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Market Down & Dirty

Last Week's Economic/Market Summary – October 19, 2020

Data

- U.S. equity indices moved mostly higher last week in volatile trading.
    - S&P 500 +0.20%, Dow +0.07%, Russell 2000 -0.22%, Nasdaq +1.10%[1]
        - The All-Country World Index was down 0.26%.[1]
    - S&P 500 sub-sectors were extremely mixed on the week.
        - Industrials and Utilities led to the upside. [1]
        - Real Estate & Energy led to the downside. [1]
    - The CBOE Volatility Index (VIX) gained over 9% last week to finish at 27.26. [1]

- US Treasury bonds saw yields go lower across the board.
    - US 2yr -0.01% at 0.14%, 10yr -0.03% to 0.75%, 30yr -0.04% to 1.53%.[1]
    - This is odd considering it was a risk-on week for equities.

- Commodities as an aggregate asset class were mixed last week.
    - WTI Crude rose 0.44%, ending above $40 per barrel. [1]
    - Gold sank 1.65%.[1]
    - The US Dollar index increased 0.71%.[1]

- In our opinion, U.S. economic data was mixed last week.
    - Retail sales data exceeded expectations. [1]
    - Unemployment claims came in higher than expected at 898k. [1]
    - Small Business Optimism came in higher than expected but so did the uncertainty index. [1]

- An index of equities outside the US (FTSE All-World ex-US) decreased 1.24%.[1]

[1] Source: Bloomberg – 10/16/2020

Conclusion

- US equity markets mostly gained last week in a bumpy ride for stocks.
    - S&P +0.20%, Dow +0.07%, Russell 2000 -0.22%, Nasdaq +1.10%
    - The small-cap tracking Russell 2000 was the sole negative major index last week.
    - 3 weeks ago, large speculators were betting against the equity markets to the tune of $47 billion dollars worth of stock market futures.[2]
        - Fast forward to last week, they were now net long about $25 billion.[2]
        - In our opinion, this massive swing in exposure by the largest of investors helps explain the big stock gains last week on no significant news or changes to the global economic outlook.
- S&P 500 sub-sectors were extremely mixed last week as only 5 of 11 sectors gained ground.[2]
    - Industrials, Utilities, & Tech led the gainers
        - Over the last 1 month, the S&P is up less than 3% while Utilities have gained 6.5%.[2]
    - Real Estate & Energy led to the downside with losses of around 2%.
        - Over the past 3 months, the S&P is up 8% while Energy is down almost 19%.[2]
        - We point out that many "experts" called a bottom to oil back in March.
            - We believe that while the bloodbath in Energy has continued much longer than most expected, at some point, when it's least expected, the supply/demand dynamics of the energy complex will start to favor this sector…and we continue to watch closely.
- The US Dollar Index showed some strength last week but is down over 6% in the last 6 months.[2]
    - We believe recent weakness in the greenback supports the case for rotation into Rest-of-the-World equities.
        - While more-dovish Federal Reserve policy elevates the U.S. market multiple, it also likely supports emerging-market currencies, creating possible outperformance for their stocks.
- US Treasury yields moved lower last week, once again going in the same direction as equity benchmarks.
    - Interesting to note, that the Treasury market might have become so large that the US Central Bank may have to continue to be involved to keep it functioning properly.
        - This isn't our opinion, but is from Vice Chair for Supervision of the Fed, Randal Quarles.[2]
    - In our opinion, this could have major impacts on the future management of portfolios and what areas of the markets do well in various cycles.
- Prediction markets are pointing to a higher probability of a blue wave scenario, in which former Vice President Joe Biden is elected and the Democratic Party controls Congress.[2]
    - We believe a blue wave scenario could trigger a rotation to some relative value market areas.

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[2] Source: Bloomberg – 10/16/2020