

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

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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 index² 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.

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² Source: Bloomberg – 5/15/2020

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