

Weekly Market Matters

Markets Suffer Biggest Decline Since March as Investors Run Headlong into a Wall of Worries

- The U.S. stock markets started the week off well but then ran into a Wall of Worries and recorded their worst weekly losses since March
- The small-cap Russell 2000 suffered the most, dropping 7.9%, followed by the 5.6% decline in the DJIA, the 4.8% drop in the S&P 500 and the 2.3% drop in NASDAQ
- Most of the week's suffering took place on Thursday, when the S&P 500 dropped close to 6%, as Wall Street slid on this Wall of Worries
- There were a lot of bricks in the Wall of Worries that might have pushed markets south, including rising COVID-19 cases in some states, social unrest, cautious concern from the Federal Reserve and more backward-looking negative data
- Volatility returned as the CBOE Volatility Index leapt by almost 50%
- Every one of the 11 S&P 500 sectors finished the week negative, with the Energy sector dropping 11% and Information Technology "only" dropping 2%
- The price of WTI crude dropped over 8% to about \$36/barrel
- The Federal Reserve met this week and kept short-term rates the same, but suggested that rates might remain close to zero through 2022
- The 2-year Treasury yield declined to 0.18% and the 10-year declined to 0.70%

Weekly Market Update – June 12, 2020

	Close	Week	YTD
DJIA	25,606	-5.6%	-10.3%
S&P 500	3,041	-4.8%	-5.9%
NASDAQ	9,589	-2.3%	6.9%
Russell 2000	1,388	-7.9%	-16.8%
MSCI EAFE	1,768	-4.3%	-13.2%
Bond Index*	2,355.95	1.02%	5.89%
10-Year Treasury	0.70%	-0.19%	-1.2%

*Source: Bonds represented by the Bloomberg Barclays US Aggregate Bond TR USD. This chart is for illustrative purposes only and does not represent the performance of any specific security. Past performance cannot guarantee future results

Markets Smash Into the Wall of Worries

Many might suggest that given the collective rise of the U.S. stock markets over the last few weeks and the astronomical jumps of the markets from their late March lows, a decent pullback was in the cards. The reason for the pullback, on the other hand, is hotly debated. Taking a look at those astronomical jumps, investors saw the S&P 500 up by over 40% since March 23rd; NASDAQ up almost 50% since then and the smaller-cap Russell 2000 up even more than NASDAQ.

While the reason for the pullback is anyone's guess, it is likely a combination of a bunch of Worry Bricks that make up a Wall of Worries, including:

- Worries about another wave of coronavirus cases as states open up more;
- Worries about continued social unrest in cities across the country;
- Worries about future economic growth, especially with the Fed suggesting that rates might remain close to zero through 2022; and
- Worries that the markets jumped too far and too fast.

While many will only focus on the ending weekly declines, at the beginning of the week, the markets did hit a few key milestones: the S&P 500 was briefly positive for the year and NASDAQ was past that 10,000-point threshold. But, then the Worry Bricks started piling up.

Fed Leaves Rates Alone

On Wednesday, the Federal Reserve met and unanimously voted to leave short-term rates unchanged but will “increase its holdings of Treasury securities and agency residential and commercial mortgage-backed securities at least at the current pace to sustain smooth market functioning, thereby fostering effective transmission of monetary policy to broader financial conditions.”

Here is what the Fed said about the economy and its outlook:

“The coronavirus outbreak is causing tremendous human and economic hardship across the United States and around the world. The virus and the measures taken to protect public health have induced sharp declines in economic activity and a surge in job losses. Weaker demand and significantly lower oil prices are holding down consumer price inflation. Financial conditions have improved, in part reflecting policy measures to support the economy and the flow of credit to U.S. households and businesses.

The ongoing public health crisis will weigh heavily on economic activity, employment, and inflation in the near term, and poses considerable risks to the economic outlook over the medium term. In light of these developments, the Committee decided to maintain the

target range for the federal funds rate at 0 to 1/4 percent. The Committee expects to maintain this target range until it is confident that the economy has weathered recent events and is on track to achieve its maximum employment and price stability goals.”

Deflation on the Horizon?

On Wednesday, the Department of Labor released CPI numbers for May and there was a chorus singing deflationary tunes for the rest of the week.

The U.S. Bureau of Labor Statistics reported that:

- The Consumer Price Index for All Urban Consumers declined 0.1% in May on a seasonally adjusted basis after falling 0.8% in April
- Over the last 12 months, the all items index increased 0.1% before seasonal adjustment

Further, it was reported that:

“Declines in the indexes for motor vehicle insurance, energy, and apparel more than offset increases in food and shelter indexes to result in the monthly decrease in the seasonally adjusted all items index. The gasoline index declined 3.5 percent in May, leading to a 1.8-percent decline in the energy index. The food index, in contrast, increased 0.7 percent in May as the index for food at home rose 1.0 percent.

The index for all items less food and energy fell 0.1 percent in May, its third consecutive monthly decline. This is the first time this index has ever declined in three consecutive months. Along with motor vehicle insurance and apparel, the indexes for airline fares and used cars and trucks declined in May. The indexes for shelter, recreation, medical care, household furnishings and operations, and new vehicles all increased.”

This data was another Worry Brick, as deflation is now a real possibility as this is the first time in over 60 years that core CPI has dropped for three consecutive months.

Consumer Credit

The Board of Governors of the Federal Reserve System released the following April data for Consumer Credit on June 5th:

- Consumer credit decreased at a seasonally adjusted annual rate of 19.5%
- Revolving credit decreased at an annual rate of 65%, while nonrevolving credit decreased at an annual rate of 4%

For comparison, consumer credit contracted at an annual rate of 3.3% in March. Much of April's decline was directly attributed to the impact of COVID-19, as consumers had fewer opportunities to spend.

The JOLTS Report

The Labor Department created the Job Openings and Labor Turnover Survey – the JOLTS Report – which tracks monthly changes in job openings as well as job offerings and “quits.”

On June 9th, it was reported that in April:

- Job openings fell 16% to 5 million, a 5+ year low
- Hires were down 31%, a 10+ year low
- Quits were only 1.4% (compared to 2.3% before COVID-19)

Sources: [bls.gov](https://www.bls.gov); [dol.gov](https://www.dol.gov); [census.gov](https://www.census.gov); [federalreserve.gov](https://www.federalreserve.gov); [factsset.com](https://www.factsset.com); [standardandpoors.com](https://www.standardandpoors.com); [nyse.com](https://www.nyse.com); [msci.com](https://www.msci.com); [nasdaq.com](https://www.nasdaq.com); [dowjones.com](https://www.dowjones.com); [morningstar.com](https://www.morningstar.com); [fidelity.com](https://www.fidelity.com); [bloomberg.com](https://www.bloomberg.com); [cboe.com](https://www.cboe.com)