Weekly Market Review

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The Week Ending June 19, 2020

After a week of positives from May retail sales results and additional easing measures from the Federal Reserve, the market rebounded from a down week and ended in positive territory. Friday took a step back as a familiar foe in the COVID-19 pandemic reminded us there is still a long way to go before we can return to our normal lives, as a few states reported a rise in cases putting the thought of a V-shaped recovery in jeopardy.

A positive take away from last week was the May retail sales data. Retail sales posted an impressive rebound from April's sharp drop off and even surpassed most expectations. Celebrating a big win for the month is understandable, but it needs to be taken in context. March and April were awful months since most people were quarantined at home and only buying essentials if they did go out. This should have led us to expect a strong rebound at some point. Perhaps May's rebound was earlier and stronger than expected—which is great—but we need to remember there is a long way to go. May sales indicate people are willing to go out, shop, and get back to spending money. However, stocks traded as if we hit a new high in retail sales when, in reality, we are not even close to being back to pre-COVID levels. It is important that we do not overreact to one piece of positive news but rather wait to see what the next few months hold.

The Federal Reserve also delivered a boost to the market last week when they announced they would be purchasing individual corporate bonds, expanding from when they began buying ETFs just a few months ago. This is yet another signal to the market that the Fed will do anything within their power to support financial markets through this COVID pandemic, and most likely beyond. The Fed is now the lender of last resort in many bond markets, which effectively puts a floor on these bonds. Fed Chair Jerome Powell could be taking a page out of the book of former chair of the European Central Bank (Europe's Fed), Mario Draghi. In 2012, Draghi announced a program to back European sovereign debt; since then, the ECB has not spent anything on the program. Investors knowing the ECB will jump in has been enough assurance to keep calm in those markets, which could be the Fed's goal.

While the market seems to have strong reactions to positive data, risks remain. Although it is easy to forget those risks with the run we have seen in recent weeks, it is difficult to know how markets will react to each piece of new information. However, maintaining a diversified portfolio remains the best way to navigate these short-term events and have long-term success.

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