&P 500 -0.60%, Dow -1.8%, Russell 2000 -4.12%, Nasdaq +1.10%[1]
        - The All-Country World Index was down -2.08%.[1]
    - S&P 500 sub-sectors were almost all negative on the week.
        - Tech & Utilities were the only positive sectors.[1]
        - Energy led to the downside with a loss of 10% while Materials & Banks sank >4%.[1]
    - The CBOE Volatility Index (VIX) gained 2% last week.[1]

- US Treasury bonds saw yields got down across the curve.
    - US 2yr -0.01% at 0.13%, 10yr -0.04% to 0.65%, 30yr -0.05% to 1.40%.[1]
    - The bond market has continued to see yields stay relatively suppressed.

- Commodities as an aggregate asset class showed weakness last week.
    - WTI Crude dropped 2.63%.[1]
    - Gold lost 4.66%.[1]
    - The US Dollar index rose 1.78%.[1]

- In our opinion, U.S. economic data was mixed last week.
    - Global PMI reports came in largely mixed with Europe largely disappointing.[1]
    - Domestic housing remains robust, seemingly supported by low interest rates.[1]
    - Unemployment claims remained elevated at 870k for the week.[1]

- An index of equities outside the US (FTSE All-World ex-US) declined 3.79%, underperforming the US.[1]

[1] Source: Bloomberg – 9/25/2020

Conclusion

- US equity markets seemed to come under pressure as a result of spiking coronavirus cases, the prospects of an uneven US economic recovery, and uncertainty from the US presidential race.
    - S&P 500 -0.60%, Dow -1.8%, Russell 2000 -4.12%, Nasdaq +1.10%[2]
    - The tech-heavy Nasdaq index was the sole major index to end in positive territory.
    - A Bloomberg basket of stocks that benefit from economic reopenings dropped 5.3% in the week, compared with an advance of 4.1% for those seen gaining an advantage during lockdowns.[2]
        - That's an about-face from earlier this month, when the recovery trade outperformed.
            - Airline stocks tanked the most since June.[2]
- S&P 500 sub-sectors were mostly negative last week.
    - Tech & Utilities were positive while Consumer Discretionary was flat. [2]
    - The so called "value trade" sectors led to the downside. (Energy -10.21%; Banks -4.8%)[2]
        - In our opinion, one dimensional "value trades" have continued to get crushed leading to more underperformance for various myopic "stock pickers".
        - Their complaint continues to be centered around vague and mostly not applicable comparisons to the dot come era but it is possible "value" identification has evolved and many have been left behind.
        - Value underperformed the S&P 500 by nearly 3% last week. [2]
- US Stock funds bled $25.8 billion in the week ending Sept 23rd.
    - This was the 3rd worst withdrawal on record, according to Bank of America & EPFR Global data.
    - We believe this extreme swing in sentiment over the last 2 weeks is due to a sort of "cleansing" of the extreme bullish option positioning that led to the run higher in markets last month.
- Interesting to note that extreme risk aversion towards US equity indices has developed in the futures markets.
    - Short interest in the S&P 500 ended last week at the highest level in over 10 years. [2]
    - Investors betting against the Nasdaq in the futures markets rose to the highest level since 2006.[2]
        - We believe investors are waiting on signs of progress on add'l US stimulus from the US.
    - Additionally, the % of S&P 500 stocks trading above their 50 day moving average dropped to multi-year lows last week.[2]
        - This could be reiteration of the high degree of risk aversion present in the markets.
- Int'l equities, currencies, & bonds had their worst week since the pandemic first rocked the markets in March. [2]
    - In our opinion, the recent strength in the US Dollar has been a large headwind to the Int'l investing complex.

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[2] Source: Bloomberg – 9/25/2020