Weekly Market Review

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The Week Ending February 21, 2020

It was an odd week watching how different areas of the market reacted as various coronavirus news stories emerged throughout the week. At the beginning of the week, the stock market seemed to not have any concerns, and the S&P 500 Index ended Wednesday at another all-time high. However, negative headlines began Thursday, sending the S&P 500 Index down over 1% for the week. It is interesting looking at various parts of the market, as asset classes are behaving differently, and the optimism of the S&P 500 Index is not carrying through to all investments.

Continuing to look at the S&P 500 Index, sector returns are leading to different ways to think about the environment. The two top-performing sectors this year are utilities and technology. Technology tends to do well when investors are confident and willing to take more risk. Technology has also been the best performing sector through much of the bull market and has the momentum trade behind it. On the other hand, utilities tend to be a defensive play and outperform in more challenging environments. Now, with how low interest rates currently are, this could be nothing more than a yield play with investors buying utilities for their dividend component; nevertheless, it is something to think about.

Yields on U.S. Treasury bonds continue to fall, and bond prices rise as yields fall, indicating there is some fear in the market. Treasuries are considered a safe haven, so when stock market volatility or fear increases, investors move assets to bonds, pushing yields down and prices up. Typically, when the stock market is increasing, bond yields would be rising as investors sell their bonds due to their increased confidence to take additional risk and move into stocks. This is also a continuation of what we saw throughout 2019. On Friday, we saw the 30-year U.S. Treasury bond trade at 1.83% — its lowest rate on record. Just take a moment to think about the environment we are living in; investors are lending money to the U.S. government for 30 years and receiving less than a 2% yield.

The mixed feelings of late shifted to fear over the weekend on reports of the coronavirus spreading into the Middle East and Europe, marking new outbreaks outside of China. The optimism surrounding the virus being contained in China was one of the factors leading to the stock market hitting all-time highs and general optimism around the economic outlook. This change in the news is leading to a significant selloff in stocks to start the week; the S&P 500 Index Futures is down about 3% at the time of this writing. After some calm trading recently, it looks like we are in for a lot to talk about next week.

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