CABANA WEEKLY MARKET COMMENTARY MAY 4, 2020

Can April's Rally Continue, or is More Economic Disruption on the Horizon?

Equity markets finished off April with the biggest monthly gain since 1974. The huge rally followed an even bigger decline in March. Face-ripping rallies are common in bear markets, although it must be noted that this one was especially quick. The S&P 500 moved all the way back to its 200-day moving average, just below 3000, before meeting resistance and pulling back almost 4%. The 200-day moving average also coincided with a 61.8% retracement off the March 23 low. This is an important Fibonacci number and is a common level for counter-trend reversals.

In digging deeper into the stocks that have led the rally, it is clear that large cap technology has been the one standout leader. Names like Amazon, Google, Apple and Netflix make up a large part of the broad index's weightings. These stocks have pulled the S&P 500, Dow and Nasdaq up, while almost everything else has been left behind and is still down 30-40%. During bull markets you want to see all stocks participating, not just narrow segments of the market. The fewer stocks leading the rally, the more tenuous its staying power. Huge swaths of the broad market are still bleeding profusely. These include airlines, retailers, energy, consumer discretionary goods - and everything tied to these important sectors.

We are in the middle of first quarter earnings season, and it is hard to evaluate how good or bad companies are doing. In excess of 40% that have reported are refusing to give guidance going forward. Even Warren Buffet reported over the weekend that he has sold **all** his positions in four major airlines for a $50 billion loss. That shows just how unsure he is of the industry going forward. We will see non-farm payroll unemployment numbers this week, and expectations are for jobs to be down 20 million. This will cause the unemployment rate to jump from 4.4% to 16%. That alone is simply jaw dropping. If these numbers persist and we see one fifth of the labor force out of work, we are in for a world of hurt. It does not matter how much band-aid money gets thrown at the consumer, people are going to be scared and for good reason. When people are scared that their children will go hungry or that they won't have a roof over their head, they stop spending on other things. It is the spending on these other things that drives 60% of the United States GDP. The impacts of this sudden vacuum will be felt everywhere else sooner or later.

The point in all this is that these are unusual and potentially life-altering economic times. To all those proponents of a quick return to normalcy and the bull market of the past decade, I hope you are right. With that said, I am afraid it will require a vaccine or an effective treatment for COVID-19 for this process to start. The longer it takes for the medical solution to come, the longer it is going to take for our world to repair itself. It surely will, and we will come out stronger than ever, but how long that takes is anyone's guess right now.

Key terms:

In mathematics, **Fibonacci numbers**, commonly denoted F_n, form a sequence, called the **Fibonacci sequence**, such that each number is the sum of the two preceding ones.

Last week's market commentary can be found here.

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