The Market Continues Sharp Recovery as Unemployment Reaches Remarkable Highs

Major stock indices gained more than 3% last week, continuing a remarkable bounce off the March 23 bottom. The S&P 500 is testing both its 200-day moving average and the late April high just under 3000. The speed and size of the price gains over the past six weeks has not been seen since the Great Depression. Likewise, it should come as no surprise that the drop during late February through March 23 was unlike anything we have seen since that time. Remarkable is an understatement. The positive move in equities is occurring in the face of catastrophic economic conditions. Unemployment has gone from 3.5% to almost 15% in a matter of one month. It is projected to exceed 20% before it peaks. What this means is that more than one fifth of the U.S. labor force is out of work and relying on government benefits. The brunt of the Coronavirus fallout is hitting lower paid workers who have fewer financial reserves to carry them over. This is inevitably going to lead to further disparity between the haves and have nots in this country. Whether this is a short-term phenomenon, or a longer-term demographic problem remains to be seen.

We have talked many times about the great discounting mechanism that is our markets. The collective wisdom of millions and millions of investors worldwide should never be ignored. Currently this aggregation of investor perspective is looking forward to better times ahead and is pricing in a quick economic turnaround. Whether this is based upon the reopening of U.S. (and international) businesses, or a medical solution to COVID-19, I do not know. For the purposes of this writing it doesn't matter. Further, it matters not whether I or anyone else thinks this is merely a dead cat bounce and the ultimate bull trap. What matters is that we don't let our personal opinions or beliefs cloud our objectivity. Objectively, risk assets are outperforming other assets. This may change and that is okay too. The ability of the S&P 500 and Dow to reclaim their 200-day moving average will likely resolve the issue.

Key terms:

A **dead cat bounce** is a temporary recovery in share prices after a substantial fall, caused by speculators buying in order to cover their positions.

Last week's market commentary can be found here.

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The COVID-19 health epidemic has had substantial global economic impact on financial markets. As of March of 2020, restrictions to travel and business spanning the economy for activities not deemed essential have been imposed throughout the United States. These restrictions have caused unprecedented volatility and uncertainty in capital markets and have negatively impacted the economy. It is unknown how severe the impact to the economy and capital markets will be if the epidemic persists for an extended period of time. The epidemic may have a material adverse impact on Cabana's investment advisory business including, but not limited to, the performance of our portfolio strategies.

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