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Market Down & Dirty

Last Week's Economic/Market Summary – November 2, 2020

Data

- U.S. equity indices sold off across the board last week.
  - S&P 500 -5.6%, Dow -6.5%, Russell 2000 -6.2%, Nasdaq -5.5%[1]
    - The All-Country World Index was down 5.33%.[1]
  - S&P 500 sub-sectors were all lower on the week.
    - Utilities outperformed to the downside as the only sector that lost less than 4%.[1]
    - Technology, Industrials, & Consumer Disc led to the downside with losses over 6%.[1]
  - The CBOE Volatility Index (VIX) gained 38% for its biggest gain since March. [1]

- US Treasury bond yields ended the week flat to slightly higher.
  - US 2yr flat at 0.15%, 10yr +0.03% to 0.87%, 30yr +0.02% to 1.66%.[1]
  - This is unusual from a historical standpoint considering the large risk-off in equities.

- Commodities as an aggregate asset class moved lower last week.
  - WTI Crude dropped 10.41%.[1]
  - Gold was down 1.27%.[1]
  - The US Dollar index gained 1.21%.[1]

- In our opinion, U.S. economic data was mixed last week.
  - Durable goods orders came in better than expected. [1]
  - Consumer confidence was steady heading into the election. [1]
  - Filing for unemployment benefits once more came in better than expected. [1]

- An index of equities outside the US (FTSE All-World ex-US) outperformed at -5.11%.[1]

[1] Source: Bloomberg – 10/30/2020

Conclusion

- US equity markets fell for the 2nd straight week; the biggest loss since March.
    - S&P 500 -5.6%, Dow -6.5%, Russell 2000 -6.2%, Nasdaq -5.5%[2]
    - In our opinion, investors seemed spooked by a record high in coronavirus infections in the US, fresh lockdowns in Europe that threaten economic growth, and a mixed bag of earnings report from big the tech companies.
    - The S&P 500 Index suffered the worst-ever loss in the week leading to a presidential election.[2]
- As we discussed with some people, 3400 proved to be a critical, structural level.
    - We marked this "zero gamma" level as opening the door for significant weakness.
    - Under that level our model suggested dealers were in a negative gamma position and therefore forced to short as the market moved lower.
        - It was also likely that new election put hedges would add more dealer shorts.
        - The mechanics of this options positioning may well have been the reason that markets were down 4-5% this week.
- S&P 500 sub-sectors were all lower last week.
    - Utilities outperformed in the sell-off as Tech & Consumer Disc lost over 6%.[2]
    - Interesting to note that on a week when crude oil tested $35/barrel, Energy was inline. [2]
        - Energy is down over 50% year-to-date and has underperformed Tech by over 70%.[2]
        - Currently, Zoom (market cap $140B) is now larger than Exxon Mobil. ($137B) [2]
            - Zoom is up 650% YTD while Exxon is -55%.[2]
        - In our opinion, this might be reaching levels of being a little over the top doom & gloom.
- Global equities also posted their worst weekly decline since March as lockdown measures in some countries and the lack of an agreement on US stimulus dented sentiment.
    - MSCI ACWI -5.3%, Euro Stoxx -7.5%, Japan Nikkei -2.3%[2]
- US Treasuries saw their yields mostly move higher despite the rout to equity markets. [2]
    - We believe investor bets that a Democratic sweep would pave the way for more fiscal spending and increased debt sales lifted yields on the 10-year Treasury.
        - The benchmark for global borrowing ended October at 0.87%, a four-month high. [2]
    - We reiterate our opinion that bonds providing cushion to equity volatility could be changing course from how the relationship to stocks has been for the last 30+ years.
        - As yield on a traditional 60/40 stock and bond portfolio hits historic lows the estimated duration on such a portfolio is extremely high.[2]
        - We believe market-cap weighted investments greatly enhances the high duration.
- In case you didn't know, the US Presidential election is Tuesday! 😊

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[2] Source: Bloomberg – 10/30/2020