

Last Week's Economic/Market Summary – October 12, 2020

Data

- U.S. equity indices moved higher across the board last week.
 - S&P 500 +3.9%, Dow +3.3%, Russell 2000 +6.4%, Nasdaq +4.6%¹
 - The All-Country World Index was up 3.69%.¹
 - S&P 500 sub-sectors were all positive on the week.
 - Materials & Energy led to the upside with gains over 5%.¹
 - Real Estate was the only sector that didn't gain over 2% last week.¹
 - The CBOE Volatility Index (VIX) nearly 10% last week to end at 24.90.¹

- US Treasury bonds saw yields rise across the board.
 - US 2yr +0.02% at 0.15%, 10yr +0.07% to 0.77%, 30yr +0.08% to 1.57%.¹
 - The 10yr & 30yr Treasuries both recently breached key technical levels.

- Commodities as an aggregate asset class moved firmly higher last week.
 - WTI Crude rose 9%.¹
 - Gold gained 1%.¹
 - The US Dollar index dropped 0.82%.¹

- In our opinion, U.S. economic data was mixed last week.
 - Jobless claims remained elevated; coming in slightly above expectations.¹
 - ISM Services PMI came in above expectations.¹
 - Measures of economic optimism saw record surges.¹

- An index of equities outside the US (FTSE All-World ex-US) gained 3.10%.¹

¹ Source: Bloomberg – 10/9/2020

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Conclusion

- US equity markets rose as the S&P 500 posted its biggest weekly increase since June as traders seemed to bet that lawmakers are moving closer to providing more fiscal stimulus.
 - S&P 500 +3.9%, Dow +3.3%, Russell 2000 +6.4%, Nasdaq +4.6%
 - Since bottoming 16 days ago, the S&P 500 has surged 7.4%, sailing past a presidential Covid-19 diagnosis and one of the more contentious electoral debates in history.² #Stimulus #JerryPowell
 - The small-cap tracking Russell 2000 led to the upside once again, reaching an 8-mo high.²
 - Equal weight indices outperformed the traditional, widely followed market-cap weighted ones by an average of 0.50% last week.²
 - Despite this outperformance, the average S&P 500 stock is still down 1.6% in 2020.²
 - In our opinion, stimulus negotiations in Washington continue to pose significant headline risk.
 - We believe that election risk is waning as the markets anticipate additional fiscal stimulus to come despite who wins in November.
 - This is in addition to the monetary policy that the Federal Reserve continues to provide along with their promise for add'l measures in the future.
- S&P 500 sub-sectors were all positive last week as the market rise was very broad.
 - Energy, Materials, & Utilities led to the upside²
 - Financials also had a great week as yield spreads shot higher.²
 - We find it interesting that Utilities rose almost 5% last week despite the yield curve steepening.²
 - This was our basis for adding the sector over a month ago...that market participants will shift assets towards this sector as yields remain severely depressed.
- The US Treasury curve steepened last week as the spread/difference between the 2yr & 10yr is back to levels not seen since 2018.²
 - While interest rates remain suppressed, the difference between the 2/10yr issues is widely followed and has critical implications in the global economy.
 - We believe this recent shift could be a result of the markets betting on a Biden win in November and along with that coming a massive infrastructure stimulus bill. (See: Larger deficits)
 - The Federal Reserve is the outlier as they could at any point launch a program where they come in to buy longer dated US Treasuries, similar to what Japan has been doing for years.
- One of the by-products of the pandemic has been the massive acceleration towards e-commerce.
 - We believe less discussed is the strengthening in traditional retailers that have increased their investment in online offerings. (See: Target, Nike, & Walmart as examples)
 - Additionally, in the years ahead, we anticipate these types of traditional retailers doing more sales online while Amazon next year is expected to be the largest buyer of physical store fronts.²

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

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

² Source: Bloomberg – 10/9/2020

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