July 27, 2020

Weekly Viewpoint

Stocks Take a Much Needed Breather

Performance for Week Ending 7.24.2020

The Dow Jones Industrial Average (Dow) lost 0.76%, the Wilshire 5000 Total Market Index℠ (Wilshire 5000℠) fell 0.32%, the Standard & Poor's 500 Index (S&P 500) dipped 0.28% and the Nasdaq Composite Index (NASDAQ) shed 1.33%. Sector breadth was mixed with 6 of the S&P sector groups closing higher and 5 finishing lower. The Energy (+2.10%) sector was the best performer while Technology (-1.54%) was the worst.

Index*	Closing Price 7/24/2020	Percentage Change for Week Ending 7/24/2020	Year-to-Date Percentage Change Through 7/24/2020
Dow	26469.89	-0.76%	-7.25%
Wilshire 5000	32803.27	-0.32%	-0.25%
S&P 500	3215.63	-0.28%	-0.47%
Nasdaq	10363.18	-1.33%	+15.50%

Market Observations: 7/20/20–7/24/20

The major market indices finished the week lower with the S&P 500 falling for the first time in four weeks. The tech-heavy NASDAQ Composite was the biggest loser as investors took some profits in the mega-cap tech names. Driving the losses in the broader market was an uptick in tensions between the US and China and concerns the economic recovery is beginning to stall after weekly jobless claims increased on a week over week basis for the first time since March. However, growing optimism policymakers will find middle ground for another domestic stimulus package in the coming week and a solid kick-off to second quarter earnings season, helped limit the losses.

Q2 Earnings: Second quarter earnings season is off to a better than feared pace. Through Friday, 139 members of the S&P 500 having reported earnings with over 85% surprising to the upside. Aggregate earnings growth has fallen by 16.4%, but still well ahead of the forecasted 44% decline at the start of reporting season.

Ten of the eleven sectors have reported upside surprises, with the biggest surprises coming from the materials, healthcare, and financials sectors. The week ahead will provide more clarity on the earnings front with 181 members of the S&P scheduled to release results.

Economic Roundup: Initial jobless claims in the week ended July 18 rose 1.42 million from 1.31 million during the prior week, halting what had been a steady descent from a peak of nearly 6.9 million in late March. The uptick in claims came as a resurgence of Covid-19 has led some states to halt or roll back plans to reopen business activity. Continuing claims fell to 16.2 million from 17.3 million during the prior week. Meanwhile, the Leading Economic Index (LEI) increased 2.0% in June, its second gain in row, but modestly short of the 2.4% gain forecast by economists. Despite the recent gains, the index is still about 9% below its pre-recession high, as the outlook for growth remains uncertain, particularly with resurging COVID cases. The housing sector remained a bright spot as witnessed by the nearly 14 percent month over month gain in new home sales. The solid gains in housing are being driven by the decline in mortgage rates, which have fallen to the lowest levels on record.

Looking Ahead – Market View: Following the 40%-plus gains since the bottomed reached on March 23, it wouldn't be surprising to see a period of consolidation develop. Since the March lows, the S&P 500 has had several pullbacks that have ranged from 5 to 7 percent, a level that seems to be the sweet spot to draw the 'Buy the Dip' crowd back into the market. At the end of the day, the amount of stimulus being pumped into the economy should continue to act as a safety net under the market, and if there is one lesson learned over the past decade, it's you shouldn't "Fight the Fed."

If a cooling off period were to develop in the weeks ahead, we would suggest using the pullback to selectively add to equity positions. The economic situation should continue to get "less bad" and earnings expectations have started to stabilize. The healthcare system seems to be better prepared for the second wave of new cases and paradoxically, the market knows that the worst things get, the more likely the Federal Reserve and policymakers will inject additional stimulus into the economy. While nothing moves in a straight line, we continue to believe the return profile over the next 12 – 24 months should remain asymmetrical, with an upward bias.

The Week Ahead: The focal point of the coming week will be the two-day Federal Open Market Committee (FOMC) meeting starting on Tuesday. The after-meeting statement will be released at 2:00 p.m. EDT on Wednesday, followed by a press conference from Fed Chair Powell at 2:30 p.m. EDT. Earnings will also take center stage with 181 members of the S&P 500 scheduled to release results throughout the week. Amongst this group are 12 members of the Dow Jones Industrial Average. It will be a relatively busy week on the data front. Economic reports of interest include; June durable goods orders, the July consumer confidence index, June pending home sales, personal income and consumer spending for June, the initial reading on second quarter GDP, and the University of Michigan July consumer sentiment index.

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.