Week Ending 6/12/2020

WEEK IN PERSPECTIVE

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Market Declines in Worst Week Since March

The stock market started the week hitting key milestone -- the S&P 500 turned positive for the year, and the Nasdaq Composite rose above 10,000 for the first time -- but succumbed to profit taking that handed it its worst week since March. The S&P 500 fell 4.8%, the Nasdaq fell 2.3%, the Dow Jones Industrial Average fell 5.6%, the Russell 2000 fell 7.9%.

A bulk of this week's losses came on Thursday when the S&P 500 declined 5.9% (it reclaimed some losses on Friday). There was no specific news catalyst that contributed to the decline, but some blamed the Fed for its cautious June FOMC statement while others pointed to data showing increasing rates of coronavirus in many U.S. states.

The Fed didn't suddenly change its tune, though, and the market had chosen to ignore the coronavirus threat in recent weeks. The market may have just gone up too much, too fast. At Monday's high, the S&P 500 had gained as much as 48% from its March 23 low despite the uncertainty facing the economy.

All 11 S&P 500 sectors finished the week with losses ranging from 2.0% (information technology) to 11.1% (energy). The value, cyclical, and bankrupt stocks that exhibited strength early in the week were hit the hardest, while the mega-caps performed relatively well amid a slew of price target increases from brokerage firms.

At this week's policy meeting, the Fed kept the target range for the fed funds rate unchanged at 0.00-0.25%, and its dot plot signaled rates will remain near zero through at least 2022. The Fed's economic projections called for a 6.5% contraction in 2020 GDP, followed by 5.0% growth in 2021. Core PCE inflation is expected to remain below the Fed's 2.0% target through 2020.

U.S. Treasuries ended the week with curve-flattening gains. The 2-yr yield declined three basis points to 0.18%, and the 10-yr yield declined 20 basis points to 0.70%. The U.S. Dollar Index increased 0.2% to 97.11. WTI crude fell 8.3% to $36.24/bbl. The CBOE Volatility Index spiked 47% to 36.09, which reflected increased hedging interest against further equity weakness.

Provided by Briefing.com

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