Market Swings Continue Among Coronavirus Optimism

Equity markets continue to experience wild swings in both directions. Last week, we saw two big up days, mixed in with three down days. The S&P 500 finished down 2.5% for the week and down almost 25% year-to-date. Yesterday (April 6), those same markets jumped 7% in the face of dire economic predictions, resulting from the coronavirus shutdown. The impetus is the hope that Europe is on the downhill side of the peak in infections, that we will follow a similar pattern, and that New York is seeing its peak right now. The buying yesterday in risk assets is pushing us right back to a 38% retracement of the selloff that began six weeks ago. For those technical analysts out there, this represents the minimum retracement (bounce) following a steep sell off that breaks support levels. We hit this same level early last week and were unable to hold before selling began again. We will soon see if that pattern repeats itself.

While I remain hopeful that some good news on the medical issues at hand will allow stocks and our society to move forward, the fact remains that this event has caused severe technical and fundamental damage to all risk assets. The fundamental damage in the form of lost earnings will not be fully known for several months. We will just start to see how bad this is hurting businesses when earnings from the first quarter begin to come in. Most analysts are predicting a second quarter loss in GDP of between 25% and 30% (Moody's Analytics). This expected loss is simply staggering and exceeds anything seen during the 2008 recession or the Great Depression that began in 1929. The closures to business nationwide have caused more than 10 million people to file for unemployment benefits in the past two weeks alone. This is unprecedented in our history. All these factors lead me to believe that we are in for a long hard slog before investors can even begin to fairly price assets. Until then, we will continue to see traders move markets up and down in short-term violent swings.

I had a call yesterday with an advisor partner who was receiving calls from clients watching the news and seeing a 7% rally. They wanted to know if the bear market was now over. He was spot on in explaining to his clients that daily market moves in any direction of 4 and 7% are not evidence of a healthy market. He also explained that any process-driven investment strategy, whether technical based or fundamental, would not be jumping back into risk assets with both feet.

Last week's commentary can be found here.

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