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Market Commentary

Weekly perspective on current market sentiment | September 9, 2020

Scott Wren
Senior Global Market Strategist

Last Week's S&P 500 Index: -2.3%

Some Positives

Key takeaways

- The equity market drubbing over the last few trading days has unsettled many investors.
- However, there are some underlying positives that suggest the selloff is only temporary.

After the big run higher from the panic March 23 lows with very few stumbles along the way, last week's final two trading days brought the return of stock market downside volatility that in some ways eerily mirrored what many investors tried to forget from earlier in the year. The most damage was done in the technology-oriented segments of the market. Of course, the NASDAQ Composite, which features a large number of these companies, gained a gigantic 76% from the March low to the recent high while the S&P 500 gained "only" a less-gigantic 61%. This large of a rally in such a short time is unprecedented.

We have argued many times in recent months that it is highly unusual for the equity market to rally to this magnitude without at least one (or even several) meaningful pullback. Keep in mind that on average, over the last 80 years, the S&P 500 Index has a 10% pullback about every 11 months. In other words, they happen somewhat frequently and should be expected. We continue to believe big down days and weeks in the market should be looked at as buying opportunities.

While the last couple of days of trading (and so far on Tuesday as this piece is being written) have no doubt left some investors feeling uneasy, if you look under the hood, there are some underlying positives to latch onto.

Take for instance the yield on the 10-year Treasury note. These financial instruments are perceived by many to be a safe haven. At the end of last week, while many equities plunged, the yield on these government-backed bonds actually rose. Earlier in the year, when stocks saw large down days or weeks, investors ran for cover and bought these Treasury securities, driving their yields noticeably lower on virtually every occasion. Granted, when the August employment report was released on Friday, it suggested the economy may be coming back sooner than some expected, which also likely helped nudge rates higher.

Another positive was the performance of small-cap equities as gauged by the Russell 2000 Index. On big down days and weeks earlier in the year, small caps consistently underperformed their large-cap (S&P 500) brethren. Russell 2000 stocks are perceived to be more risky and have historically have been more volatile than large caps. But over the last few trading days, the Russell 2000 has held up better than (outperformed) the S&P 500.

The performance of the 10-year Treasury note and the Russell 2000 Index in recent days, in our opinion, is a positive that suggests investors were more than likely taking a bit of money off the table in high-flying segments of the market that have outperformed since the March lows. We do not think the selloff of the last few days is indicative of a more meaningful market top.

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