

April 20, 2020

# Weekly Viewpoint

## When Less Bad is Good

### Performance for Week Ending 4.17.2020

The Dow Jones Industrial Average (Dow) added 2.21%, the Wilshire 5000 Total Market Index<sup>SM</sup> (Wilshire 5000<sup>SM</sup>) gained 2.94%, the Standard & Poor's 500 Index (S&P 500) finished up 3.04% and the Nasdaq Composite Index (NASDAQ) tacked on 6.09%. Sector breadth was mixed with 6 of the S&P sector groups finishing higher and 5 finishing lower. The Consumer Discretionary (+7.86%) sector was the best performer while the Financials (-4.03%) sector was the worst.

Index*	Closing Price 4/17/2020	Percentage Change for Week Ending 4/17/2020	Year-to-Date Percentage Change Through 4/17/2020
<b>Dow</b>	24242.49	+2.21%	-15.05%
<b>Wilshire 5000</b>	28760.23	+2.94%	-12.55%
<b>S&amp;P 500</b>	2874.56	+3.04%	-11.03%
<b>Nasdaq</b>	8650.14	+6.09%	-3.59%

### Market Observations: 4/13/20–4/17/20

The major market indices finished higher for a second straight week on mounting evidence the number of COVID-19 cases has started to peak and optimism that pockets of the US economy will begin to reopen. Investors shrugged off a batch of weak economic data that showed jobless claims jumping by another 5.245 million. Jobless claims over the past four weeks have now exceeded 22 million. Initial claims are as close to being a real time indicator to the broader economy, suggesting we should brace for more economic pain in the months ahead.

In addition to the surge in jobless claims, retail sales during the month of March sank by a record 8.7%. The decline was broad based with record or near-record double-digit drops in vehicles, furniture, electronics, apparel, sporting goods, food service, and miscellaneous sales. Gas station sales fell 17.2%, the most since November 2008, pummeled by both weaker demand and the plunge in oil prices. Elsewhere, the Empire

State General Business Conditions Index plunged to -78.2 in April from -21.5 last month, as factory activity in the greater NY region continued to contract at a very rapid pace. Today's reading was the lowest on record, dating back to 2001.

**Less Bad:** With the economy in a tailspin, why then are markets acting so complacent? From the bottom reached on March 23, the broader S&P 500 has rebounded by over 28%. As highlighted last week, equity markets should be thought of as more of a window versus a mirror, as they tend to look 6-plus months into the future. In addition, while jobless claims have been horrible over the past few weeks, the trend has shown mild improvement. In other words, things are starting to look "less bad." Wall Street investors tend to focus on the 'rate of change,' and if the March/April data marks the maximum amount of weakness, then May, June, etc., by definition should be better. Oddly, this may partially explain the recent strength in the markets. Another driver may be the fear of missing out (FOMO) as many investors over the past decade have found success in 'buying the dip.'

**The Week Ahead:** First quarter earnings season will move to the front burner this week, with over 80 members of the S&P 500 scheduled to release results. Amongst this group will be six components of the Dow Jones Industrial Average. The data calendar will be relatively quiet, with the focus on March existing home sales, March new home sales, March durable and capital goods orders and April consumer sentiment. The Fed speaking calendar is very light with only two virtual meetings scheduled.

## 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 Index<sup>SM</sup>** 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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