Market Down & Dirty

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Last Week's Economic/Market Summary – September 7, 2020

Data

- U.S. equity benchmarks broke a 5-week winning streak and all ended negative.
  - S&P 500 -2.30%, Dow -1.7%, Russell 2000 -2.75%, Nasdaq -3.30%[1]
    - The All-Country World Index was down -1.8%.[1]
  - S&P 500 sub-sectors were mostly negative on the week.
    - Materials & Utilities were the only positive sectors. [1]
    - Energy & Technology led to the downside with losses over 4%.[1]
  - The CBOE Volatility Index (VIX) shot up 34% last week to end at 30.8. [1]

- US Treasury bonds saw volatility increase as the yield curve flattened.
  - US 2yr +0.02% at 0.14%, 10yr flat to 0.72%, 30yr -0.03% to 1.47%.[1]
  - Surprisingly, short maturities didn't see a flight-to-safety on equity weakness.

- Commodities as an aggregate asset class moved lower last week.
  - WTI Crude fell approximately 8%.[1]
  - Gold fell 1.62%.[1]
  - The US Dollar index rose 0.65%.[1]

- In our opinion, U.S. economic data was mixed last week.
  - August nonfarm payrolls showed 1.2 million jobs being created last month. [1]
  - The ISM Manufacturing index posted the strongest gain since 2018. [1]
  - Over 29 million Americans are currently claiming gov't assistance across all programs. [1]

- An index of equities outside the US (FTSE All-World ex-US) declined 1.67%.[1]

[1] Source: Bloomberg – 9/4/2020

Conclusion

- US equity markets moved lower across the board last week.
  - S&P 500 -2.30%, Dow -1.7%, Russell 2000 -2.75%, Nasdaq -3.30%
  - The S&P 500 broke a five-week winning streak in its biggest weekly decline since June.[2]
    - The index notched its 22nd record close of the year before profit taking in growth mega-cap stocks took the major indices sharply lower by week's end.[2]
- S&P 500 sub-sectors were mostly negative last week.
  - Materials & Utilities squeaked out small gains last week.[2]
    - We continue to note the large disconnect between the Utility sector dividend as compared to the 10yr US Treasury as well as the sector's performance relative to the S&P 500 index.[2]
      - In our opinion, a reversion of these ratios back closer to historical average could be seen in the near future.
  - Energy followed WTI Crude oil prices lower and Tech saw selling pressure as these sectors led to the downside by a wide margin.[2]
- Interesting to note that the year-to-date underperforming value factor outperformed the red-hot growth factor by over 2.2% last week alone.[2]
  - This is a continuation of what was seen starting in June with cyclical sectors outperforming.
    - For instance, last week alone, Financials outperformed the S&P 500 by almost 2% and Industrials outperformed Tech by roughly 3%.[2]
- Recent fund flow data has confirmed our recent thoughts on recent equity performance being driven largely by individual investors' speculative equity & option buying. (See: FOMO)
  - Fund flows show the largest inflows over the last month to corporate bonds and slightly negative flows to global equities.[2]
    - In our opinion, overall fund flows positioning points to a still-cautious sentiment among investors as a rotation into riskier assets has only been marginal.
  - Additionally, market breadth in the S&P 500 has been notably weak so far in 2020 as a handful of mega-cap Technology companies have dominated and led year-to-date performance.[2]
- The Volatility Index (VIX) hit its highest level since June and was up 34% last week.[2]
  - Over the past month the correlation between the S&P 500 and the VIX has turned positive, which is a rare occurrence.[2] (Moving in the same direction vs inverse)
  - We believe this could suggest that investors' speculative call option buying has supported both higher equity prices and an elevated level of VIX.

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[2] Source: Bloomberg – 9/4/2020