CABANA WEEKLY MARKET COMMENTARY JUNE 15, 2020

Markets Show Important Reversal at Even More Important Level

Two weeks ago, we commented on the ongoing test faced by the broad indices at their respective 200-day moving average. We noted that if equity markets were able to regain and hold above that important technical level, we were likely to see prices move significantly higher as institutional money was forced off of the sidelines and back onto the playing field. Just as soon as we mentioned it, the S&P 500 did hold that level and closed out the week of June 5th above its 200-day moving average for the first time since March 4th. Prices exploded upward from the 3000 level all way to 3240 over six trading days. This move was technical more than the result of any significant improvement in underlying fundamental economic conditions, although, we did get a nice surprise with employment numbers.

As with all technical price movements, we are exposed to swift reversals as soon as the euphoria fades and profit taking by traders kicks in. Chairman Powell's statement at the close of last Wednesday's Federal Reserve meeting provided the impetus for just that. The selling began Wednesday afternoon and continued through Thursday and into Friday. Thursday saw all broad indices down more than 5%, for the largest one-day losses since March. The result was a plunge right back to the 200-day moving average. We saw a break below on Friday before a late afternoon rally saved a closing breach. In my mind, the fact that we were able to hold on the downside in the face of extreme volatility was a good sign. The more times we can survive a test here, the stronger the underlying market becomes. This testing of important support levels is a healthy part of the process in markets ultimately regaining their long-term footing. As you can imagine, I was very interested in how things would open this morning and watched the futures throughout the night.

Futures began dropping after midnight and by 5:00 this morning were down 3% - well below the 200-day moving average. At that point, another big leg down appeared likely today. Over the next three hours buyers stepped in and began chipping away at the losses. By the open, things were not entirely bleak and by 11:00 the S&P 500 had turned positive. By the market's close, we had gone from down 3% in the futures market to up 1%. This is an important reversal at an even more important level. I cannot stress enough how reassuring it is to see smart money hold their ground, as well as new buyers step in, when weak hands have been washed out by a big time drop in price. We are certainly nowhere near out of the woods as an economy or a country, but recent market activity continues to impress.

Last week's market commentary can be found [here].

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