Great-West Investments Capital Markets Perspective

Week in Review: September 8th – 13th

INDEX/ SECURITY	ASSET CLASS	LEVEL (CLOSE)	% CHANGE (THROUGH FRIDAY'S CLOSE) 1 WK.	YTD
Dow Industrials	Lg. Cap Eq.	27,665.64	-1.7%	-3.1%
S&P 500®	Lg. Cap Eq.	3,340.97	-2.5%	3.4%
NASDAQ Comp.	US Equity	10,853.55	-4.1%	21.0%
Russell 2000®	Sm. Cap Eq.	1,497.27	-2.5%	-10.3%
Stoxx 50	Europe Eq.	3,315.81	1.7%	-11.5%

INDEX/ SECURITY	ASSET CLASS	LEVEL (CLOSE)	% CHANGE (THROUGH FRIDAY'S CLOSE) 1 WK.	YTD
FTSE 100	UK Equity	6,032.09	4.0%	-20.0%
Nikkei 225	Japan Equity	23,406.49	0.9%	-1.1%
EEM:US	Emkt. Equity	$43.93	-0.9%	-2.1%
EFA:US	Non-US Equity	$64.80	0.4%	-6.7%
UST 10y (yield)	US Treasury	0.67%	-0.05%	-1.25%
B/Barc AGG	Fixed Inc.	2,379.31	-0.43%	6.94%

Clearly, *something* has changed for US stocks. It's just hard to know exactly what it is.

Last week's economic data was about as ho-hum as expected: inflation came in a little ahead of expectations for both the producer- and consumer sides of the economy[1,2], but neither report contained anything even close to alarming – particularly in light of the Federal Reserve's recent acknowledgement that it would actually prefer that prices run hot for a little while. Meanwhile, the European Central Bank refused to make a big deal out of the ongoing appreciation of the Euro as it re-confirmed the ultra-easy money prescription that has become characteristic for all central banks in the COVID era. Neither of these developments was at all surprising.

But in spite of this "nothing to see here" modality, **US equity markets continued to bounce around quite a bit last week, with the S&P 500 Index moving by more than plus- or minus 1% during three out of last week's four sessions.** And, as I write this on Monday morning, markets are in rally mode again. Assuming today's momentum continues, a close above +1% will mean that so far in September the index has crossed the +/-1% line six times out of nine (which, if you're willing to indulge me in a little baseball math, translates to a batting average of .667.)

For context, for the period **between June 1st and August 31st**, the market's thus-calculated batting average was **a far more mundane .221, so clearly something has changed** about the way investors are looking at stocks. But what's behind the market's sudden hitting streak? To torture the metaphor a little more, what, exactly, has taken the S&P's batting average from that of a journeyman, trade-bait outfielder to a franchise-tagged designated hitter?

We made the point last week that **the market's recent volatility had more of a "rotation-y feel" than a significant shift in risk appetites,** primarily because the brunt of the selling was borne by previously high-flying sectors like tech, and also because things like gold, the US dollar and Treasury yields – which often go nuts when risk attitudes hit an inflection point – were fairly well-behaved.

---

[1] https://www.bls.gov/news.release/pdf/ppi.pdf
[2] https://www.bls.gov/news.release/pdf/cpi.pdf

Market internals **seemed to endorse that view again**, **with money continuing to flow out of tech**, communications and consumer discretionary stocks and toward more cyclically-oriented areas like materials last week. What's more, **10-year yields moved an uninspiring 0.05% for the week and gold continued to meander aimlessly** around the $1,900/oz mark while the US dollar was similarly range-bound. All this suggests to me that once again the recent volatility in stocks is more about repositioning for what comes next than it is a dash for the exits.

Of course, it's possible to poke holes in that interpretation as well. If recent moves in US stocks are truly about the market collectively tweaking its sector exposures for what comes after COVID, then Wednesday's announcement that **Astra-Zeneca had temporarily halted phase-III trials of ADZ-1222** – one of the most promising COVID-19 vaccine candidates to enter human trials so far – should have probably left a bigger mark on returns than it did[3].

Ditto for news that the **Senate had officially killed the so-called "GOP Skinny" stimulus package** – the Senate's answer to the House's also-DOA $3t-plus HEROES Act. On Friday, the Senate bill failed to generate the 60 votes needed to keep it immune from filibuster[4], once again highlighting how far apart Democrats and Republicans are on the issue (and also how highly-politicized the effort to pass the next round of COVID stimulus has become.)

To be clear, almost nobody thought either "GOP-skinny" or the HEROES Act would pass, and pauses in phase-III trials like that which sidelined Astra-Zeneca last week aren't terribly uncommon. That would suggest that **neither event was really all that likely to push market sentiment around of its own accord.** But taken together, these two developments nonetheless mean that **the likelihood of entering the winter months with either a viable vaccine, a robust stimulus package, or both, is at least a little smaller than it was**. And that probably argues against the view that recent equity market volatility is a result of investors simply positioning themselves for the economy's next act.

So where does all of this leave us? Basically, with an **equity market that is a little more volatile than it was throughout the whole of the COVID-warped summer, but without a clear motivation for being so**. Is the renewed tendency of prices to bounce around caused by a growing recognition that the global economy will, for better or worse, eventually move beyond the pandemic and focus on what's next? Or, have investors finally become more impatient and less tolerant of equity market valuations that make a mockery of historic norms?

As with just about everything related to capital markets, only time will tell.

What to Watch This Week: September 14th – 18th

What to Watch (September 14th – 18th)

Monday: *No events planned*

Tuesday: Empire State Manufacturing

Wednesday: FOMC announcement, NAHB housing market index

Thursday: Weekly jobless claims, housing starts/permits, Philly Fed

Friday: UofM sentiment, Leading Economic Indicators, quad-witching day

This week's **key event will be the regularly scheduled meeting of the FOMC**, the Federal Reserve's rate-setting committee, which begins on Tuesday and culminates with a post-meeting press conference on Wednesday. Like last week's ECB meeting, Wednesday's FOMC announcement is **almost certain to re-confirm**

---

3 https://www.astrazeneca.com/content/astraz/media-centre/press-releases/2020/statement-on-astrazeneca-oxford-sars-cov-2-vaccine-azd1222-covid-19-vaccine-trials-temporary-pause.html

4 Economist.com (9/11/20)

the Fed's current ulta-easy monetary stance and a steady-as-she-goes policy on rates. Assuming no surprises, markets may find little to react to in Wednesday's statement.

What **could be more interesting, however**, are any comments made by Chairman Powell during the press conference **concerning Congress' lack of progress on a next round of fiscal stimulus, which several Fed officials have described as an important bridge** between the COVID-inspired shut-down and a return to economic growth.

Also of interest would be any further details surrounding the Fed's new policy framework with regard to inflation, whereby Fed officials will target average rates of inflation (as opposed to point-in-time observations) when setting monetary policy. Markets participants have interpreted that to mean that the Fed will tolerate inflation that exceeds its 2% target in the short-term, provided that doing so would bring the longer-term average back in line. That, by extension, means that **the Federal Reserve may be slower to raise rates as the economy improves than it has been in past cycles – music to the market's ears** as Fed policy has become a primary driver of asset prices across the spectrum.

The Fed will also supply markets with a few important headlines in the form of **the first two "regional Feds" – Empire State on Tuesday and Philadelphia Fed on Thursday.** Both reports, together with similar reports next week from Fed banks in Dallas, Richmond and Kansas City, serve as important cross-checks of ISM and PMI data, which has been consistent with an expansion of US manufacturing for several months running.

It's also the beginning of **the housing sector's monthly time in the spotlight, with the NAHB's builder survey due out on Wednesday and the Census Department's building starts and permits release on Thursday**. Home sales and pricing data will follow later next week, with all data sets hopefully re-confirming continued strength in housing amid record-low mortgage rates and a continued – albeit stalled – recovery in the labor market. **Housing has clearly been a bright spot** amid some pretty dour economic data elsewhere and is, by at least some measures, on a more solid footing now than it was before the pandemic. **That could ultimately prove critical to regaining economic momentum** in a post-pandemic world.

However, one thing that could dent optimism related to ongoing rebounds in both housing and manufacturing would be a decisive turn lower in consumer sentiment. As discussed before, consumer sentiment has proven to be somewhat sensitive to both COVID and caustic national politics – something that has kept unbridled optimism in check in recent months. **On Friday, we'll get another chance to see how consumers are feeling when the University of Michigan releases its preliminary results** for September's consumer sentiment index.

Finally, a quick note about Friday's "**quadruple witching day**." As a reminder, so-called "witching days" (which are nothing more than the simultaneous expiration of options and futures contracts on securities and security indices,) always sound far more ominous than they actually are. Typically, trading volumes may spike higher and volatility may be somewhat elevated as investors roll out of old positions and into new ones, but in recent years these impacts have mostly been short-lived and quite benign. **So while Friday's quad-witching day may carry the potential to spook investors given its scary name, there isn't much reason to expect any significant dislocation** due to Friday's quad witching day.

Source for index data: Bloomberg.com; GWI calculations.
Investing involves risk, including possible loss of principal. This material represents the views of Great-West Capital Management, LLC and is subject to change without notice. This material is neither an endorsement of any index or sector nor a solicitation to offer investment advice or sell products or services. Past performance is not a guarantee of future results. This material is for informational purposes only and is not intended to provide investment, legal or tax advice.

The S&P 500 Index is a registered trademark of Standard & Poor's Financial Services LLC. It is an unmanaged index considered indicative of the domestic large-cap equity market and is used as a proxy for the stock market in general.