

April 27, 2020

Weekly Viewpoint

Fed on Deck but No Changes Expected

Performance for Week Ending 4.24.2020

The Dow Jones Industrial Average (Dow) lost 1.93%, the Wilshire 5000 Total Market IndexSM (Wilshire 5000SM) fell 0.96%, the Standard & Poor's 500 Index (S&P 500) finished off 1.32% and the Nasdaq Composite Index (NASDAQ) dipped 0.18%. Sector breadth was negative with 10 of the 11 S&P sector groups finishing lower. The Real Estate (-4.35%) sector led on the downside whereas, the Energy (+1.67%) sector bucked the trend and finished higher.

Index*	Closing Price 4/24/2020	Percentage Change for Week Ending 4/24/2020	Year-to-Date Percentage Change Through 4/24/2020
Dow	23775.27	-1.93%	-16.69%
Wilshire 5000	28483.89	-0.96%	-13.39%
S&P 500	2836.74	-1.32%	-12.20%
Nasdaq	8634.52	-0.18%	-3.77%

Market Observations: 4/20/20–4/24/20

After two consecutive weeks of gains, the major market indices reversed course and finished lower. Trading activity was very choppy throughout the week mostly due to wild swings in the price of oil, which for the first time ever traded below zero. With the covid-19 pandemic bringing travel and transportation to a screeching halt, demand has fallen sharply while increased production over the past several years has left the world awash in oil with little capacity to store it. Meanwhile, Congress passed a \$484 billion coronavirus aid package that will replenish funding for Paycheck Protection Program loans and Small Business Administration disaster assistance, as well as provide funding for hospitals and COVID-19 testing.

Earnings: As expected Q1 earnings season is off to a very rough start. Through Friday, 123 members of the S&P 500 have released results with the average company missing expectations by 5.3%. Aggregate growth is

currently negative 17.55%, although a good part of this is explained by the very weak results from the banking sector. Over 160 members of the S&P are scheduled to release results during the coming week and should give us a better feel for how the overall Q1 results will play out. According to Bloomberg, when all is said and done, Q1 results are likely to fall by just over 17%. Second quarter results are likely to fare even worse, with current consensus expectations calling a 35.5% decline. For all of 2020, earnings are estimated to retreat by 18.6%.

Bottoms Tend to Be a Process: While markets are forward-looking vehicles and often bottom several months ahead of exiting recessionary periods, bottoms also tend to be more of a process versus a pivot. In the weeks ahead, uncertainty surrounding the economic impact associated with the coronavirus will remain elevated and we will get constant reminders of the economic damage as the March/April data gets reported. When all is said and done, the market bottom will probably look more like a “W” or some sort of saw-toothed pattern versus a V-shape. In other words, following the huge snapback rally we’ve had off the March lows, a period of consolidation in the period ahead wouldn’t be surprising. With that said, for investors who have a longer time horizon, the return profile is looking asymmetrical – with upside favored over downside. Certainly, over the next 12 to 24 months there will be speed bumps and potholes along the way, but the path of least resistance is likely to be skewed higher.

The Week Ahead: The focal point for the coming week will be the two-day Federal Open Market Committee (FOMC) meeting on Tuesday and Wednesday. While no changes in policy are expected, the Committee will likely give an update on the multitude of programs that have been put in place over the last couple months and may also try to quantify the economic impact from the covid-19 pandemic. Earnings season will hit full stride with just over 160 members of the S&P 500 scheduled to report. Included in this group will be eleven members of the Dow Jones Industrial Average. On the data front, reports of interest include; the Conference Board’s April consumer confidence survey, the initial estimate of first-quarter gross domestic product, March pending home sales, March personal income and spending, and the April Institute for Supply Management (ISM) manufacturing survey.

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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