March 9, 2020

Weekly Viewpoint

Uncertainty Dominates as the Situation Remains Fluid

Performance for Week Ending 3.6.2020

The Dow Jones Industrial Average (Dow) rose 1.79%, the Wilshire 5000 Total Market IndexSM (Wilshire 5000SM) added 0.11%, the Standard & Poor's 500 Index (S&P 500) finished up 0.61% and the Nasdaq Composite Index (NASDAQ) tacked on 0.10%. Sector breadth was mixed with 6 of the S&P sector groups finishing higher and 5 finishing lower. For the week, The Utility sector (+7.94%) was the best performer while the Energy sector (-7.25%) was the worst.

Index*	Closing Price 3/6/2020	Percentage Change for Week Ending 3/6/2020	Year-to-Date Percentage Change Through 3/6/2020
Dow	25864.78	+1.79%	-9.37%
Wilshire 5000	30157.73	+0.11%	-8.30%
S&P 500	2972.37	+0.61%	-8.00%
Nasdaq	8575.62	+0.10%	-4.42%

Market Observations: 3/2/20–3/6/20

Despite a rollercoaster ride of big up and down moves, the major market indices finished the week with modest gains. The two-way market action reflected concerns over how the global spread of the coronavirus will impact growth, whether the Federal Reserve has become impotent in its ability to "rescue" the market, and the solid showing by a more moderate candidate at the Super Tuesday primary, which sparked a relief rally. The growing coronavirus fears also ignited a "flight-to-quality" trade which pushed government bond yields to record lows.

Fed Cuts Rates: The Federal Reserve surprised investors with an aggressive half percent reduction in interest rates last week. While the move was an effort to soothe investors frayed nerves, ultimately it backfired as many concluded that the effort may have been panic driven or was not aggressive enough relative to expectations. In a follow-up press conference, Fed Chair Powell said the central bank "judged that the risks to the U.S. outlook have changed materially" and that the Fed "can and will do our part, however, to keep the U.S. economy strong as we meet this challenge." Powell added, "we do recognize a rate cut will not reduce the rate of infection, it won't fix a broken supply chain. We get that, but we do believe that our action will provide a meaningful boost to the economy. More specifically, it will support accommodative financial conditions and avoid a tightening of financial conditions which can weigh on activity and will help boost household and business confidence." The cut left the federal-funds rate in a range between 1% and 1.25%.

The sell-off in the market following the rate cut sent the message that lower rates are not being viewed as the balm that will cure the coronavirus. As Powell readily admitted, the Fed's tools are imperfect and not adequate to deal with a public health crisis. Ultimately, the market wants to know how far the virus will spread and the Fed is in no position to answer that question.

At this point nobody ultimately knows what the severity and duration of the coronavirus will be, but the growing levels of fear in the market place seems to be reaching panic-like levels. According to the Johns Hopkins coronavirus dashboard tool, the number of new cases in China has started to stabilize, however, cases outside of China are still expanding at a fairly rapid pace. The market won't likely take comfort until we begin to see a stabilization in cases outside of China. Until then the market's path of least resistance will likely remain skewed to the downside.

More FEAR than Fundamentals (so far): Due to the lagging nature of economic reporting, the recent data reports are being viewed as "stale," however, the good news is that the US economy appeared to be in solid shape ahead of the coronavirus shock. On Friday, the Labor Department reported that nonfarm payrolls in February rose by 273K, solidly above the 175K forecast by economists. The unemployment rate dipped to 3.5% (from 3.6%) while average hourly earnings gained 0.3% and are up 3.0% on a year-over-year basis. Weekly hours worked rose slightly to 34.4 from 34.3 last month. Hours worked are an important metric in the sense that when times get tough, employers are likely to cut hours – so far, this has not been the case. Elsewhere, the ISM Non-Manufacturing Index (NMI) rose 1.8 points in February to 57.3, its highest level in a year. The report suggests that services activity picked up, putting the economy on a firmer footing, ahead of any potential impact from Covid-19. While there is no doubt the US economy will come under pressure in the period ahead, the solid starting point and fairly good momentum, coupled with lower interest rates, may help cushion the blow.

Refi Activity Surges: The downtick in bond yields and the rate action by the Fed pushed the 30-year fixed rate mortgage to a record low of 3.29%. According to the Mortgage Bankers Association, the record low rates has resulted in a frenzy of activity, with a 26 percent jump in refinancing activity during the latest week, and a 224% surge versus the same time last year. The refinancing wave is likely to continue in the coming weeks and coupled with the 7.5% decline in gasoline prices from the early-January peak, should be supportive of consumer pocketbooks.

The Week Ahead: Most economic reports haven't yet captured the effects of the coronavirus epidemic due to the lagging nature of economic data. That dynamic will change in the week ahead when the University of Michigan releases its March consumer sentiment survey on Friday. The February survey had hints of consumer fears, but the data were too few to be statistically significant. This week's update should more fully reflect what consumers have been thinking about the past few weeks. Other data reports of interest include; the February consumer price index (CPI), the February producer price index (PPI), and initial jobless claims. The Fed speaking calendar will be a nonevent in the coming week due to the traditional 10-day "blackout" period ahead of the upcoming (3/17-18) FOMC meeting.

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.

#42370