HollisWealth®

MACROSCOPE the market bulletin from Luft Financial

No.36 **11-Jun-2020**

After coming full circle in record time, what next for the markets?

The ferocity of the "Coronavirus Correction" has been matched by the velocity of the subsequent rebound, bringing the markets full circle in record time of just about 16 weeks. What comes next?

On June 8, the S&P 500 briefly turned positive for the year (Figure 1), no mean feat considering it was down as much as 32% at its March 23 low of just under 2,200. The 1,000-point rebound – or 47.5% in percentage terms – occurred in only 11 weeks and left the index less than 5% away from its record high. The tech-heavy Nasdaq did one better, reaching a new all-time high and surpassing the 10,000 level for the first time this week. Most global equity indices have participated in the recovery, with a 42% surge from the March low adding $21 trillion to worldwide stock market capitalization (Figure 2).

Bloomberg editor Joe Weisenthal had an interesting take on the frenetic market action, noting that the markets may have just completed a full cycle over the past four months, rather than the decade or so it would have taken in another era. As proof, he points out that investors gravitated from consumer staple stocks in the first few weeks of the correction, to technology stocks as confidence began returning, and then to financial stocks as hopes rose for an economic recovery. The final phase, according to Weisenthal, was this week's "dash for trash," as speculators piled into bankrupt companies like Hertz and Whiting Petroleum. (There has been plenty of press coverage about small U.S. retail investors driving such speculation using their stimulus cheques, lured by zero commissions and fractional-share trading).

The extremely frothy degree of speculation witnessed in parts of the market over the past couple of weeks is disconcerting, but it's just one more unknown element that has confounded the sharpest investment minds this year. The biggest question is whether the markets can hold on to the ground they have reclaimed since the March lows, or whether they are inexorably headed for a re-test of those lows in the months ahead. We believe the upsurge in interest in the topic of retesting the lows, after yesterday's 6% decline – the first big down day in the past three months – indicates that investors are not yet convinced about the sustainability of the rebound.

The "Coronavirus Correction" may seem unique, but it has at least two other parallels in history (using the S&P 500 or its predecessor index for simplicity). The U.S. benchmark index plunged abruptly from a record high on two occasions – in 1929 and in 1987. (While the 2008-09 market crash was as huge, the market decline over that period was more like a waterfall, rather than the "falling off a cliff" pattern of the other two plunges).

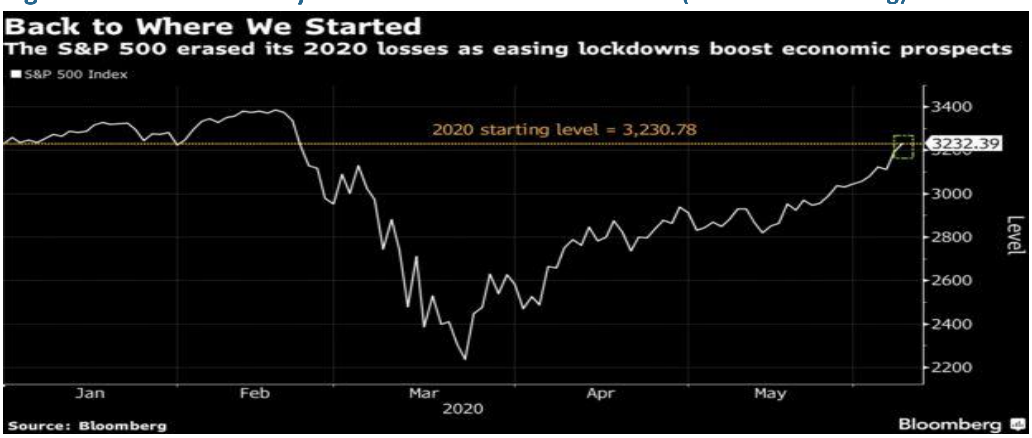
TheStreet.com compared these two market crashes to the "Coronavirus Correction" in a May 21 article [1] and uncovered a remarkable similarity in the initial pattern of the three descents (Figure 3). After roughly two months, however, the 1929 and 1987 patterns diverged completely (Figure 4). The 1929 market crash foreshadowed the Great Depression of the 1930s; the 1987 Black Monday crash proved to be a mere blip in the S&P 500's march to new highs in the dot-com frenzy of the 1990s.

At the June 8 high, the S&P had gained about 10% since that article was written, so the current chart pattern looks more like the 1987 correction than the 1929 crash. However, we caution that since each market crisis is unique, the similarity in chart patterns may be purely coincidental and should not be solely relied upon to dictate portfolio actions.

The bad news is that market volatility is likely to resurface on concerns about a second wave of the coronavirus, U.S. political uncertainty, and profit-taking. The good news is that the stimulus measures unleashed by the Federal Reserve (and other central banks) in record time could provide solid market support and preclude a re-test of the March lows, in our opinion.

[1] https://www.thestreet.com/markets/stock-market-sp500-trading

Figure 1: S&P 500 briefly erased its 2020 loss on June 8 (Source: Bloomberg)



Source: FactSet

Figure 2: Global market capitalization has also rebounded (Source: Bloomberg)

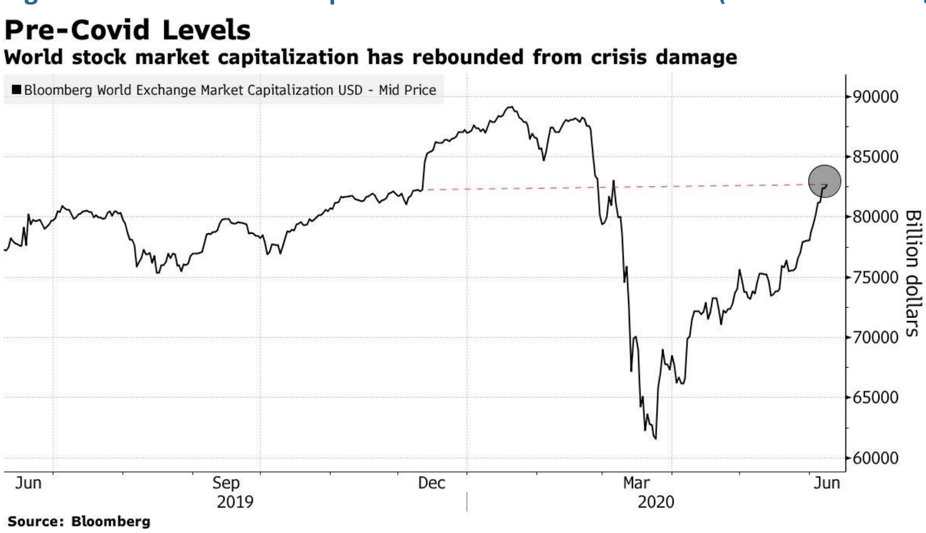
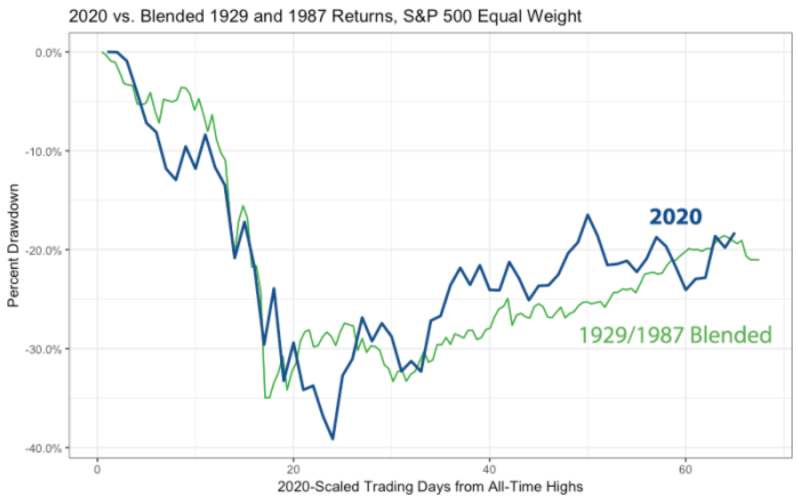


Figure 3: Remarkable similarity – 2020 vs. blended 1929 & 1987 returns (S&P 500 Equal Weight)



Source: TheStreet.com

Figure 4: Which way do we go?

Source: TheStreet.com

This information has been prepared by Robert Luft and Elvis Picardo, who are Portfolio Managers, and Aaron Arnold, who is an Investment Advisor, for HollisWealth® and does not necessarily reflect the opinion of HollisWealth®. HollisWealth® is a division of Industrial Alliance Securities Inc., a member of the Canadian Investor Protection Fund and the Investment Industry Regulatory Organization of Canada. The information contained in this newsletter comes from sources we believe reliable, but we cannot guarantee its accuracy or reliability. The opinions expressed are based on an analysis and interpretation dating from the date of publication and are subject to change without notice. Furthermore, they do not constitute an offer or solicitation to buy or sell any of the securities mentioned. The information contained herein may not apply to all types of investors. Robert Luft, Elvis Picardo and Aaron Arnold can open accounts only in the provinces in which they are registered. For more information about HollisWealth, please consult the official website at www.holliswealth.com. Luft Financial is a personal trade name of Robert Luft.