Weekly Market Review

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Another week, another rally. This time the S&P 500 Index increased 3% to mark the first back to back weeks of gains since February. The announced plans to reopen the economy outweighed the release of some very poor economic data. This is a confusing stock market; bad news does not seem so bad, and good news sends the market even further into rally mode. If we take a step back and look at the current situation, it seems difficult to justify the current 25% rally, which basically went straight up from the low.

In just four weeks, over 20 million Americans have applied for unemployment. This has erased net new jobs created during the last economic expansion dating back to March 2009. We now stand at three straight weeks of at least 5.5 million people applying for unemployment benefits for the first time. For comparison, the past three recessions have never broken the 700,000 mark in a one-week period.

March retail sales began to show the impact of the sudden shutdown of the economy, declining 8.7% in March. This data has been collected since 1992, and March was the worst month on record. The most significant decline during the Global Financial Crisis was about 4%. Remember, the consumer makes up about 67% of the U.S. economy, so this is going to have a sizeable impact when the first estimate is released next week.

The manufacturing index was released earlier in the month and showed a slight contraction, but the bigger news was the new orders component. New orders are the forward-looking part of the manufacturing index, and they showed a sharp decline, now at levels not seen since the Financial Crisis. Based on the economy coming to an immediate standstill last month, these numbers will likely worsen.

This commentary is not supposed to sound pessimistic or describe a gloom-and-doom scenario; however, it's challenging to make sense of this rally. The U.S. economy went from fully functional to shut down in a matter of days. We are dealing with a pandemic that has hit the world, not primarily the banking or technology sectors like past recessions. Maybe the stock market rally is focused on the Federal Reserve and Congress providing so much stimulus and liquidity in the system that markets know they are not going to allow a collapse. The Federal Reserve stepped in with stimulus, with the stock market down 15%. This action is not typical, but is it the new normal? If so, what does it mean for the future of capital markets? I'm not saying the future is good or bad, but it leaves more questions than answers. This news all leads back to staying the course. No one knows what will happen next, and a long-term outlook is the best way to navigate financial markets.

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