Weekly Market Review

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The Week Ending November 20, 2020

Last week was a display of the tug of war match in the stock market, leading to less than a 1% loss for the S&P 500 Index. On the one hand, multiple pharmaceutical companies have reported positive results on COVID-19 vaccines, providing optimism that there is light at the end of this pandemic tunnel. Although vaccines are on the horizon, COVID-19 cases are currently rising at an alarming rate through much of the country, dampening the excitement from vaccine new. JPMorgan became the first major firm to expect U.S. GDP to have a minor decline in the first quarter of 2021, suggesting the next couple of months could be difficult before moving to a post-COVID environment.

While the broad market index experienced a slight loss, some of the trends we have witnessed in the past couple of weeks continued. The recently lagging value stocks and small-cap stocks continued making up ground and outperforming their larger stock counterparts. This trend could be indicating the stock market is trading off a long-term, post-vaccine world, rather than the current seemingly risk-on environment. If this is the case, it makes sense that investors are rotating out of larger-cap stocks and moving into riskier, smaller-cap, undervalued stocks. The 10-year U.S. Treasury yield experienced its largest one-week decline since August, falling to 0.83% on Friday, indicating investors are balancing some of the cyclical and smaller stock risks by investing in safe-haven U.S. Treasury bonds.

One market trend that continued was outperformance from the NASDAQ Index; however, this was not driven by the broad technology index like we have become accustomed to. Instead, it was a 20% week from Tesla that lead the index higher. Standard and Poor's announced Tesla would be added to the S&P 500 Index beginning in December, leading many investors to jump into the already crowded trade. Tesla will become the largest company ever added to the S&P 500 Index, so buying should be expected to continue in the near term, especially as index funds join the party. It is important to remember, Tesla is up close to 500% this year, trading more on momentum and multiple expansion than fundamentals.

Periods like this are what make investing difficult and can lead to questioning your portfolio. Tesla continues to do astonishingly well, and lagging cyclical, small cap stocks are suddenly outperforming in an environment of surging COVID-19 cases. While this could feel like a time to buy what is doing well and cave to the fear of missing out, a diversified portfolio will continue to provide the best odds of long-term success without emotionally reacting to the short-term events.

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