Weekly Market Insights

June 15, 2020

Volatility Reigns

Equity markets continued to be volatile this past week. The Dow Industrials were down 5.55%, the S&P declined 4.78%, while the NASDAQ was down 2.30%. These numbers do not adequately describe how the market behaved.

The Markets

As our headline states, volatility was the story this past week. On Thursday, the equity markets had their worst day since March. It was followed by a chaotic Friday. The markets opened recovering a lot of the previous day's losses. At one point the Dow was up 837 points. Then, later in the day, the markets lost these gains and fell into negative territory. They fell in and out of negative territory multiple times before closing positive. Despite the late rally, all markets closed down for the week. Not surprisingly, the VIX, a measure of market volatility, gained 47%. There are at least four reasons why high volatility plagues the markets: the pandemic, economics, certain market participants, and politics.

The Pandemic

We have written in the past that we are not health care professionals, so we will avoid handicapping the pandemic. However, we can address the market reaction to news. Investors were encouraged by the reopening of many cities, believing this would encourage greater economic activity. Once the city openings occurred, however, reports came out that there were increases in observed cases. These reports discouraged those investors who speculated on positive results of openings, and they reversed their long positions. In our view, the viability of these openings remains an unanswered question.

The Economy

The economy, as should be expected, has been giving mixed signals. The most dramatic message came from Fed Chairman Jay Powell. In his press conference he seemed far less positive than in the past. He spoke of a slower, longer recovery. He assured investors that the Fed stands ready to do whatever is necessary to move the economy to an upward path. This more downbeat analysis disappointed the bulls and encouraged the bears.

Market Participants

This is an interesting subject. It appears that much of the market behavior is dominated by traders and algorithmic funds that are highly leveraged and momentum driven. What happens in cases like this is, with funds in particular, when positive news appears, they use their financial clout to leverage positions and purchase large numbers of shares. Most often, they will purchase a diverse basket variety of stocks, driving the markets higher. They do the exact opposite when bad news comes out. This behavior causes a dramatic increase in volatility and great concern among retail investors.

Politics

Adding to all the above, the United States is approaching an important election. As we all know, this is a presidential election year and substantial changes may occur. Polls show a very close race between former Vice President Biden and President Trump. To add to the drama, the Republicans hold a very slim margin in the Senate which may be in danger. This alone would cause uncertainty for investors, but this election is characterized by truly dramatic differences in political and economic philosophy. We will be writing more about this in the future but, to be sure, this election weighs heavily on investors' minds.

What to do?

This is a difficult question because of the uncertainty and fear that comes with high volatility. For the individual investor, there appears to be little to gain by trying to beat the market in the short run. Don't try to compete with the funds. Investors should make sure they have an asset allocation they are comfortable with, and if they feel compelled to take action, follow some very old and solid advice. Buy when all are selling. Investors would be well advised to believe volatility will be with us for some time to come. This is an excellent time to speak with your portfolio management team.

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Please click here for the updated Economic Release Calendar - June 2020.

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