

Last Week's Economic/Market Summary – October 5, 2020

Data

- U.S. equity indices advanced on the week, resuming the rally that stalled in September.
 - S&P 500 +1.50%, Dow +1.9%, Russell 2000 +4.5%, Nasdaq +0.90%¹
 - The All-Country World Index was up 1.60%.¹
 - S&P 500 sub-sectors were almost all positive on the week.
 - Real Estate, Financials, Utilities, & Consumer Discretionary led with gains over 3%.¹
 - Energy was the only negative sector last week with a loss of 2.88%.¹
 - The CBOE Volatility Index (VIX) nearly 5% last week to end at 27.59.¹
- US Treasury bonds saw yields rise on the longer dated maturities.
 - US 2yr flat at 0.13%, 10yr +0.05% to 0.70%, 30yr +0.09% to 1.49%.¹
 - Since September, the US Treasury market has been moving in the same direction as equities.¹
- Commodities as an aggregate asset class moved lower last week.
 - WTI Crude dropped 8%.¹
 - Gold gained 1.97%.¹
 - The US Dollar index dropped 0.88%.¹
- In our opinion, U.S. economic data was mixed last week.
 - Jobless claims came in better than the previous week but still elevated.¹
 - Chicago & Manufacturing PMI's blew out expectations to the upside fueling reopening hopes.¹
 - Measures of the housing market stayed stellar.¹
- An index of equities outside the US (FTSE All-World ex-US) gained 1.59%.¹

¹ Source: Bloomberg – 10/2/2020

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Conclusion

- US equity markets rose across the board last week despite several potential headline risks that could have been used as an excuse for sellers to step in.
 - S&P 500 +1.50%, Dow +1.9%, Russell 2000 +4.5%, Nasdaq +0.90%
 - The small-cap tracking Russell 2000 led to the upside.²
 - Last week was the Russell's best 5 days of trading as compared to the S&P 500 in several months...after underperforming the broader market by over 10% so far in 2020.²
 - In our opinion, the market had several reasons to breakdown last week and did not.
 - With elevated volatility priced into the markets, many traders/institutions betting against the market rising, & add'l gov't stimulus coming we wonder if the market is setting up for an upside surprise in the next few months?
- S&P 500 sub-sectors were all positive last week with the exception of Energy.
 - Financials, Real Estate, & Utilities led to the upside.²
 - In our opinion, this is largely a result of Treasury yields spiking higher.
 - As we've mentioned before, we believe Financials need to participate if this market upside is to have add'l legs to go even higher.
 - Energy continues to underperform the overall market.²
 - Year-to-date the sector is underperforming the S&P 500 by 53% and the Nasdaq by 72%.²
 - We continue to believe that even if demand for crude/gas does pick up, it's going to be awhile before the massive excess supplies are worked down in the global economy.
- The US Treasury curve steepened last week as the 2yr was unchanged while the 10yr & 30yr yields rose.²
 - In the 1st phase of the pandemic, US Treasuries made roughly 10%, moving in the opposite direction of equities at large.²
 - This provided cushion to risk diversified investors.
 - Since earlier this year, Treasuries have been basically flat, giving investors little protection.
 - This includes the month of September when Treasuries went down with stocks.²
 - As we've mentioned before, bonds trading in the opposite direction of equities is a recent phenomenon of the last 30-ish years and hasn't always been the standard expectation.
 - Interesting to note that even if the 10yr US Treasury decreases from a 0.70% yield, its return/capital appreciation to investors would be only roughly 7%.²
 - In our opinion, if the Federal Reserve comes in with a policy program to purchase add'l longer dated US Treasuries, driving yields lower, we could see why many investors could almost be forced into other asset classes. (ex: high-yield bonds, equities, etc.)

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² Source: Bloomberg – 10/02/2020

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