April 6, 2020

Weekly Viewpoint

Price Discovery

Performance for Week Ending 4.3.2020

The Dow Jones Industrial Average (Dow) lost 2.70%, the Wilshire 5000 Total Market IndexSM (Wilshire 5000SM) fell 2.82%, the Standard & Poor's 500 Index (S&P 500) finished off 2.08% and the Nasdaq Composite Index (NASDAQ) dipped 1.725%. Sector breadth was negative with 8 of the 11 S&P sector groups finishing lower. The Utilities (-7.11%) sector was the worst performer followed by Financials (-6.78%) and Real Estate (-6.15%). On the upside, Energy gained 5.37% followed by Consumer Staples (+3.46%), and Healthcare (+2.04%).

Index*	Closing Price 4/3/2020	Percentage Change for Week Ending 4/3/2020	Year-to-Date Percentage Change Through 4/3/2020
Dow	21052.53	-2.70%	-26.23%
Wilshire 5000	24782.01	-2.82%	-24.64%
S&P 500	2488.65	-2.08%	-22.97%
Nasdaq	7373.08	-1.72%	-17.83%

Market Observations: 3/30/20–4/3/20

The major market indices finished the week lower after a pair of reports from the Labor Department revealed the toll the COVID-19 pandemic is having on the US economy. After jumping sharply in the prior week, initial jobless claims in the week ended March 28 soared to 6.65 million well ahead of the forecasted 3.76 million gain expected by economists. Over the last two weeks, nearly 10 million claims have been filed for unemployment benefits. On Friday, the Labor Department reported that nonfarm payrolls during the month of March fell by 701K, the first monthly decline since 2010. The unemployment rate rose to 4.4% (from 3.5%). The generally tame reading (at least relative to the surge in jobless claims) reflects the fact the data collection period only included the first half of the month, therefore only capturing a small portion of the coronavirus slowdown. Next month's data should reflect the bulk of the damage, with many economists expecting the unemployment rate to jump to 10% or higher.

The Reaction to the News is More Important than the Actual News: After finding a near-term bottom on March 23, the markets seem to have entered a period of “price discovery” where investors are trying to gauge what has already been discounted in stock prices and what is likely to come to fruition in the months ahead. Volatility (as measured by the CBOE Volatility Index) has also settled down a bit, although the measure remains at very elevated levels, likely due to the fluid environment we are in. Expectations for economic data reports in the coming weeks are very negative, with economists nearly tripping over themselves to see who can give the most dour forecasts. This means that the bar has been set very low and the shock value of extremely weak numbers may not be all that shocking. This could explain why the markets didn’t do much worse last week, despite the huge uptick in jobless claims and plunge in payrolls. Without the benefit of hindsight, picking a market bottom in a fear driven environment is nearly impossible. With that said, for investors who have a longer time horizon, the return profile is beginning to look asymmetrical, with upside potential over the next 12-18 months seemingly more robust than downside risk during the same time frame.

The Week Ahead: The focal point in the holiday shortened week ahead will be news surrounding the ongoing effort to contain covid-19 pandemic. On the data front, Thursday’s initial jobless claims report will take center stage again this week with the Bloomberg consensus calling for an additional 5 million new jobless claims. Other data reports of note include; the February JOLTS survey, the minutes from the March Federal Open Market Committee meeting, the March producer price index (PPI) and the March consumer price index (CPI). The Treasury will auction $40 billion of three-year notes on Monday, $25 billion of 10-year notes on Tuesday and $17 billion of 30-year bonds on Wednesday.

Definitions

The Dow Jones Industrial Average is a price-weighted average of 30 blue-chip stocks that are generally defined as the leaders in their industry. It has been a widely followed indicator of the stock market since October 1, 1928.

Wilshire 5000 Total Market IndexSM represents the broadest index for the U.S. equity market, measuring the performance of all U.S. equity securities with readily available price data. The index is comprised of virtually every stock that: the firm’s headquarters are based in the U.S.; the stock is actively traded on a U.S. exchange; the stock has widely available pricing information (this disqualifies bulletin board or over-the-counter stocks). The index is market cap weighted, meaning that the firms with the highest market value account for a larger portion of the index.

Standard and Poor’s 500 Index is a capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The Nasdaq Composite Index is a broad-based capitalization-weighted index of stocks in all three NASDAQ tiers: Global Select, Global Market and Capital Market. The index was developed with a base level of 100 as of February 5, 1971.

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