Weekly Market Review

By: Joe Clark, CFA, Allegheny Research Team

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After weeks of the stock market ignoring the coronavirus outbreak, it finally capitulated, resulting in the worst week since the Global Financial Crisis. The panic selling set a few records across the stock and bond markets. The S&P 500 Index is now in correction territory, defined by a fall of 10%; this is the quickest the market has entered into a correction on record, taking only six trading days. Remember, the S&P 500 Index just hit an all-time high on February 19. On the bond side of the equation, both 10-Year and 30-Year U.S. Treasuries traded at the lowest yields in history (bond prices rise as yields fall). Just because the index is in correction territory, some areas of the market did do relatively well.

Looking at individual segments of the stock market, the themes of “staying in” and “going out” were apparent. Companies that benefit from people staying at home and watching television or playing video games tended to outperform the S&P 500 Index. On the other hand, companies who need consumers to be out and active, like airlines or hotels, were some of the worst performers of the week. Themes like this, or healthcare companies involved in fighting coronavirus outperforming, show that not all stocks are equal, and investing with active managers who buy great companies can benefit from volatile markets.

Bonds were not the only asset class to end the week in positive territory. Gold had a strong week, trading at its highest level in over seven years. However, they may not have been as safe as some expected. Gold and treasury bonds both traded higher and were the obvious safe place for investors when stock market selling picked up to start the week. However, as the week ended, gold reversed and ended Friday in the red. One thought about this is that consumers’ liabilities are paid in U.S. Dollars. Gold does not help investors pay their bills in a time of stress; it has to be sold and converted back to Dollars. Therefore, gold can be a good downside protector, but there is a point its downside protection deteriorates, and better options exist.

As fears increase and stocks rapidly decline, there are some essential items to note. Corrections in the stock market are normal (maybe not at this rate), but we do tend to have a correction at least once per year. The S&P 500 Index still has a positive one-year return, and following a couple of years with little volatility, this is creating a buying opportunity for active asset managers. I was traveling last week and met with a couple of portfolio managers who are excited about this opportunity to upgrade their portfolios with great companies at lower prices. This is a stressful time for many investors; however, this is not the time to sell. If anything, it’s time to look to buy assets that have been overvalued for some time.

811 Camp Horne Road, Suite 100 • Pittsburgh, PA 15237
Ph: 412.367.3880 • Fax: 412.367.8353
alleghenyfinancial.com • alleghenyinvestments.com