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Market Down & Dirty

Last Week's Economic/Market Summary – April 27, 2020

Data

- U.S. equity benchmarks moved mostly lower last week.
    - S&P 500 -1.3% Dow -1.9%, Russell 2000 +0.3%, Nasdaq -0.2%[1]
        - The All-Country World Index declined 1.59%.[1]
    - S&P 500 sub-sectors were all lower with the exception on Energy.
        - Energy moved higher by 1.97%, but is still down over 42% year-to-date.[1]
        - Real Estate & Utilities led to the downside. [1]
    - The CBOE Volatility Index (VIX) declined 5.82% to end at 35.93. [1]

- US Treasury bonds moved were mixed last week.
    - US 2yr +0.02% to 0.22%, US 10yr -0.04% to 0.60%, US 30yr -0.09% to 1.17%.[1]
    - The bond market seems to be showing caution while US equities have moved higher.

- Commodities as an aggregate asset class moved lower by 11% last week.
    - WTI Crude dropped 6.73%.[1]
    - Gold gained 2.62%.[1]
    - The US Dollar index gained 0.45%.[1]

- In our opinion, U.S. economic data was negative last week.
    - Unemployment claims increased by 4.4 million last week bringing the total to 26 million jobs lost in the past 5 weeks. [1]
    - The Citigroup Economic Surprise Index dropped to its lowest level since 2008. [1]

- An index of equities outside the US (MSCI EFA) lost roughly 1% last week. [1]

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[1] Source: Bloomberg – 4/24/20

Conclusion

- US equity markets moved mostly lower last week as extreme volatility in the oil market seemed to keep risk appetites in check.
  - S&P 500 -1.3% Dow -1.9%, Russell 2000 +0.3%, Nasdaq -0.2%[2]
  - The small-cap tracking Russell 2000 was the only positive major US index on the week.
    - Note that despite the weekly outperformance, the Russell 2000 has underperformed the Nasdaq by over 26% year-to-date.[2]
- S&P 500 sub-sectors were mostly lower last week.
  - The Energy sector was the only positive sector last week.
  - Utilities & Real Estate led to the downside with losses of 3.65% & 4.23% respectively. [2]
- All eyes were on Crude Oil this week as history was made when the US benchmark for oil futures contracts settled in negative territory for the first time.
  - May WTI futures contract collapsed to -$37.63/barrel on Monday although the contract expired at $10.01/barrel on Tuesday. [2]
  - We believe this happened as a result of demand crashing, production not being cut fast enough, and producers running out of places to store the oil they are pumping.
  - Additionally, we think the problem was accelerated by forced liquidations from margin calls, lack of storage, & liquidity issues.
  - Ironically, retail investors flooded into a popular oil ETF (USO) just as the price started to tumble, leaving many of them buying right before the instrument tumbled 32% on the week. [2]
  - We urge caution in attempting to "buy low" in this sector as things could get much worse before at some point getting better.
  - We remind investors that they don't "have to be first" to participate in a future rebound in demand for crude.
- The Volatility Index (VIX) fell 5.82% on the week to end at 35.93. [2]
  - While the VIX has come down substantially from its highs, the current spike would be historically rare if it was not followed by a secondary spike within 4 months.
- All eyes will be on global central banks this week.
  - The Federal Reserve, Bank of Japan, & European Central Bank all convene this week for monetary easing decisions after being propelled to action by turmoil in the global markets.
  - We believe some add'l options they'll discuss are: extending the quantitative easing, helping ease credit to troubled businesses and committing to rock-bottom rates for longer.
- S&P 500 constituents report earnings in mass this week.
  - 172 of the 500 companies report earnings this week, including 12 of the 30 Dow Jones Industrial Average components. [2]

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[2] Source: Bloomberg – 4/24/20