Weekly Market Review

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The Week Ending June 12, 2020

After a two-month rally, we were quickly reminded that risks remain in the stock market, sending the S&P 500 to its worst week since the depths of the COVID pandemic in March. The stock market seemed to be looking past negative data recently, but when the Federal Reserve released new growth estimates last week, the market took a sharp dive. Companies are also starting to release recent sales data, providing a glimpse into the damage the economic shutdown had on the economy.

The Fed seemed to bring some reality back to the minds of investors as they lowered their growth outlook for this year and reminded everyone this could be a long and slow recovery. In recent weeks, we received less bad economic news which triggered a positive reaction from the stock market. We may be moving into more of a tug of war market in which the positive bulls do not have all the say. This was one of the first forward-looking data points we have had, causing the stock market to hit the reset button for a bit. We are not saying we will see a repeat of a few months ago, but volatility could increase as the market tries to figure out where we go from here.

It appears low interest rates will remain for the foreseeable future. Along with an updated growth outlook, the Fed announced they are not planning to raise short-term rates until at least 2022. This resumed the downward pressure on the 10-Year U.S. Treasury Bond, after it traded close to 1% earlier in the week. This is positive news for borrowers, as they will not have to worry about rising rates on loans for some time; however, yield-seeking investors are disadvantaged as their search for yield continues.

The Fed also put the brakes on the excitement from the May unemployment report being much stronger than expected. Fed Chair Jerome Powell stated he expects the unemployment rate to barely get back into the single digits by the end of 2020. Since we are in a new normal and there is no playbook on how to reopen the global economy, the stock market may have realized it was a bit over its skis by focusing too much on the not as bad economic data, rather than looking at the whole picture.

To this point, we have only seen economic data driving stock market returns. The Fed providing a forward outlook gave a wake-up call for the stock market; we may not recover as quickly as what looked to be priced in. The next indicator will be corporate earnings which are slowly been posted; but next month will be the true test. While negative data may outweigh the positive in coming weeks, a diversified portfolio remains the best way to weather the storm and be a successful investor over the long term.

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