Weekly Market Review

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The Week Ending September 11, 2020

Volatility within the big technology stocks was the driving factor for the stock market last week, sending the S&P 500 Index to two consecutive negative weeks for the first time since May. The technology-heavy Nasdaq Index suffered most of the damage, with the index entering correction territory, defined as a 10% decline from the recent high, in just three trading days. This is the fastest time in history an index has entered a correction, beating the previous record of six trading days set in March 2020.

Technology stocks have been on an incredible run and the dominant sector since the market bottomed on March 23rd. Though, the last two weeks have demonstrated what happens when volatility turns the opposite direction. Big technology stocks, such as Apple, Amazon, Tesla, and Microsoft, have seen their stock prices rise exponentially this year. Some gains are based on companies seeing their businesses grow from the stay at home orders, thereby reporting strong earnings and justifying higher stock prices. However, there is also a sense of FOMO ("fear of missing out"), and momentum drives stock prices higher than company fundamentals can support, causing excessive losses on the way back down, like Tesla. The company's stock price was up almost 500% since the market bottom through the end of August, based on expectations that Tesla would be added to the S&P 500 Index. When Tesla was overlooked during the index's rebalance in September, the stock lost a quarter of its value in less than two weeks. As if we needed another lesson from 2020, we continue to be reminded of the value of a long-term outlook and the difficulty of capturing a big, quick return.

Many of these technology stocks rely on consumers continuing to spend money, increasing their revenues, and justifying higher stock prices. For this to happen, the jobs picture needs to keep improving. On its face, the employment situation is much better than just a few months ago. However, according to Indeed, job postings are down about 20% from last year, with hospitality and tourism down over 40%. On the positive side, jobs available in construction and some manufacturing sectors are at or above where they were one year ago. The concern is that as we move into winter and outdoor dining is no longer feasible throughout most of the country, where does the labor market go from there? With many unknown variables and the upcoming presidential election, a diversified portfolio continues to provide the best probability of success. While FOMO might kick in when technology stocks seem to do nothing but rise, the past two weeks remind us of the importance of a diversified portfolio and the value it can provide as we continue through periods of uncertainty.

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