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Weekly Market Performance – Markets Pull Back Amid Solid Two-Month Run

Posted by lplresearch

Market Blog

Index Performance – Week ending 6/12/2020

S&P 500 Index: -4.8%

Dow Jones Industrial Average: -5.6%

Nasdaq Composite: -2.3%

Equities

US equities sold off this week, as the S&P 500 Index posted its largest weekly loss since late March. The Nasdaq outperformed amid the sell-off, bearing similarities to action seen in February and March. Last week's winners were this week's losers as energy, financials and industrials all retreated more than 6%. Technology was the bright spot, down only a fraction this week. Small and mid-caps underperformed with the Russell 2000 and S&P 400 dropping more than 8%.

The week was marked by Thursday's 5.9% drop for the S&P 500. During Wednesday's Federal Open Market Committee meeting, Federal Reserve (Fed) Chair Powell was downbeat on the economy and the unemployment picture. In addition, investors are concerned with an increase in COVID-19 hospitalizations in a dozen US states since Memorial Day. This could be troubling given an increase in new cases may stall business reopening efforts and thus, a potential economic recovery.

International Stocks

The MSCI EAFE and the MSCI Emerging Markets Indexes mirrored their US counterparts, with both indexes down for the week. However, emerging markets outperformed the developed markets for the week by over 2%, as many Asian markets continue to show more progress against the disease.

In recent years, international developed equities have tended to outperform the United States during intermittent periods of value stock leadership. We remain skeptical that the most recent bounce in value stocks will lead to a sustained reversal in the long-term trend favoring US growth stocks. Year to date, the MSCI EAFE Index return has trailed the S&P 500 by about 8 percentage points, while the Russell 1000 Value Index still trails its growth counterpart by more than 20 percentage points so far in 2020, despite outperforming since May 15.

The Eurozone's Q1 gross domestic product (GDP) report showed 3% drop, its worst decline since 1995, when comparable records began. European stocks had been largely supported by an over $600 billion boost to Europe's Pandemic Emergency Purchase Program, bringing the coronavirus rescue package to a total of over $1.5 trillion. However this week, the European markets retreated, with the STOXX Europe 600 Index down over 3%.

Some concern exists with China's May producer price deflation. Lower prices underlined the economic impact of the COVID-19 pandemic on overseas demand and, thus, could raise doubts about a swift economic recovery.

Fixed Income and Commodities

After moving decisively higher last week, the yield on the 10-year Treasury yield fell 20 basis points to 0.7% as investors sought safe haven assets. Credit spreads widened considerably amid the risk-on tone.

The Fed vowed to hold benchmark rates unchanged at near zero over the next two years, while continuing its bond-buying program at the current pace of at least $120 billion per month, to further support credit markets. Moreover, the Fed sees a GDP decline of over 6% this year, along with unemployment at over 9%.

"The Fed didn't rock the boat and they made it quite clear low rates are here to stay," explained LPL Financial Senior Market Strategist Ryan Detrick. "But the dour outlook during the Q&A session did catch some off guard and put some ice water on hopes for a quick recovery."

The July contracts for WTI crude oil were down over 6% for the week. Gold edged higher over 1% this week, with the commodity up over 15% for the year. With the rocky week in the markets, the dollar held steady against the euro.

Looking Ahead

Economic data for next week begins with retail sales, along with manufacturing and inventory data Tuesday. May retail sales are expected to show improvement over April's record drop, with growth of over 6%. Wednesday we get data on housing starts and building permits.

On Thursday, we receive jobless claims and the Philadelphia Fed Index, another manufacturing measure. To cap off the week, we get a synopsis of our trade balance via the Current Account report.

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