

Last Week's Economic/Market Summary – September 14, 2020

Data

- U.S. equity indices all retreated for the 2nd consecutive week.
 - S&P 500 -2.50%, Dow -1.7%, Russell 2000 -2.5%, Nasdaq -4.60%¹
 - The All-Country World Index was down -1.24%.¹
 - S&P 500 sub-sectors were almost all negative on the week.
 - Materials was the only positive sector with a gain of 0.98%.¹
 - Energy & Technology led to the downside with losses of 6.45% & 4.37%.¹
 - The CBOE Volatility Index (VIX) declined 12.5% last week to end at 26.87.¹
- US Treasury bonds saw volatility increase as the yield curve flattened.
 - US 2yr -0.01% at 0.13%, 10yr -0.05% to 0.67%, 30yr -0.05% to 1.42%.¹
 - Bond volatility remains historically low even as the yield curve has started to steepen.
- Commodities as an aggregate asset class showed weakness last week.
 - WTI Crude fell over 6%.¹
 - Gold was +0.30%.¹
 - The US Dollar index rose 0.57%.¹
- In our opinion, U.S. economic data was mixed last week.
 - The NFIB Small Business Index's latest reading came in near a 6 month high.¹
 - Weekly unemployment claims came in above expectations.¹
 - Both producer and consumer inflation figures came in higher than expected.¹
- An index of equities outside the US (FTSE All-World ex-US) declined 0.06%, outperforming the US.¹

¹ Source: Bloomberg – 9/11/2020

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Conclusion

- US equity markets all fell over the holiday-shortened week.
 - S&P 500 -2.30%, Dow -1.7%, Russell 2000 -2.75%, Nasdaq -3.30%
 - The S&P 500 fell 2.5%, notching two weeks of losses of at least 2% for the first time since the March bear market.²
 - The tech-heavy and year-to-date winning Nasdaq index fell 4.6% to lead domestic measures of stocks to the downside.²
- S&P 500 sub-sectors were mostly negative last week.
 - Materials was the only positive sector last week.
 - Energy & Tech led to the downside.
 - Energy has followed WTI crude prices lower over the last 2 weeks.²
 - We believe energy markets are pricing in lower than expected demand while inventories remain elevated.
- In our opinion, to understand the “sudden” sell-off, one has to appreciate how dangerously extended the market had become. (which we’ve mention a time or 2)
 - At the beginning of the month, the S&P 500 was 16% above its 200 day moving average while the Nasdaq was 33% above its own.²
 - Relative to earnings, both gauges were trading at the highest multiples in over 20 years.²
 - Retail call option speculation remains historically elevated but has dropped from recent highs.²
 - We believe a drop of the S&P 500 below its 50 day moving average could trigger additional downside selling pressure.
- Producer & Consumer measures of inflation came in higher than expected last week.²
 - While we’re seeing many folks increasing their desire for “inflation protection” in their portfolios, we’ll continue to let the data tell the story.
 - Looking at key contributions to US financial conditions, only the trade-weighted US Dollar is tightening while the velocity of money has decreased substantially.²
 - In our opinion, financial conditions will need to stay loose and perhaps loosen further to generate significantly higher CPI in the short-term.
 - Additionally, bond market gauges of inflation expectations have declined for the past 2 weeks.²
- The US Federal Reserve will have a 2-day meeting this week.²
 - Many economists predict the Fed members won’t take any new actions when they wrap up their meeting on Wednesday.²
 - This would likely embolden bond bulls and further crimp inflation expectations.

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² Source: Bloomberg – 9/11/2020

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