There is Hope... and it is Showing up in the Stock Market

Each week when I sit down to write our weekly commentary, I seem to exceed my previous week's amazement at the world around us. We elected a new president (sort of). A Biden victory was expected to be bad for equity markets according to the majority of experts. So, what happened as soon as it became clear he was going to win? The stock market rallied 7% in a matter of three days. This makes the fourth 7% move straight up or down in the past two months. The rally continued today on news that a vaccine for COVID-19 is working and around the corner. For the first time in a long time the winners were cyclicals (energy), small and mid-caps and everything in between… except technology. The Nasdaq ended down more than 1% as investors finally got some meaningful good news that the world just might return to normal. This idea justified some profit taking in the previous safe haven of big tech and allocating that capital into some old-world companies. This is a good sign and one we have been waiting for.

We have commented several times about the fact that market cap-weighted indices are being pushed higher by several huge tech companies, and the rest of the membership is lagging far behind. Take a look at the charts of SPY and RSP over the past six months. The equal-weight RSP has lagged far behind the market cap-weighted SPY, and that tells us that most companies out there are still struggling. Today, that may have changed. RSP crushed SPY as the clouds of COVID-19 began to part. Make no mistake about it, we are many months from a real solution and the United States is facing daily records of infections. Nonetheless, we got some hope that there is an end to this, and it showed up in the stock market. Bond yields jumped precipitously, dropping bond prices, along with other risk-off assets. Gold lost more than 4%.

One day certainly does not make a sustainable trend in the stock market but the sector rotation we are seeing is a positive. I expect volatility will continue, but not with the vengeance we have seen over the past several weeks. As tough as it is on investors to watch markets rise and fall repeatedly, it is even tougher on money managers. Whipsaws in asset allocation are part of investing, but they are never fun. More than any other year in my professional career, 2020 has shown the absolute necessity of having a process to fall back on when the path forward seems unclear. We believe it is not the day-to-day specifics that makes a successful investor, it is the discipline and consistency over time that comes with a repeatable process.

Last week's market commentary can be found here.

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