

A Necessary Dose of Reality

Equity markets resumed selling after the Federal Reserve meeting last Wednesday. The 50-day moving average on the S&P 500 was promptly broken, and closed well beneath that important technical average on Friday. It appears that investors are finally concluding that the only way out of the economic hole we are in will be a tough climb.

While I don't expect to see the lows we saw this spring, I do think (and have pointed out) there have been many warning signs that the pace of the equity market's advance is unsustainable. We have discussed the lack of participation in the rally by important sectors such as finance, manufacturing, and industrials. Energy remains mired in a world of pain. These are not good signs when trying to support an argument for rapid growth on the horizon. The simple fact is that reality does not support all-time highs in the stock market. The disconnect between Wall Street (the haves) and "Main Street" (the have nots) is profound. Eventually that imbalance is going to show up in equity prices. On top of what I've described here, we are facing a traditionally difficult and volatile season for stocks, coupled with a presidential election like no other in our lifetimes. Oh, and let us not forget that little thing called the Coronavirus.

Investors have needed a dose a reality for some time now. I expect this pullback to continue and for the 200-day moving average to be tested at 3100 (S&P 500). At this writing, the major indexes have given up between 8% and 11% of their recent gains. The S&P 500 is now flat for the year and the Dow is back under water. The Nasdaq remains positive on the back of continued outperformance by big tech.

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



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