Weekly Market Review

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The Week Ending April 11, 2020

A holiday-shortened week did not lack excitement, as the S&P 500 posted one of its best weeks of all time. Even amid the uncertain environment and data points starting to show the economic damage, the stock market continues to grasp onto positive news, like what seems to be a plateau in COVID-19 cases. Last week began with data showing a "flattening of the curve," social distancing appearing to be working in Europe, and even the slowing of the growth of new cases in New York. This news and the Federal Reserve pulling out all stops to support the economy contributed to the market's 12% week.

The Federal Reserve came out with a massive $2.3 trillion spending program with a focus on small to mid-sized businesses. Historically, the Fed has not stepped in to buy corporate bonds. Still, unprecedented times have led the Fed to follow the lead of other global central banks and join in on corporate bonds, even those rated below investment grade. While they will not be directly buying below investment-grade bonds, they will be playing in the ETF market and indirectly supporting those companies. If that isn't enough, the Fed will also be supporting state and local municipalities, another first for the central bank.

The often-quoted phrase, "Don't fight the Fed," seems to be holding true now more than ever. At this point, the only securities the Fed is not able to purchase are stocks. At one point not too long ago, purchasing stocks did not seem like a possibility, but with how drastic the Fed has moved in just a few weeks, who knows what may be left in their tool kit.

The stock market is in the midst of a strong rally, currently up 24% from the bottom on March 23, and at levels we last experienced in February 2019. This rally seems to be supported by a three-legged stool: the slowing of the COVID-19 growth rate, massive stimulus from the Fed and Congress, and a stabilization of oil prices. While these are all positives, it does not have the all-clear feeling that the bear market is over. Oil prices stabilizing is positive, but it does not change the fact that oil demand remains low due to the economy shutting down, and therefore will not increase energy companies' earnings. Stimulus spending was desperately needed, but we will begin to see if it's enough, or more is necessary, as the next couple weeks will bring us corporate earnings and economic fundamentals for March, which will show the real impact of the economic shutdown. This is a time to maintain trust in your financial plan and not take this recent rally as the all-clear signal to increase risk in your portfolio.

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