Weekly Market Review

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The Week Ending October 9, 2020

The S&P 500 Index closed in positive territory once again last week, continuing a strong start to October after a rocky September. Despite plenty of potentially market-moving events, the only words that mattered last week were “fiscal stimulus.” President Trump sent markets into a panic early in the week when he announced a stimulus bill would be postponed until after the election. By the end of the week, he reversed course and restarted negotiations for a large stimulus bill. The market viewed this as a positive development, erasing losses from earlier in the week and sending the S&P 500 to its strongest weekly return since July.

Trading on news coming out of Washington D.C. is an almost impossible game. The news flow tends to change rapidly; the only winner is the long-term investor who does not react to every bit of new information. While the focus was on the potential for fiscal stimulus, many seemed to overlook the rally in small cap stocks. Beginning last month, and accelerating in October, small cap stocks have outperformed their large cap counterparts. Since the stock market bottomed in March, large cap stocks have been all the rage for investors, but small caps have now closed the gap, and returns for each group are about equal during that timeframe. It is difficult to say whether this is the start of a new trend or just a short rally; however, it is a reminder of the importance of diversification in a portfolio.

Last week was slower in terms of market-moving events, which could end soon as the stock market prepares for the third-quarter earnings season. As the COVID-19 pandemic began, company expectations were cut dramatically, leaving stocks to price in worst-case scenarios. The current stock market recovery has been more robust and quicker than most anticipated, leading analysts to improve their expectations for third-quarter earnings; this was one factor leading the stock market higher through the summer months. Corporate earnings will provide the first indications of how the recovery is progressing. Corporate earnings will begin to provide insight into consumers’ behavior and whether they have resumed spending money or increased savings rates, consequently avoiding discretionary purchases, and having a greater impact on the specific economic sectors. If companies are doing well and supporting the quick rebound in stock prices, is it due to the cost savings from a smaller workforce, or it is an increase in revenues driving the rebound. We will not receive answers to these questions quickly, but as we begin to see a clearer picture of how the recovery is progressing, it can help improve assumptions for the next few months.

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