Weekly Market Review

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The Week Ending March 7, 2020

The current bull market turns 11 today, March 9, and it is celebrating by taking a trip to the amusement park to ride the roller coaster. And after this weekend, it doesn't seem like we'll be getting off anytime soon. Last week continued to be dominated by the coronavirus, and as confirmed cases or general fears of the virus made headlines, the market reacted to each one. The week did end with a slight gain, due to two days of greater than 4% returns, but it really didn't have the feel of a positive week. The Federal Reserve instituted an emergency rate cut, Treasury bond yields plummeted, and a deal on curbing oil supply could not be reached, resulting in a huge oil sell-off to start Monday morning.

Tuesday marked the first time since the Financial Crisis that the Fed stepped in with a 0.50% emergency rate cut between their meetings. Chairman Jerome Powell stated that "risks to the U.S. outlook have changed materially," and promised the Fed would do what they needed to keep the U.S. economy strong. The market was banking on a cut of 0.50% during the Fed's March meeting, set for next week, but was caught off guard by their quick reaction, and therefore it resulted in a market sell-off. Additional rate cuts are expected as the market is anticipating the Federal Funds rate to be between 0.25% to 0.50% by the end of April.

It does make sense for the Fed to cut rates based on the sharp drop in longer duration Treasury bonds. Recently, the 10-Year Treasury bond broke below 1% for the first time, but that is no longer frontpage news as the 30-Year joined it Sunday night. As of writing this Monday morning, the 10-Year is trading at 0.42%, and the 30-Year is at 0.85%. Somehow, the yield curve is not inverted as all maturities have dropped in sync. It is hard to make sense of these yields, but based on where the rest of the world is trading, the U.S. was one of the few safe havens still paying a positive yield and became even more attractive when fears of coronavirus, and now oil, increased.

The biggest story to start the week is the collapse in oil prices, which began Saturday. At one-point Sunday, oil was down close to 30%, it has climbed back a bit Monday morning but was still down 22%. This drastic sell-off is an effect of the OPEC meeting Friday when Russia would not agree to production cuts. Making a point, Saudi Arabia slashed its oil prices and is planning to increase production, which will force oil prices even lower. Currently, oil is on pace for its second worse trading day ever, bested only by the 35% drop in 1991 during the Gulf War.

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