THE WEEKLY NOTE

A market commentary.

VIZIONARY
WEALTH MANAGEMENT

Is this just a Head-Fake Bear market rally?

Monday, April 20th, 2020

Over 22 million Americans have filed for unemployment over the last four weeks, over 13% of the entire labor force with more layoffs sure to come. Despite grocery sales being up nearly 27%, ***overall retail sales for March declined 8.7%***, their worst monthly decline on record going back to 1992. April data will probably look just as bad, if not worse.

And in the face of all this, the S&P 500 has now rallied over 30% from the bottom on March 23rd. So is the market wrong or is it just looking ahead towards a potential V-shape or U-shaped recovery? If the market is wrong, could this just be another bear market rally? These are questions we have been getting, so we wanted to share some perspective.

Bear market rallies are very common occurrences in historical market cycles where the stock market will bounce a certain percentage before ultimately resuming its downtrend. For example, in the 2008-2009 selloff, the market rallied 9% on four separate occasions before finally bottoming in March 2009.

History does not repeat, but it often does rhyme. We looked at all 15% market rallies during bear markets that ultimately resulted in fresh new lows for the S&P 500. As you can see, most of the bear market rallies took place during the Great Depression. There are also several market cycles that are missing from this list, most notably the 1973-1974 and 1987 market crashes that did not have 15% or more bear market rallies. In those cases, once the market rallied 15%, it was inevitably the path towards full recovery.

Since 1945, there have been 7 bear market rallies of greater than 15%. If the current rally of 31% ultimately reversed and resulted in new lows, it would be the biggest bear market rally since the Great Depression. Given that, we would say the data is statistically in favor of the lows being in for this cycle.

This is not a sure thing by any means, but we are encouraged by the trends in COVID-19 hospitalizations and talks of re-opening the economy, even if in

Bear market Rallies of 15% or More

Pre-WW II

START DATE	DURATION (DAYS)	ADVANCE
Oct. 29, 1929	2	18.2%
Nov. 13, 1929	148	46.8%
Dec. 16, 1930	72	25.8%
Jun. 02, 1931	24	25.8%
Oct. 05, 1931	35	30.6%
Jan. 05, 1932	10	18.2%
Feb. 10, 1932	27	19.7%
Sep. 19, 1932	2	16.1%
Oct. 10, 1932	32	19.6%
Jul. 21, 1933	35	16.9%
Oct. 19, 1933	110	37.3%
Nov. 24, 1937	48	17.5%
Nov. 24, 1937	223	62.2%

Post-WW II

START DATE	DURATION (DAYS)	ADVANCE
May. 19, 1947	393	23.9%
Feb. 12, 1957	153	15.9%
Apr. 04, 2001	47	19.0%
Sep. 21, 2001	105	21.4%
Jul. 23, 2002	30	20.7%
Oct. 27, 2008	8	18.5%
Nov. 20, 2008	47	24.2%
Mar. 23, 2020*	21	31.4%
*Recent Period		
S&P 500 Low March 23	2191.86	
S&P 500 Recent High (April 17)	2879.22	31.4%

gradual fashion. It is very likely that the re-start will be bumpy, but even a U-shaped recovery would be better than what many feared as the worst case in mid-March.

Record fiscal and monetary stimulus is helping the market's momentum, but it can only go so far. At some point, we need consumers to resume spending and job losses to be recovered. We think it is unlikely we capture back all these jobs as the market was at a historical low level of unemployment and many small businesses have been shuttered, but there are many that should be able to be recaptured in short order in the first couple phases of the re-opening. Amazon is doing its part, ***announcing plans to hire an additional 75,000 workers***, on top of the 100,000 it hired at the start of the year. The market is forward-looking, which is why we have continually beat the drum that waiting for the data to improve will most likely lead to a large opportunity cost. The S&P 500 is still 15% below it's all-time high from mid-February, but we are optimistic that the worst-case scenario for a prolonged downturn has at least become a lower probability than it was just a few weeks ago.

Jack Holmes, CFA
WealthPLAN Partners