Market Down & Dirty

Last Week's Economic/Market Summary – May 18, 2020

Data

- U.S. equity benchmarks were down across the board.
    - S&P 500 -2.2% Dow -2.6%, Russell 2000 -5.4%, Nasdaq -1.2%[1]
        - The All-Country World Index declined 2.44%.[1]
    - S&P 500 sub-sectors were almost all negative last week.
        - Healthcare was the only positive sector last week with a gain of 1.02%.[1]
        - Energy, Industrials, & Financials led to the downside with losses over 5.5%.[1]
    - The CBOE Volatility Index (VIX) rose by 14% to end at 31.9. [1]

- US Treasury bonds saw additional downward pressure on yields last week.
    - US 2yr -0.01% to 0.15%, 10yr -0.04% to 0.64%, 30yr -0.06% to 1.33%.[1]
    - Interesting to note that bond yields haven't really gone anywhere for over a month.

- Commodities as an aggregate asset class were mostly flat.
    - WTI Crude gained approx. 13%.[1]
    - Gold was up 2.5%.[1]
    - The US Dollar index rose 0.63%.[1]

- In our opinion, U.S. economic data was rough again last week.
    - US retail sales fell a record 16.4% in April. [1]
    - The Consumer Price Index had its first back-to-back decline since 1982. [1]
    - Jobless claims increased by 2.9 million; total of 37 million over the last 2 months. [1]

- An index of equities outside the US (MSCI EFA) were down 2.7% last week. [1]

[1] Source: Bloomberg – 5/15/2020

Conclusion

- US equity markets had their worst week in 2 months as concerns about the economic recovery, US-China trade tensions, & valuations seemed to weigh on investor's minds.
  - The small-cap tracking Russell 2000 led to the downside with a loss of 5.4%.[2]
  - Interesting to note that the equal-weighted S&P 500 underperformed the traditional, market-cap weighted index by 2.4% last week alone.[2]
    - We believe this continues to show the trend of the biggest co's getting most of the recent buying & the lack of broad participation in the bounce off of the March lows.
  - Around the world, equities fell by 2.7% led by Eurozone names.[2]
    - The US Dollar bouncing higher by 0.63% created headwinds for non-US names.[2]
- S&P 500 sub-sectors were mostly negative last week.
  - Healthcare was the only positive sector as various names continue to get bought up on vaccine and antibody testing headlines.
  - Energy, Industrials, & Financials led to the downside by a wide margin.
    - Energy declined despite a 13% pop higher in WTI crude.[2]
      - WTI seems to be pricing in a robust reopening of the US.
    - Financials are the 2nd largest weighting in the S&P 500 index[2] and we think their recent underperformance vs the benchmark is telling.
      - Regional banks have underperformed the S&P 500 by nearly 40% year-to-date.[2]
- Fed Funds futures continues to price in negative interest rates in 2021.[2]
  - This is despite Fed Chair Powell dismissing the idea in a speech last week.
  - Additionally, Powell reiterated the Federal Reserve's high level of uncertainty regarding the outlook for the economy.[2]
    - In our opinion, this is inline with our thinking that at present moment, much is unknown about the potential recovery…speed? amount recovered when? add'l fiscal policy? corporate earnings? consumer spending?...to name a few items.
- Treasury yields were slightly down on the week, but remain fairly unchanged over the last month.
  - This is despite exposure to gov't bonds by institutional investors coming down substantially over the last month.[2]
    - In our opinion, if these large pockets of investment dollars come back into Treasuries, we could see yields plummet even further.
- Bankruptcies have surged of late, as we anticipated back in March.
  - JC Penny, Neiman Marcus, J. Crew, Gold's Gym are just a few of the recents.[2]
  - Even with the Gov't & Fed pumping trillions into the economy, we believe highly-leveraged co's will continue to have trouble both domestically & abroad and this is just the beginning.

Ryan A. Mumy, CFP®, AIF® - Chief Investment Officer

Contact: 828/855-9400 or info@CIASonline.com or rmumy@bloomberg.net

[2] Source: Bloomberg – 5/15/2020