June 15, 2020

Weekly Viewpoint

Stocks Take a Well Deserved Breather

Performance for Week Ending 6.12.2020

The Dow Jones Industrial Average (Dow) lost 5.55%, the Wilshire 5000 Total Market Index℠ (Wilshire 5000℠) fell 4.85%, the Standard & Poor's 500 Index (S&P 500) dipped 4.78% and the Nasdaq Composite Index (NASDAQ) shed 2.30. Sector breadth was negative with all 11 of the S&P sector groups finishing lower. The Energy sector (-11.06%) paced the losses followed by Financials (-9.32%) and Industrials (-8.03%).

Index*	Closing Price 6/12/2020	Percentage Change for Week Ending 6/12/2020	Year-to-Date Percentage Change Through 6/12/2020
Dow	25605.54	-5.55%	-10.28%
Wilshire 5000	30947.19	-4.85%	-5.90%
S&P 500	3041.31	-4.78%	-5.86%
Nasdaq	9588.81	-2.30%	+6.87%

Market Observations: 6/8/20–6/12/20

What a difference a week makes. Stocks returned to earth following their rocket ride higher over the past few weeks reflecting concerns over an uptick in coronavirus cases and a gloomy forward outlook from the Federal Reserve. As mentioned in these missives over the past couple weeks, the markets were looking a bit ahead of themselves and seemed to be in need of a pause to refresh. The market has had a record run over the past 50 days and there were growing signs of complacency amongst investors and the sell-off is a good reminder that markets move in both directions. Even with last week's drawdown the S&P 500 is still up over 35 percent from the low point reached on March 23.

Despite the underwhelming outlook from the Fed, which seem postured to justify its very dovish stance, and the uptick in COVID cases, which appeared to be a result of more testing, the overall outlook remains the same. The economy continues to show signs that the bottom is in, and while current conditions remain very noisy, importantly almost every data point released argues that things continue to get less bad.

In addition, the Citi Economic Surprise Index—which measures data surprises relative to expectations—has surged to the highest level since late-2017, suggesting economist's expectations have been way too conservative.

FOMC Recap: At the conclusion of last week's Federal Open Market Committee (FOMC) meeting, the Fed repeated its promise to support the economy but projected a 6.5% decline in gross domestic product this year and for the unemployment rate to finish the year at 9.3% (from 13.3% currently). The Fed's projection underscored that the path to economic recovery will be long. The committee said that rates will be held at current levels through 2022 and bond buying (quantitative easing) will continue at its current pace. There were some fears coming into the meeting that the Fed—in light of the recent strong payroll report—could begin to taper it's stimulus efforts. The fears always seemed misplaced in light of the Fed's dual mandate—full employment and price stability—which they are currently a long way from satisfying.

The Week Ahead: Given the recent turbulence in risk assets, the focal point in the week ahead will no doubt be Chair Powell's semi-annual Congressional testimony on Tuesday and Wednesday. However, with the June FOMC meeting just last week, Powell is not likely to have a markedly different tone or outlook. Regional manufacturing and retail sales will be the highlight of the data calendar with the New York Fed's Empire State index for June released on Monday followed by the Philadelphia Federal Reserve's economic index for June released on Thursday. Other reports of interest include the May retail sales figure, the leading economic indicators index, industrial production, and the June Home Builder's index. In addition to Fed Chair Powell's two-day testimony to Congress, eight other FedHeads are scheduled to speak throughout the week.

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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